Addiko Bank

Annual report 2021

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

Addiko Bank

Key data

			In 000 BAM
Selected items of the Profit or Loss statement	**YE21**	**YE20**	**(%)**
Net banking income	41,535	39,517	5.1%
Net interest income	26,726	26,831	-0.4%
Net fee and commission income	14,809	12,686	16.7%
Net result on financial instruments	640	2,444	-73.8%
Other operating result	-1,500	-2,762	45.7%
Operating expenses	-31,079	-31,045	-0.1%
Operating result before impairments and provisions	**9,596**	**8,154**	**17.7%**
Other result	2,887	-743	>100%
Credit loss expenses on financial assets	3,524	-25,557	>100%
Tax on income	-1,375	5,135	>100%
Result after tax	**14,632**	**-13,011**	**>100%**
Performance ratios	**YE21**	**YE20**	**(pts)**
annualised			
Net interest income/total average assets	2.7%	2.7%	0.0
Return on average tangible equity	7.5%	-6.6%	14.1
Cost/income ratio	73.5%	76.8%	-3.3
Cost of risk ratio	0.5%	3.2%	-2.7
Cost of risk ratio (net loans)	0.7%	4.3%	3.6
Earnings/loss per share (in BAM)	27.48	-24.43	51.91
Selected items of the Statement of financial position	**Dec21**	**Dec20**	**(%)**
Loans and advances to customers	467,652	500,972	-6.7%
o/w gross performing loans	479,867	518,780	-7.9%
Deposits of customers	797,690	784,412	1.7%
Equity	207,585	196,837	5.5%
Total assets	1,037,492	1,011,637	2.6%
Risk-weighted assets	654,569	677,204	-3.3%
Balance sheet ratios	**Dec21**	**Dec20**	**(pts)**
Loan to deposit ratio	57.9%	63.5%	-5.6
NPE ratio	8.1%	8.5%	-0.4
NPE Ratio (on balance loans)	8.0%	11,2%	-3,2
NPE coverage ratio	92.7%	89.3%	3.4
Liquidity coverage ratio	304.74	290.1%	14.64
Common equity tier 1 ratio	27.97%	27.38%	0.6
Total capital ratio	27.97%	27.38%	0.6

Letter from the CEO

Dear clients, partners and employees

Another very challenging, but successful year is behind us. Uncertainty and specific business circumstances due to the COVID epidemic marked this year. The recovery of the market and demand, which was evident in the first half of the year, slowed down in the last quarter, primarily due to political instability and epidemic. These circumstances have caused increased caution in the financial market, slowed down the demand for loans and significantly reduced consumption, which is certainly reflected in the business results of the sector.

Despite all these challenges, we successfully ended this year, by a strong focus on our clients and their needs. The negative effects on business recorded in the previous year, 2020, were overcome by market repositioning, digitalization, business optimization and new business and work models.

With a strong focus on consumer lending in the retail segment, we grew loans in this segment 7% and non-interest income 8%.

We have improved risk management, significantly reduced the cost of provisions for these purposes and y managed costs and assets more efficiently. All these things contributed to the overall business result, so we ended this year with a profit of 14.63 million KM.

The resulting profit is primarily the result of the commitment of the Bank's employees, but also the trust of our owners and I would like to express my gratitude to both.

I would also like to thank the regulators, whose approach has had a positive impact on the stability of sector in Bosnia and Herzegovina.

The local and global challenges did not affect our commitment to the community we operate in, and this year we were a very active member of the community, through the implementation of numerous socially responsible projects and initiatives.

Finally, I would like to express special gratitude to clients, who recognized our efforts to be better and more efficient and innovative in this year and showed confidence in us.

Our commitment to clients and meeting their needs through a specialist and innovative range of products and superior service stay our priority in the next, 2022, year, regardless of all new challenges which it brings.

Respectfully yours,

ADDIKO BANK DD
1.3.1
SARAJEVO

Sanela Pašić
Chairwoman of the board

Annual Report 2021

Financial statements are the integral part of annual report

Disclaimer:

Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management’s current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Actual results may differ materially from the results predicted and information on past performances do not permit reliable conclusions to be drawn as to the future performances. Forward-looking statements based on the management’s current view and assumptions might involve risks and uncertainties that could cause a material deviation from the statement contained herein.

The English version of the Report is a translation. Only the Bosnian is the authentic language version.

Neither Addiko Bank Sarajevo nor any of its representatives shall be liable for whatever reason for any kind of damage, loss, cost or expenses of any kind arising directly and/or indirectly out of or on connection from any use of this report or its contents or otherwise arising in connection with this document.

This report does not constitute a recommendation or an invitation or offer to invest or any investment or other advice or any solicitation to participate in any business and no one shall rely on these materials regarding any contractual or other commitment, investment, etc.

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

The tables in this report may contain rounding differences.

Board of Addiko Bank Sarajevo

From left to right side: Selma Omić, Board member; Mario Ivanković, Board member; Sanela Pašić, CEO; Belma Sekavić – Bandić, Board member (till 31th Avgust 2021.)

Management Report

1. Overview of Addiko Bank

Addiko Bank Sarajevo ("the Bank"), member of Addiko Group, is a Consumer and small and medium-sized enterprises (SME) specialist bank in Bosnia and Herzegovina. 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 via two banks), Serbia and Montenegro. The Bank, through its six subsidiary banks, services as of 31 December 2021 approximately 107 thousand customers, using a well-dispersed network of 28 branches and modern digital banking channels.

Based on its strategy, Addiko Bank 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. These core activities are largely funded 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 growth in its Consumer and SME lending.

Addiko Bank delivers a modern customer experience in line with its strategy. Banking products and services have been standardised, especially in the Consumer and the SME segment, to improve efficiency, manage risks and maintain asset quality.

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 63% of the bank's shares are in free float, the rest of the shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Western Europe and North America.

On 13 July 2021, Moody’s upgraded Addiko Bank AG's long-term Counterparty Risk Assessment (CR Assessment) to Ba1(cr) from Ba2(cr) and its long-term Counterparty Risk Ratings (CRR) to Ba2 from Ba3 following an update of their methodology. All other ratings remained unchanged and the outlook stable.

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

2. General economic environment

The Covid-19 pandemic is still affecting the region where the bank operates, with periodic waves occurring every several months. Also, the vaccination rates are low as there is strong vaccine scepticism. However, this does not seem to have any effects on the economy. People and firms have adapted to the new normalcy and are behaving as if there was no pandemic. Governments are acting in the same way, introducing just mild restrictions.

As a result, all countries in region had better economic results than expected previously. Household consumption was very strong everywhere, due to delayed consumption and increased savings.

Business investment also flourished, for similar reasons. Partly because of the strong economy, but primarily due to the higher international food and energy prices, inflation gained momentum everywhere in the region. Although the averages for 2021 were around 2-3%, inflation in December was around or above 5% in all the countries.

Bosnia & Herzegovina’s economy grew by an estimated 4.8% in 2021, thereby exceeding the pre-pandemic level of 2019. Industrial production, private consumption, exports and FDI inflows all increased significantly, while Covid-related mobility restrictions were fairly soft. Inflation rose strongly towards the end of 2021 due to sharp rises in food and energy prices; but it was still below 2% for the full year. Political tensions have been on the rise since the second half of 2021, as one part of the country, Republika Srpska, has taken steps to create its own army, tax authority and judiciary – thus increasing the risk that it will secede. This jeopardises the country’s political stability, economic progress and support from the EU, and potentially opens up the possibility of renewed conflict.

3. Transformation Program

In August 2021, the new management team of Addiko launched the Transformation Program to become the leading specialist bank in the region. It aims at challenging universal banks via the best digital offerings and pure online banks via superb personal customers service as well as at accelerating the group’s transformation towards a pure specialist bank.

The Transformation Program is planned to run until the end of 2022 and rests on three pillars:

- First, on boosting growth in the focus areas by new Consumer & SME initiatives, the expansion of digital and hybrid offerings and the acceleration of the loan

book transformation towards the defined focus segments.
- Second, on aligning the group’s organisational structure and cost base with its specialist strategy by reducing costs and complexity on the one hand and streamlining the operating model on the other hand, leveraging digital capabilities.
- Third, on tackling special topics proactively which includes an ambitious reduction of NPEs as well as the exploration of structural opportunities.

Brand repositioning

Addiko Bank is in the midst of a brand repositioning process. The future brand character of the company has been decided to best reflect the business strategy focused on being best in class for unsecured lending to Consumers and SMEs. Furthermore, a new advertising concept has already been agreed on and is to be implemented as April 2022.

As experts in Consumer and SME lending, we stand for speed and flexibility, and we promise to be in all situations whenever & wherever customers need that extra boost.

The repositioning process covers:

- Brand narrative
- User Journey Implication (Implications of the repositioning on the different touch points along the overall sales funnel according to the predefined marketing areas)
- Segmentation & Message Hierarchy (Development of a target group segmentation and corresponding cascading of messages for external communication architecture)
- Brand Measurement (Setting up a brand measurement system and defining KPIs)

4. Corporate Governance

4.1. Statement on the application of the corporate governance code

In accordance with the Law on Companies, the Law on Banks of FBiH, and licenses from the Banking Agency of FBiH from 17.01.2000 the Bank has acquired the status of a legal entity and is authorized to perform banking activities in accordance with the Banking Law. The basic principles of the Bank's work are determined by the Articles of Association and the Founding act. The basic concept of corporate governance is established by the Law on Banks, which the Bank implements and whose implementation is supervised by the FBiH Banking Agency.

In accordance with the Law on Banks and the Law on Companies, the corporate bodies of the Bank are the Assembly, the Supervisory Board and the Management Board.

Internal reporting is used by the Bank's Supervisory Board and management as a means of monitoring the Bank's operations as a whole, and employees use the information they receive from internal reports to perform their work duties.

We believe that the Bank has a corporate structure that is transparent and organized so as to promote and demonstrate effective management of the Bank. We also believe that the organizational structure of the Bank is clear and transparent for the Bank's employees as well as for the relevant competent authorities.

Corporate governance is established in the following ways:

• In all segments of corporate governance, the legal framework of the FBiH and good business practices, regulations and guidelines of the FBiH Banking Agency are respected;

• Within this framework, principles are set that are flexible and give space to the Supervisory Board and the Management Board of the Bank to manage the Bank and achieve the set goals, as well as to report it to the Assembly;

• That all mutual relations of interested parties in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that a balance of responsibilities and obligations, ie rights and competencies, is established between all interested parties;

• To set the relations between all interested parties in such a way that the common interest prevails in all of them, ie the interest of the Bank in relation to their individual interests;

• To fully, efficiently and effectively perform all functions of management and governance of the Bank, ie to manage the Bank in a way that leads to the achievement of set goals and objectives.

The above regulations have been implemented in the application of corporate governance rules, as well as other internal acts of the Bank, and there are no deviations in their application.

4.2. Rules for the appointment of the Bank's management and supervisory bodies

The directly applicable provisions of the Law on Banks regulate the manner of election of members of the Supervisory Board and Management Board of the Bank, as well as the conditions they must meet to obtain the consent of the FBiH Banking Agency, which are prerequisites for appointment.

The Law on Banks stipulates that the bank's supervisory board consists of at least five members and thereof two of them must be independent members.

Only a person who has obtained prior approval from the Agency to perform the function of asupervisory board member may be appointed to the bank's supervisory board.

(6) Such a person may be a member of the supervisory board who meets the following requirements at all times: a) they shall have a good reputation; b) they shall have relevant professional qualifications, abilities and experience required for the discharge of duties falling within their competence; c) they shall not be in a conflict of interest in respect of the bank, shareholders, members of the supervisory board, holders of critical functions and the bank's management, and other stakeholders (creditors, depositors, governments, etc.) as well; d) they shall be willing and able to devote sufficient time to the performance of the duties and responsibilities falling within the purview of the supervisory board; and e) they may be a member of the supervisory board under the regulation on the Companies law.

At least one member of the supervisory board shall be fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH. The members of the bank's supervisory board as a whole shall possess necessary professional knowledge, abilities and experience for independent and autonomous supervising of the bank's operations and performance of the bank's management, and at least half of the candidates for supervisory board members shall have the required knowledge and experience in the fields necessary for successful operation of a bank (work experience in the banking industry, financial organisations, etc.).

A member of the supervisory board may not be an employee or a procurator of that bank, or any other bank in BiH. A member of the supervisory board may not be an elected official on state, entity, cantonal, or municipal levels. An individual or authorised representative of a legal person may not be the chairperson or a member of the supervisory board in several banks at the same time unless such individual or legal person holds more than 50 percent of shares in each of the banks. The same person may not serve as chairperson or member of the supervisory board in more than two banks in BiH. A person serving on supervisory boards or management in more than five business companies may not be a member of the supervisory board.

The Agency shall revoke a decision granting approval to perform the function of a member of the bank's supervisory board if: a) the supervisory board member has obtained the approval based on the provision of false or inaccurate documentation or inaccurately presented information that is essential for the performance of the function of the supervisory board member; b) the supervisory board member no longer fulfils the requirements for membership in the bank's supervisory board referred to in Article 48 of the Law; c) the supervisory board member violates the duties and responsibilities of the supervisory board referred to in Articles 55 and 56 of the Law; d) a candidate who has obtained the approval of the Agency, within six months from the issue of the approval does not take up the position to which the approval relates to; e) the Agency appoints an external or special administrator; f) the supervisory board member becomes an employee of the bank during his term of office. Revocation of the Agency's approval means termination of the function as member of the supervisory board.

The management of a bank shall comprise of the president and members of management. At least one member of the bank's management shall fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH. Such a person may only be appointed as president ie a member of management of a bank who has obtained prior approval of the Agency to perform the function of a bank's president ie member of the management board.

Such a person may be a member of the bank's management who meets the following requirements at all times: a) they shall have a good reputation; b) they shall have a university degree - qualification level VII, i.e., higher education of the 1st cycle (worth 240 ECTS credits) or education of the 2nd or 3rd cycle of the Bologna Framework; c) they shall have the required educational level and profile, as well as training and relevant practical experience necessary to run the bank's business; d) they shall not be in a conflict of interest in respect of the bank, the bank's shareholders, supervisory board members, holders of critical functions and management; e) they shall have track record on the basis of which it may be reasonably concluded that they shall perform the tasks of a member of the bank's management honestly and with due diligence; f) they shall also meet other requirements for a management member under the provisions of the legislation on business companies.

Such a person may not be a bank's management member who: a) is a member of the supervisory board of another bank in BiH, unless that bank is a related person of the bank in which they are a member of the management in accordance with Article 49, paragraph (3) of the Banking Law, b) is a person that may not be a member of the bank's management under the provisions of other laws; c) has been convicted of a criminal offence to unconditional imprisonment or been convicted of a crime that makes him unsuitable to perform this function d) who serves or has served as the Agency's director or deputy director for the past two years; e) has been subject to a measure involving a ban on their performance of profession, activities, duties, as well as been issued three times with a warning pursuant to Article 155 of the Banking Law, within the past four years.

The Agency shall revoke a decision granting approval to perform the function of a chairman or a member of the bank's management board if: a) if the management board chairman or member no longer fulfils the requirements for membership in the bank's management board defined in the Law, this Decision and the Decision on Suitability Assessment of the Bank's Managing Bodies; b) if the third reminder has been issued to the Chairman or a member of the bank's management board over the past four years; c) if the Agency appoints an external or special administrator, or initiates a bank liquidation procedure.

The decision granting previous approval for appointment of the chairman or member of the bank's management board shall be terminated if: a) the appointment or entry into office has not been made within six months since the date of the previous approval of appointment of the chairman or a member of the management board; b) the employment agreement with the chairman or the member of the management board expired on the very expiration date of the agreement.

According to the article 45 of the Banking law, Assembly decides on The formation of the bank's core capital by way of issuing shares or increasing ordinary shares, and issuance or increasing of preference shares and decide on an issue, withdrawal or cancelation of shares and other transactions with securities, in accordance with law and the bank's statute; d) any capital increase or decrease, and/or investment of capital in another bank or other legal persons.

A bank may not hold, directly or indirectly, without prior written approval of the Agency: a) significant ownership interest in a legal person, or indirectly in a subsidiary of that legal person, which exceeds 5 percent of the regulatory capital of the bank or b) the total net value of all ownership holdings of the bank in other legal persons and in subsidiaries of those legal persons in excess of 20 percent of the bank's regulatory capital. A bank may not, directly or indirectly, have an ownership holding in a legal person that exceeds 15 percent of its regulatory capital, while an ownership holding in a non- financial sector person may not exceed 10 percent of its regulatory capital, nor may an ownership holding exceed 49 percent of ownership of non-financial sector legal person. The total participation of a bank in a non-financial sector person may not be higher than 25 percent of the bank's eligible capital, and the total participation of a bank in persons in the financial sector may not exceed 50 percent of its eligible capital.

Where a bank has a qualifying participation in another legal person, that legal person may not acquire a qualifying participation in that bank. Where a legal person has a qualifying participation in a bank, that bank may not acquire a qualifying participation in that legal person.

A bank may not acquire own shares without prior approval of the Agency. Any acquisition of own shares without prior approval of the Agency shall be considered null and void. A bank shall sell the acquired own shares within a period of one year from the date of their acquisition.

In 2021, the FBiH Banking Agency passed a new Decision on the bank's internal management system, which further specifies the minimum requirements for establishing and implementing an efficient internal management system that the bank is obliged to ensure, continuously implement and maintain, and rules on the assessment of eligibility for a member of a bank body.

This Decision shall apply from 31 December 2021, and during 2021 the Bank harmonized their operations with the new Decision.

For information on financial instruments, see Chapter 3. Financial statements with notes below.

4.3. The Board and Supervisory board changes

Ms. Belma Sekavić Bandić, CMO, left Addiko Bank Sarajevo with 31 August 2021. The Supervisory Board appointed Ms. Sanela Pašić as CMO starting from 1 September 2021, additionaly to CEO position.

On the Assembly meeting on 8 February 2021 Mr. Jan Kaufmann, Ms Maida Karalić and Mr Berislav Jozić have been appointed as new Supervisory Board Members, thereby replacing Mr Hans Lotter, Razvan Munteanu and Biljana Rabitsch.

On the Assembly meeting on 15 December 2021. Mr Edgar Flaggl has been apointed as President of Supervisory Board replacing Mr. Jan Kaufmann.

4.4. Branches

At year end 2021 Addiko Bank operated a total of 28 branches. This physical distribution is continuously reviewed to enable the delivery of Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

5. Earnings performance in brief

Addiko Bank reported at the YE 2021 a stable operating result before impairments and provisions of BAM 9,596 thousand compared with BAM 8,154 thousand in the same period last year, which demonstrates the robustness and resilience of its sustainable business model. The result after tax of BAM 14,632 thousand improved significantly (YE20: BAM - 13,011 thousand) reflecting total risk costs returning to more normalised levels of BAM 3,524 thousand (YE20: BAM -25,557 thousand predominantly impacted by Covid-19 macroeconomic expectations).

The loan book in the focus segments remained stable, whereby Consumer and SME represent 85.6% of the gross performing loan book (YE20: 81.6%). The Bank has limited exposure to industry sectors which would be considered as Covid-19 sensitive. Addiko enhanced its relationships with customers with intensified daily contacts with clients and ensuring prompt reactions to maintain the high quality of portfolios with very limited NPL.

The NPE ratio (CRB based) of 8.1% (YE20: 8.5%), the NPE ratio (on-balance loans) of 8.0% (YE20: 11.3%) and the NPE coverage ratio at 92.7% (YE20: 89.3%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the successful collection of receivables.

Addiko Bank is managing the Covid-19 crisis from a position of strength with regard to its solid capital base, its stable funding and its ample liquidity.

6. Financial development of the Bank

6.1. Detailed analysis of the reported result

(000 BAM)

	01.01. - 31.12.2021	01.01. - 31.12.2020	(abs)	(%)
Net banking income	41,535	39,517	2,018	5.1%
Net interest income	26,726	26,831	-105	-0.4%
Net fee and commission income	14,809	12,686	2,123	16.7%
Net result on financial instruments	640	2,444	-1,804	-73.8%
Other operating result	-1,500	-2,762	1,262	45.7%
Operating income	**40,675**	**39,199**	**1,476**	**3.8%**
Operating expenses	**-31,079**	**-31,045**	**-34**	**-0.1%**
Operating result before impairments and provisions	**9,596**	**8,154**	**1,442**	**17.7%**
Other result	2,887	-743	3,630	>100%
Credit loss expenses on financial assets	3,524	-25,557	-29,081	>100%
Result before tax	**16,007**	**-18,146**	**34,153**	**>100%**
Tax on income	-1,375	5,135	-6,510	>100%
Result after tax	**14,632**	-13,011	**27,643**	**>100%**

Net interest income slightly decreased from BAM 26,831 thousand at YE20, by BAM 0,1 thousand, or 0.4%, to BAM 26,726 thousand at YE21.The decrease in interest income, lower by BAM 449 thousand from BAM 30,582 thousand at YE20 to BAM 30,133 thousand at YE21 is resulting from the fact that the liquidity generated by the planned run down of non-focus portfolio could not be entirely reinvested in the focus segments due to the impact of Covid-19 on loan disbursements during the financial year 2021. This determined a consequent higher volume of cash and balances with the central banks, with low or negative interest rates. The negative impact on interest income was partially compensated by the decrease in **interest expenses** from BAM -3,752 thousand at YE20, by BAM -344 thousand, to BAM -3,408 thousand at YE21, predominantly resulting from lower interest expenses for customer deposit for BAM -701 thousand. The **net interest margin** consequently decreased to 268bp at YE21, compared to 274bp at YE20.

Net fee and commission income increased to an amount of BAM 14,809 thousand (YE20: BAM 12,686 thousand) as a result of the net increase of the fee and commission income from BAM 16,622 thousand to BAM 19,221 thousand, and the fee and commission expenses from BAM -3,936 thousand to BAM -4,412 thousand. The increase in net fee and commission income was reflecting the gradual normalisation of the economic activity during 2021 while the previous year was negatively impacted by the Covid-19 pandemic.

Net result on financial instruments amounts to BAM 640 thousand at YE21, compared to BAM 2,444 thousand at YE20 and mainly results in both years from realised profits from the sale of debt securities.

Other operating result as the sum of other operating income and other operating expense increased from BAM -2,762 thousand at YE20, by BAM 1,262 thousand, to BAM -1,500 thousand at YE21. This position includes the following significant items:

- Deposit guarantee expenses of BAM -1,824 thousand (YE20: BAM -1,793 thousand).
- Bank levies and other taxes stayed: BAM -811 thousand at YE20 and BAM 841 thousand at YE21.

Operating expenses remained approximately at the same level at BAM 31,079 thousand (YE20 -31,045):

- Personnel expenses slightly increased compared to the previous period from BAM -14,124 thousand at YE20 to BAM -14,670 thousand at YE21 mainly due to the restructuring costs in amount of BAM -544 thousand included within personnal expenses while the rest personal expense positions were mainly lower.
- Other administrative costs also slightly changed from BAM -13,343 thousand at YE20 to BAM -13,391 thousand at YE21.
- Depreciation and amortisation decreased from BAM -3,578 thousand at YE20 to BAM -3,018 thousand at YE21.

Other result has significantly increased, moving other result from negative to positive in the amounts from BAM -743 thousand at YE20 to BAM 2,887 thousand at YE21. This significant change occurred due to the subsequently determined income from legal cases.

Credit loss expenses on financial assets returned to more normalised levels. The provision bookings were significantly below the amount recognised in YE20, which included risk model adjustments in connection to changed macroeconomic parameters that incorporated estimated impacts of the Covid-19 outbreak. During the first waves of epidemic in 1H21 the bank anticipated material impacts to credit quality, however, state subsidies, introduced moratoria, as well as loan restructurings initiated by Addiko positively influenced the asset quality development in the second half of 2021, the economy and clients proved to be more resilient and actual cost of risk are better than initially estimated. The improvement in the overall macroeconomic environment from last year recognized with releases of provisions in the second half of 2021 (normalisation of the economic activity in a post-lockdown environment).

Tax on income amounts to BAM -1,375 thousand at YE21 compared to BAM 5,135 thousand at YE20, reflects the change in recognised deferred taxes on temporary differences, dominantly change in recognised deferred taxes on Stage 1 and Stage 2 provisions.

6.2. 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. As of 1 January 2021, re-segmentation of sub-segment Micro – now known as Standard (private entrepreneurs and profit-oriented legal entities with less than BAM 978 ths annual gross revenue) from segment Consumer to segment SME. Comparative figures have been adapted accordingly. 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.

Business Segmentation
The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages.

Consumer strategy

Addiko Bank's strategy is to offer modern banking, focusing on products for the essential needs of customers unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. In the segment Consumer the focus is on commission income and consumer lending. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger with services such as Addiko Chat Banking on Viber, Webloans, mLoans and of doing its business through the network of 28 branches. In the context of the Covid-19 crises, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

SME Finance Strategy

SME business is a main strategic focus segment of Addiko Bank serving its products to around 3 thousand clients within this segment, in which the Bank is targeting the "real economy" with working capital loans, investment loans and a strong focus on trade finance products. Addiko's strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are digitalised and the related competitive advantage. In recent years Addiko Bank has started to build up a new digital platform which will cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. With it, Addiko Bank also plans to continue to digitally serve the untapped potential of smaller legal entities and consequently increasing the loan volumes and related commission income.

Mortgage, Large and Public

This lending are not part of the "focus area". Given the gradual run-down strategy, mortgage lending products are not marketed. Also, lending products in the Large and Public Finance segment are not actively marketed, rather focuses on maintaining the clients with a favourable risk and reward ratio and provide account keeping services.

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

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	27,183	8,990	1,411	2,489	283	1,167	41,524
Net interest income	16,934	5,200	1,411	1,794	166	1,220	26,725
o/w regular interest income	18,234	5,268	1,322	1,647	259	1,971	28,702
Net fee and commission income	10,250	3,790	0	695	127	-53	14,809
Net result from financial instruments	0	0	0	0	0	641	641
Other operating result	0	0	0	0	0	-1,500	-1,500
Operating income	**27,183**	**8,990**	**1,411**	**2,489**	**293**	**308**	**40,674**
Operating expenses	**-17,896**	**-4,755**	**-40**	**-922**	**-432**	**-7,033**	**-31,079**
Operating result before impairments and provisions	**9,288**	**4,235**	**1,371**	**1,567**	**-140**	**-6,725**	**9,596**
Other result	0	0	0	0	0	2,887	2,887
Credit loss expenses on financial assets	-2,650	-1,575	2,212	2,745	777	2,014	3,524
Operating result before tax	**6,638**	**2,660**	**3,583**	**4,312**	**638**	**-1,824**	**16,008**
Business volume							
Net loans and receivables	260,056	138,336	18,944	42,693	4,813	2,839	467,677
o/w gross performing loans customers	265,207	141,148	18,933	44,160	4,879	0	474,328
Financial liabilities at AC [1]	502,920	180,493	0	49,431	64,845	9,917	807,607

(000) BAM

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	25,524	8,148	1,789	2,468	164	1,424	39,516
Net interest income	15,692	5,972	1,789	1,860	42	1,474	26,830
o/w regular interest income	17,613	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	2,444	2,444
Other operating result	0	0	0	0	0	-2,762	-2,762
Operating income	**25,524**	**8,148**	**1,789**	**2,468**	**164**	**1,106**	**39,199**
Operating expenses	**-20,416**	**-3,704**	**-45**	**-485**	**-338**	**-6,058**	**-31,045**
Operating result before impairments and provisions	**5,107**	**4,444**	**1,744**	**1,982**	**-173**	**-4,951**	**8,154**
Other result	-238	-54	-91	-12	0	-349	-743
Credit loss expenses on financial assets	-7,712	-14,574	321	-2,630	-862	-99	-25,556
Operating result before tax	**-2,843**	**-10,184**	**1,974**	**-659**	**-1,035**	**-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 [1]	585,218	101,131	0	60,260	37,804	9,028	793,441

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

(000) BAM

31.12.2021	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Transactions	1,479	1,981	278	96	0	3,834
Accounts and Packages	4,852	777	19	23	0	5,671
Cards	2,402	37	1	0	0	2,440
FX & DCC	3,678	270	26	19	0	3,993
Securities	0	0	0	0	0	0
Bancassurance	1,175	0	0	0	0	1,175
Loans	501	74	46	1	0	622
Trade finance	0	1,046	348	3	0	1,398
Other	43	20	25	0	0	88
Fee and commission income	**14,129**	**4,206**	**743**	**143**	**0**	**19,221**
Cards	-2,992	-48	-1	0	0	-3,042
Transactions	-224	-299	-43	-15	0	-580
Client incentives	-93	0	0	0	0	-93
Securities	0	0	0	0	-53	-53
Accounts and Packages	-481	0	0	0	0	-481
Bancassurance	0	0	0	0	0	0
Other	-88	-69	-5	-2	0	-163
Fee and commission expenses	**-3,879**	**-416**	**-48**	**-16**	**-53**	**-4,412**
Net fee and commission income	**10,250**	**3,790**	**695**	**127**	**-53**	**14,809**

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

(000) BAM

31.12.2020	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: 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

6.3. Detailed analysis of the statement of financial position

(000 BAM)

	31.12.2021	31.12.2020	(abs)	(%)
Cash reserves	291,150	266,199	24,951	9.4%
Loans and receivables	467,677	501,099	-33,422	-6.7%
Loans and advances to credit institutions	25	127	-102	-80.3%
Loans and advances to customers	467,652	500,972	-33,320	-6.7%
Investment securities	243,068	204,047	39,021	19.1%
Tangible assets	20,584	20,649	-65	-0.3%
Intangible assets	6,091	6,308	-217	-3.4%
Tax assets	5,576	6,731	-1,155	-17.2%
Current tax assets	1,783	1,783	0	0.0%
Deferred tax assets	3,793	4,948	-1,155	-23.3%
Other assets	2,323	2,852	-529	-18.5%
Non-current assets held for sale	1,023	3,752	-2,729	-72.7%
Total assets	**1,037,492**	**1,011,637**	**25,855**	**2.6%**

The statement of financial position of Addiko Bank shows the simple and solid interest-bearing asset structure: 45% 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 lending in the focus segments Consumer and SME. This is reflected by the increased share of these two segments of 85.6% of the gross performing loan book (YE20: 81.6%).

As of YE21 the total assets of the Bank in the amount of BAM 1,037,492 thousand increased by BAM 25,855 thousand or 2.6% compared with the YE20 level (BAM 1,011,637 thousand). The total risk, i.e. risk-weighted assets including credit, market and operational risk, decreased to BAM 654,569 thousand (YE20: BAM 677,204 thousand).

Cash reserve remained stable at BAM 291,150 thousand as of 31 December 2021 (YE20: BAM 266,199 thousand). This reflects the strong liquidity position of the Bank.

Overall loans and receivables decreased to BAM 467,677 thousand from BAM 501,099 thousand at year end 2020:

- Loans and receivables to credit institutions (net) decreased by BAM 102 thousand to BAM 25 thousand (YE20: BAM 127 thousand).
- Loans and receivables to customers (net) decreased by BAM 33,320 to BAM 467,652 thousand (YE20: BAM 500,972 thousand). The change was mainly in living loans in both focus and non-focus area. The living loans in non-focus segments (Mortgage Business and Large Corporate and Public Finance) decreasing from BAM 94,640 thousand at year end 2020 to BAM 78,361 thousand at YE 2021. The focus segments Consumer and SME living loans decreased from BAM 420,230 thousand (YE20: BAM 408,765 thousand).

The **investment securities** increased from BAM 204,047 thousand at YE20 to BAM 243,068 thousand at YE21. The investments are largely in high rated government bonds and have maturities of less than five years. To ensure high levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets remained stable at BAM 5,576 thousand (YE20: BAM 6,731 thousand), difference relates to change in deferred tax assets recognised on credit risk provisions for S1 and S2.

Other assets slightly decreased to BAM 2,323 thousand (YE20: BAM 2,852 thousand). The main amounts in this position are related to prepaid expenses and accruals (YE21: BAM 2,261 thousand; YE20: BAM 2,653 thousand) as well as receivables for paid in deposits and receivables from card business.

(000) BAM

	31.12.2021	31.12.2020	(abs)	(%)
Financial liabilities measured at amortised cost	807,607	793,441	14,166	1.8%
Deposits of credit institutions	915	788	127	16.1%
Deposits of customers	797,690	784,412	13,278	1.7%
Other financial liabilities	9,002	8,241	761	9.2%
Provisions	14,185	17,164	-2,979	-17.4%
Other liabilities	8,115	4,195	3,920	93.4%
Equity	207,585	196,837	10,748	5.5%
Total equity and liabilities	**1,037,492**	**1,011,637**	**25,855**	**2.6%**

On the liabilities' side, **financial liabilities measured at amortised cost** increased to BAM 807,607 thousand compared to BAM 793,441 thousand at year end 2020:

- Deposits of credit institutions increased from BAM 788 thousand at YE20 to BAM 915 thousand as of YE21.

Deposits of customers increased to BAM 797,690 thousand (YE20: BAM 787,412 thousand). The solid funding profile is one of the strengths of the Bank, which drives low dependence on market funding. Around 24% of the deposits are term deposits, mainly Euro denominated, followed by Bosnia-Herzogovina Convertible Marka (BAM).

- Other financial liabilities increased from BAM 8,241 thousand at YE20 to BAM 9,002 thousand at YE21.

Provisions decreased from BAM 17,164 thousand at YE20 to BAM 14,185 thousand at YE21. The development was primarily influenced by off - court settlement for legal cases and by decrease of provisions for commitments and guarantees. In addition, during 2021 the Bank recognised provisions for variable performance-based bonus expenses which did not occur in the previous reporting period in line with applicable recommendations by the FBA.

Other liabilities increased from BAM 4,195 thousand at YE20 to BAM 8,115 thousand in YE21 and mainly include accruals for services received but not yet invoiced (YE21: BAM 4,160 thousand, YE20: BAM 3,250 thousand) as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from BAM 196,837 thousand to BAM 207,585 thousand is reflecting the total comprehensive income, which includes the profit and loss for the reporting period in the amount of BAM 14,632 thousand, as well as changes in other comprehensive income in the amount of BAM -3,885 thousand. These changes were resulting from to market related movements from debt and equity instruments measured at FVTOCI (BAM -3,441 thousand).

6.4. Capital and liquidity requirement

The Overall Capital Requirement (OCR) was 15.50% for the Bank, consisting of:

- 14.5% TSCR (12.0% capital requirement and 2.5% protective layer). In addition to the capital requirement, the SREP for 2021 is set at 1.0% and should be comprised entirely of CET1 capital. The regulator therefore expects Bank to maintain a CET1 ratio of 10.25%.

The **capital base** of the Bank is solely made up of CET1 at 27.97% (YE20: 27.38%) well above the Overall Capital Requirements of 15.5% and is based on the currently valid Banking Agency decision.

In addition, Bank's regulatory capital ratios were reflecting the decrease in RWAs, which was driven by the decrease in credit risk (BAM 26,607 thousand) and by the increase in market risk (BAM 4,231 thousand).

Addiko's leverage ratio is sound at 16.5% at the end of 2021 (YE20: 17.1%).

The **liquidity position** of the Bank remains strong, with LTD ratio of 57.9% (YE20: 63.5%), thus meeting the liquidity indicators high above the regulatory requirements.

7. Analysis of non-financial key performance indicators

7.1. Human Resources Management

The human resources strategy initiates Bank's culture transformation which is constantly evolving, reflecting the principles of trust, integrity and clear performance orientation. The Bank's HR processes that support this transformation relate to performance appraisal and management, selection and recruitment, talent development, education and staff development. In this way, the Bank strives to establish a high-quality working environment in order to continue to build the image of an exemplary and desirable employer.

The Bank received the "Employer partner" award what speaks about its adaptability and quality attitude towards employees.

In 2021, a new communication strategy was also successfully implemented – "A bank for atypical bankers", developed based on the feedback by employees and the corporate values. The strategy puts in the first place the culture of fellowship, stimulating environment and the importance of personal initiative.

The Bank promotes corporate culture which nurtures continuous education, with the focus on its strategic transformation into a specialised bank.
Educational programmes focus on leadership skills, regulatory requirements, customer relationship and risk awareness, with a special approach to risk and a digital bank focused on retail and SME. Employees also had interactive trainings on handling stressful situations, work from home and organizing time.
The Bank developed talent management programme, so employees were identified through the *"People Forum"* and recognised as successors or talents within the organizational units, or organisation. The *"Internal Knowledge Transfer"* programme was implemented, with the aim of development and retention of talents and increasing the cumulative capacity, experience and diversity of our workforce.
Furthermore, the Bank will continue with *Mentoring Programme*, since it demonstrated exceptional results in knowledge exchange within the organisation itself.

Ahen hiring, selection and recruitment of employees is based on clearly defined business needs, and transparency and equality are the foundation of all selection, recruitment, appointment, and promotion processes. For key functions, an assessment of the applicant's ability and suitability (Fit & Proper) is also carried out in line with regulatory guidelines. Priority is often given to internal placements and promotions, with the focus on identifying talents and defining career development opportunities.

For the first time, the Bank participated this year in the dual education program with Economic high school in Sarajevo.

At the YE21, the total of 343 employees were employed in Addiko Bank. The average age of Addiko employees is 39 years. The average seniority in Addiko Bank is 11 years.

Employee engagement and feedback are an important characteristic of Addiko Bank's corporate culture. Employees of the Bank can make suggestions or express opinions by means of questionnaires, suggestion box, directly or through their superiors. A Culture and Engagement Survey is conducted annually, with of em 83,1 % ployees participating in 2021. The results of this research will be used for better understanding of employees' views and for the improvement of organisation culture through open communication, honesty and trust.

Speaking about health benefits, the Bank provides 24/7 accident insurance and participates in the premium for supplementary private health insurance. During October, as the Breast Cancer Awareness Month, a lecture was organized in order to raise awareness of the importance of prevention, and free check-ups were provided for Addiko female staff.

Implementing the Diversity and Inclusion Policy driven at the level of Addiko Group, the Bank confirmed its commitment to building a diverse and inclusive workforce. Numerous programmes were also launched with the aim of more appropriate approach to talents throughout the Bank and those at managing positions, with focus on females in non-managerial positions or newly promoted managers.

As in the previous years, the Bank continued to promote healthy lifestyles (business runs, skiing competition, etc.).

The Bank‘s remuneration strategy rewards performance and contribution in an appropriate mix of fixed and variable remuneration. This is a market-based strategy, preventing the Bank from an excessive risk taking, while at the same time rewarding sustainability and long-term results. The remuneration policy is governed by the provisions of the applicable legislation, guidelines of the local and EU regulators and directives on capital requirements.

7.2. Corporate Social Responsibility (CSR)

The Bank’s Corporate Social Responsibility in compliance with highest international standards governing this area.

Even during the crisis period, the Bank maintained a socially responsible approach and in accordance with its capabilities continued to provide support to the local community. Bank maintained a corporate-responsible approach and continued to provide support to the local community in accordance with its capabilities. Although on a reduced scale, the implemented activities were focused on the development and well-being of children and the youth, support for vulnerable social groups and environmental protection.

Employees of the Bank, now traditionally, participate in socially responsible activities of the Bank through the Addiko Cares volunteer club.

For the 11th time, the Bank, together with employees orgnaized New Year chaity action "One gift for one smile" for sick and socialy vulnerable children. We distributed more than 270 gift packages to them. We were continued with COVID related CSR activities. In this segment, we donated tablets and laptop for online classes for primary school in Hadžići, printer for COVID passports in Bihać and oxygen breething device for NGO "Give us chance" in Sarajevo.
Paralel with that, we celebrate autism day with donation of GPS bracelets for autistic children in Ljubuški, Novi Travnik, Zenica, Žepče and Visoko.

In addition to the engagement of its employees, in 2021 Addiko Bank Sarajevo supported charity activities as part of USA embasy initiative by donations of equipment and furniture to school in Zenica and kindergartens in Mostar and Tuzla.

Children without parents in Sarajevo's orphanage "Bjelave" this year got our patience and support through food donation.

This year we celebrated our birthday through volunteering activities of our employees in restorans for poor people Sarajevo and Mostar, orphanage in Tuzla, primary school in Živinice and asociation of women with cancer in Bihać.

Addiko Bank Sarajevo constantly strives to improve the community in which it exists and to support those initiatives that offer long-term solutions and encourage the improvement of the quality and conditions of life, and this will also be in the focus in future.

7.3. Investment in Environment

The Bank conducts its business policy with environmental awareness and engagement, in accordance with applicable regulations.

The Bank take's the following environmental protection actions:
- Introduction of more energy-efficient technologies
- Use of products, processes, and technologies with lower environmental impact
- Taking measures to prevent and mitigate the consequences of endangerment and damage to the environment

Direct environmental impact is mainly resolved through a number of initiatives on the Group level:
- Energy consumption and emission
- Water consumption
- Paper consumption
- Waste and recycling
- Vehicle fleet and buildings management
- Health and safety at work
- Digitalisation, etc.

During 2021, the Bank continued the usage of CITRIX environment and Thin Client technology. This project involved the replacement of more than 70% of workstations with Thin Client consoles that have significantly lower power consumption and an optimised need for hardware components that are now centralised in servers, thus having greatly reduced the possibility of electronic waste in the future. All branches and Workplace Recovery locations are fully based on Citrix/Thin client architecture, connecting through existing leased lines to the same Data Centre, and in the headquarter all users whose scope of work permits them the usage of technology are migrated to Thin Clients.

The Bank is not recognised as a polluter. Also, it does not plan any projects in the foreseeable future that could have a negative impact on the environment.

The Bank is guided by the principles of rational use of energy and other resources in the facilities, at all stages of their adaptation, as well as in fleet vehicles. The goal is to reduce carbon dioxide emissions as a by-product to the lowest possible extent applying measures such as:

- Installation of high energy efficiency equipment that meets the A+ standard or higher;
- the use of vehicles with the most advanced commercially available engines that guarantee low levels of harmful emissions;
- regular enhancement and maintenance of the equipment and premises.

8. 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 emphasises and demonstrates to all levels the importance of internal controls.

9. Outlook & Risk factors

9.1 Outlook

Economic growth is projected to remain strong over the next three years despite some headwinds in the near term. Sharply rising rates of Covid-19 infections are still affect-ing the world and the region Addiko is present, with peri-odic waves occurring every several months. The emer-gence of the Omicron variant has added to this uncertainty. In addition, supply bottlenecks have intensified and are now expected to last longer, only to be gradually dissipat-ing from the second quarter of 2022 and fully unwinding by 2023. However, this does not seem to have any material effects on the economy, with people and firms having adapted to the new normality and behaving as if there were no pandemic. Governments are acting in the same way, avoiding lockdowns and introducing just mild re-strictions.

Real GDP is expected to exceed pre-Covid-19 level in the first quarter of 2022. As global supply constraints ease and the pandemic-related restrictions and associated uncertainties decrease, growth is consequently expected to be solid in 2022, notwithstanding a less supportive fiscal stance and higher market interest rate expectations. Household consumption will remain the key driver of economic growth, benefiting from a rebound in real disposable income, some unwinding of the accumulated savings and a robust labour market.

Inflation gained momentum everywhere in the region, in which it is expected to be close to or higher than the 2021 levels at around 2-3% for 2022. Although considerably stronger than previously anticipated, these inflationary pressures are still assessed to be largely temporary, reflecting a surge in energy prices and international and domestic mismatches in demand and supply as economies reopen. High inflation will reduce real incomes to some extent and may slow down spending and growth in turn.

Higher energy prices may also have an adverse effect on businesses and households as they have increased sub-stan-tially in Europe and the CSEE region, which may affect small and medium enterprises in particular.

On top of this, political tensions are reoccurring in the region. Bosnia & Herzegovina is going through the biggest political crisis since the war. At the moment, these events seem unlikely to esca-late into bigger conflicts but are still likely to have certain negative effects on the economic developments in 2022 in those countries.

In Bosnia & Herzegovina the economy is expected to grow by 3.1% in 2022 and therefore is among the lowest growth rates in the whole region. This is largely a reflection of the increased political risks, which will likely cause public infrastructure projects and private-sector investments to be put on hold, while consumer spending and exports will grow only slowly. With further increases in energy prices, inflation is anticipated to climb to 2.6% in 2022.

Concurrent with the improved growth expectations, the CSEE region offers higher growth compared to mature markets with still underserved niches to be identified. For this reason, the Group intends to further accelerate its competitive specialist strategy execution in the CSEE markets in 2022, focusing on sustainable business growth in the segments Consumer and SME, with a specific focus on micro and small enterprises and the overall ambition to become the leading CSEE specialist bank for these segments.

Addiko's prudent risk approach will remain a key anchor of the loan growth generation strategy. Addiko intends to rebalance its risk appetite to enable growth and at the same time to leverage on its advanced risk-management tools across Consumers and SMEs as part of its modern digital platform.

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

As one of its short-term ambitions, Addiko intends to further push its efficiency by reducing costs and complexity and streamlining its operating model. Addiko already identified costs initiatives which will be executed dur-ing

2022 and are expected to generate a sustainable and visible gross saving impact.

The above Outlook 2022 does not consider any potential impacts from the evolving Russia-Ukraine situation. The ongoing conflict situation does not impact Addiko Bank d.d. directly, as it has no operating presence in those countries; direct exposures to both countries are negligible and no meaningful additional risk provisioning is currently anticipated in this context. However, indirect effects, such as financial market volatility, sanctions-related knock-on effects on some of our customers or the emergence of deposit insurance or resolution cases cannot be ruled out, though.

9.2 Risk factors and management

The Bank manages and controls risk in all business segments in order to optimize risk-adjusted returns in order to ensure the ability to bear the risk, and thus protect the bank's creditors. Through the Risk Strategy, the Bank determines the vision, risk appetite and opportunities to ensure that all material risks to which the Bank is exposed in business are identified, understood and that appropriate responses are available to protect the Bank and prevent damage to customers, shareholders, economy, colleagues or the community, enabling the bank to achieve its goals and improve its ability to respond to new opportunities. In its operations, the bank is exposed to the highest credit risk, liquidity risk, operational risk, market risk, strategic risk, and has a management and monitoring framework in place for each.

Credit risk

Credit risk is defined as the probability of total or partial loss due to non-performance of contractual obligations caused by the weakening of the creditworthiness of the other party.
The credit risk management framework has the following dimensions:

- Underwriting and risk assets management,
- Credit risk measuring through credit loss calculation, capital requierement calculation, credit risk parameters evaluation model - rating models
- Budgeting and planning: Budgeting process is a key process for planning the capital utilisation and development of the portfolio. Careful monitoring of the budget utilisation enables the Bank to undertake appropriate measures whenever any departures from the budget are determined. Budget realisation is closely monitored and expected realisation is revised and updated on a monthly basis. In this manner, the management has continuous information on the portfolio success and expectations for the future.
- Credit risk reporting to regulator, management and supervisory board
- Stress tests: Credit risk of the Bank is subject to a comprehensive stress test once a year, including credit risk impact on increase of the NPL portfolio, provisioning costs and capital adequacy. Stress test result is taken into account in ICR in accordance with the ICAAP rules
- Limit setting and monitoring: In an intention to maximally enhance its risk control system and appropriately interconnect all its components, Addiko Bank set up a framework of limits
- New product evaluation (PIP).

Operational risk

Operational risk is the risk of negative effects on the Bank's financial results and capital due to staff failures, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and due to unforeseen external events, including legal risk. The definition of operational risk does not include strategic risks and reputational risk

The Bank has an established framework for operational risk management and control, which conceptually, in addition to management, consists of a network of ORO (operational risk officer) and DORO (decentralized operational risk officer - Decentralized operational officer); DORO operating within the business processes of the bank and ORO as a function of supporting DORO and business functions and control the identification, reporting and reporting of operational risk cases.
Operational risk management is an ongoing cyclical process that includes risk self-assessment and control, risk decision-making, scenario analysis, and risk control, resulting in risk acceptance, mitigation, or avoidance.

Liquidity risk

- Three sub-types of liquidity risk are managed in Addiko:

- Illiquidity risk: a risk that the Bank will not be able to pay its financial liabilities upon maturity in full or within the given deadline;
- Funding Spread Risk: a risk of a financial loss arising from disadvantageous changes in the Bank's credit spread (liquidity spread), where the credit transaction was refinanced with a non-compatible maturity term (transformation risk of maturity liquidity);
- Liquidity Market Risk: a risk that a financial loss will be generated out of the lack of market; measured together with the market price risk. The bank tracks market prices on regular daily basis to be able to react in earliest possible way.
- Intraday liquidity risk
- Financing sources concetration risk: Liquidity risk may arise from concetration on passive side due to individual concentration, currency or due date. The bank regularly tracks and repors this risk to avoid unfavourable situation in terms of liquidity due to concentration

Market risk

The Bank is exposed to the following market risks: interest rate risk, currency and credit spread risk.

Credit spread risk is the risk of a change in market price based on changes in the market's credit spread. Addiko has set up a framework of VAR, volume limit and internal capital limits, monitoring and escalation processes on daily basis, as well as strest testing framework to test for sensitivity in case of adverse market scenarios.

Interest rate risk is exposure of the bank's financial condition to undesirable interest rate movements.
Changes in interest rates affect the Bank's earnings by changing net interest income and the level of other sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the economic value of future cash flows changes when interest rates change.

For the purposes of reporting to the Agency on interest rate risk exposure in the banking book, the bank uses a simplified calculation of the assessment of changes in the economic value of the banking book, applying standard interest shock to banking book positions in all significant currencies individually and for other currencies in total.

A framework for stress testing is also needed to determine the level of sensitivity of the bank due to stressful conditions in the market. Possible stress scenarios include:

- sudden changes in the general level of interest rates (including the supervisory standardized 200BP interest rate shock),
- changes in the slope and shape of the interest rate curve,
- specific scenarios identified for the bank
- ICAAP stress test for VAR changes

Strategic/ business risk

Strategic risk occurs due to incorrect management decisions on the positioning of the corporation, treatment of business sectors, selection of business partners or development and use of internal resources.
The bank's ability to manage strategic risk is crucial for its survival and long-term development. Strategic risk management primarily involves the bank's relationship to the environment in which it operates, decisions in response to changes in the business environment and making decisions about capital and other resources in a way that prioritizes the bank as a whole over the competition.
Addiko has an advanced framework for strategic risk and business risk management and monitoring, with developed technical tools and clear reporting lines.

ICAAP (Internal capital adequacy assessment)

Ensuring the Bank's ability to bear economic risk is a major part of Addiko Bank's management activities. Therefore, the Bank has established a clearly defined internal capital adequacy assessment process (ICAAP).

Risk management is part of the bank's comprehensive management process, whereby risk capital is allocated by type of risk in accordance with the strategy, limits are set and capital is monitored through set limit systems. The identification of all material risks is done through the annual risk inventory process, which is the starting point for assessing the ability to bear the risk..
Once a year, the Bank performs a comprehensive internal assessment of capital adequacy through the analysis of quantitative and qualitative elements of the Bank's operations. As part of this process, the bank assesses the relationship of internal capital adequacy with the adopted

financial plan of the bank, in regular and stressful circumstances.

For detailed information on the Bank's risk management models and risk exposure, as well as the methods of risk management, see Chapter 5. of the Financial Statements with the notes below.

Risk management and COVID 19

As Covid-19 and its variants continue to cast a shadow over the world's health systems and economies, the level of uncertainty and strength of the economic recovery will vary across countries.

Addiko operates in CSEE countries which have taken measures to address the economic consequences of the coronavirus pandemic for individuals, households and businesses. Such measures include public moratoria on re-payment of loans, leading to payment holidays between three to twelve months. At the end of the second quarter 2021, limited moratoria programs in CSEE countries, where Addiko is active, remain in place. New moratoria with stricter conditions apply until the end of 2021 in Bosnia & Herzegovina (where the application period ended on 30 June 2021).

In addition to the Covid-19 impact on the economy, the following developments in the European banking sector represent risk factors affecting the development of the bank: on the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the markets, and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. Furthermore, these activities of regulatory authorities, such as the implementation of consumer protection mechanisms limiting loan growth in the consumer sector, will in turn also have a negative influence on private consumption, further affecting the sector's profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments which allow customers to conduct their banking activities without visiting the branches.

Sarajevo, 23 March 2022
Addiko Bank dd Sarajevo

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

ADDIKO BANK DD
1.3.1
SARAJEVO

Selma Omić
Member of the Management Board

Mario Ivanković
Member of the Management Board

Financial statements

I. Statement of comprehensive income

Statement of profit or loss

(000) BAM

	Note	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method		30,134	30,583
Interest expenses		-3,408	-3,752
Net interest income	(30)	26,726	26,831
Fee and commission income		19,221	16,623
Fee and commission expenses		-4,412	-3,937
Net fee and commission income	(31)	14,809	12,686
Net result on financial instruments	(32)	640	2,444
Other operating income		1,615	646
Other operating expenses		-3,115	-3,408
Operating income	(33)	**40,675**	**39,199**
Personnel expenses	(34)	-14,670	-14,124
Other administrative expenses	(35)	-13,391	-13,343
Depreciation and amortisation	(36)	-3,018	-3,578
Operating expenses		**-31,079**	**-31,045**
Operating result before impairements and provisions		**9,596**	**8,154**
Other result	(37)	2,887	-743
Credit loss expenses on financial assets	(38)	3,524	-25,557
Result before tax		**16,007**	**-18,146**
Tax on income	(39)	-1,375	5,135
Result after tax		**14,632**	**-13,011**
thereof attributable to equity holders of parent		14,632	-13,011

	31.12.2021	31.12.2020
Result after tax attributable to ordinary shareholders (in TBAM)	14,632	-13,011
Number of ordinary shares (in units of shares)	532.500	532.500
Earnings/losses per share (in BAM)	27.48	-24.43

The following notes (1) - (73) are an integral part of these financial statements.

Statement of other comprehensive income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Result after tax	**14,632**	**-13,011**
Other comprehensive income	**-3,884**	**1,063**
Items that will not be reclassified to profit or loss	**268**	**118**
Fair value reserve - equity instruments	268	118
Net change in fair value	297	131
Income Tax	-29	-13
Items that may be reclassified to profit or loss	**-4,152**	**945**
Fair value reserve - debt instruments	-4,152	945
Net change in fair value	-3,708	3,242
Net amount transferred to profit or loss	-693	-2,354
Income Tax	249	57
Total comprehensive income for the year	**10,749**	**-11,948**
thereof attributable to equity holders of parent	10,749	-11,948

The following notes (1) - (73) are an integral part of these financial statements.

II. Statement of financial position

(000) BAM

	Note	31.12.2021	31.12.2020
Assets			
Cash reserves	(40)	291,150	266,199
Loans and receivables	(41)	467,677	501,099
Loans and receivables to credit institutions		*25*	*127*
Loans and receivables to customers		*467,652*	*500,972*
Investment securities	(42)	243,068	204,047
Tangible assets	(43)	20,584	20,649
Property, plant and equipment		*20,535*	*20,595*
Investment property		*49*	*54*
Intangible assets	(44)	6,091	6,308
Tax assets		5,576	6,731
Current tax assets		*1,783*	*1,783*
Deferred tax assets		*3,793*	*4,948*
Other assets	(46)	2,323	2,852
Non-current assets classified as held for sale	(47)	1,023	3,752
Total assets		**1,037,492**	**1,011,637**
Liabilities	(48)		
Financial liabilities measured at amortised cost		807,607	793,441
Deposits of credit institutions		*915*	*788*
Deposits of customers		*797,690*	*784,412*
Other financial liabilities		*9,002*	*8,241*
o/w IFRS 16		*1,512*	*1,308*
Provisions	(49)	14,185	17,164
Other liabilities	(50)	8,115	4,195
Total liabilities		**829,907**	**814,800**
Equity			
Share capital		100,403	100,403
Statutory reserves		25,101	25,101
Fair value reserve		28	3,912
Retained earnings		82,053	67,421
Total equity	(51)	**207,585**	**196,837**
Total liabilities and equity		**1,037,492**	**1,011,637**

The following notes (1) - (73) are an integral part of these financial statements.

III. Statement of changes in equity

(000) BAM

31.12.2021	Share capital	Statutory reserves	Fair value reserve	Retained earnings	Total
Equity as at 01.01.2021	**100,403**	**25,101**	**3,912**	**67,421**	**196,837**
Result after tax	0	0	0	14,632	14,632
Other comprehensive income	0	0	-3,884	0	-3,884
Total comprehensive income	*0*	*0*	*-3,884*	*14,632*	*10,748*
Equity as at 31.12.2021	**100,403**	**25,101**	**28**	**82,053**	**207,585**

(000) BAM

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

The following notes (1) - (73) are an integral part of these financial statements.

IV. Statement of cash flows

(000) BAM

	2021	2020
Result after tax	**14,633**	**-13,011**
Deffered tax asset	1,375	-5,135
Depreciation and amortisation of intangible assets and tangible fixed assets	3,018	3,578
Impairment of intangible assets and tangible fixed assets	35	1,677
Impairment of repossessed assets	-	2,027
Change in risk provisions on financial instruments	-1,167	27,647
Modification gains or losses	216	394
Change in provision	1,298	715
Other non-cash movements (Impairement of non financial assets)	685	0
(Gains) / losses on investment securities	-693	-2,354
(Gains) / losses from disposals of intangible assets and tangible fixed assets	66	115
(Gains) / losses from disposals of repossessed assets	-1,331	-341
(Gains) / losses from disposals of non-current assets	-57	-35
Subtotal	**18,078**	**15,277**
Loans and advances to credit institutions and customers	4,378	-13,420
Investment securities	-40,527	-6,578
Financial assets held for trading	-	6
Other assets	1,175	-219
Financial liabilities measured at amortised cost	17,430	45,116
Provisions	-2,127	-2,292
Other liabilities from operating activities	3,920	746
Interests received	25,855	25,388
Interest paid	-3,408	-3,438
Dividends received	10	-
Cash flows from operating activities	**24,784**	**60,586**
Proceeds from the sale of:		
Tangible assets, investment properties, lease assets and intangible assets	2	60
Sale of non current assets	2,800	120
Payments for purchases of:		
Tangible assets, investment properties, lease assets and intangible assets	-1,987	-4,011
Cash flows from investing activities	**815**	**-3,831**
Lease payments	-723	-945
Cash flows from financing activities	**-723**	**-945**
Net increase in cash and cash equivalents	**24,876**	**55,810**
Cash reserves at the end of previous period (01.01.)	**266,713**	**210,903**
Cash reserves at end of period (31.12.)	**291,589**	**266,713**

The following notes (1) - (73) are an integral part of these financial statements.

V. Condensed notes

Company

Addiko Bank d.d. Sarajevo (hereinafter the ‘’Bank’’) has received the approval 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 and statement of compliance

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 has an effect on valuation of non-financial assets arising from credit operations (acquired tangible 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 5,101 thousand(31 December 2020: BAM 10,905) 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 2021 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 1,341 thousand (2020: 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 1,744 thousand (2020: 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 2,016 thousand (2020: BAM 6,196 thousand), of which the amount of BAM 925 thousand (2020: BAM 791 thousand) refers to exposures not secured by acceptable collateral, the amount of BAM 1,091 thousand (2020: BAM 5,405 thousand) refers to exposures secured by acceptable collateral, and the amount of BAM 387 thousand (2020: 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 presented lower value of repossessed assets by amount of BAM 1,492 thousand (2020: BAM 1,930 thousand) compared to the value of those assets in accordance with IAS 2 (BAM 1,500 thousand, 2020: BAM 2,071 thousand); hence value of repossessed assets as at 31 December 2021 was BAM 8 thousand and BAM 149 thousand as at 31 December 2020. 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*:

	31 December 2020	31 December 2021
Assets	-10,377	-5,636
Liabilities	1,662	-777
Equity	-12,039	-6,413

	Year ended 31 December 2020	Year ended 31 December 2021
Financial result before taxation	6,222	6,241

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

Where accounting policies are consistent with International Financial Reporting Standards, there is a link in these financial statements to the relevant IFRSs.

These 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 one of the notes. Analysis of remaining maturities.

These 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 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 KM); the convertible mark (KM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1.95583). The tables shown may contain rounding differences.

On 23. March 2022, the Management Board of the Bank approved the financial statements as at 31 December 2021 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 2021.

(2) Covid-19 disclosures

Considerations and significant impacts of the Covid-19 outbreak are presented within the financial statements in those chapters to which they can be assigned thematically:

- Note (6) Accounting topics affected by Covid-19, discusses the accounting and measurement methods affected by Covid-19.
- Note (57) Credit risk contains a separate sub-chapter “Moratoria due to Covid-19” which contains information on credit exposures subject to certain Covid-19 measures.
- Note (53) Risk provisions contains a separate sub-chapter “Method of calculating risk provisions” which explains the considerations of the pandemic on the ECL measurement and sensitivity analyses.

(3) Changes in the presentation of the financial statements

Statement of Cash Flow

In 2021 the Bank reviewed the statement of cash flows. The result of the review led to changes in the statement of cash flows and the following positions were adjusted:

- Modification gains and losses in the amount of BAM 216 thousand are presented now in the new line “Modification gains or loss” (before: “Change in risk provisions on financial instruments and modification gain/loss”);
- Cash paid for amounts included in lease liabilities in the amount of BAM 723 thousand is presented in the new line “Lease payments” as cash flow from financing activities (before: “Other liabilities from operating activities" in cash-flow from operating activities);
- Proceeds from the sale of assets held for sale (IFRS 5) in the amount of BAM 2,800 thousand are presented in the new line “Proceeds from the sale of non-current assets” in cashflow from investing activities (before: “Other changes”).

Statement of comprehensive income

In 2021 the Bank reviewed the Statement of comprehensive income, which led to changes in the statement of profit or loss. The changes in presentation were made in order to increase the transparency on the development of the underlying operative result of the Bank and to provide more relevant information, enabling at the same time greater comparability:

- “Received income from legal cases” is shown into position “Other result”. Until year-end 2020, they were presented under the line “Other operating income";
- “Expenses from impairment of repossesed assets” are shown into position “Other result”. Until year-end 2020, they were presented under the line “Other operating expenses"

This change in presentation had no impact on the "Result after tax" as well as on the "Total comprehensive income for the year" of the Bank. The corresponding changes are also incorporated in the segment reporting 2020.

The above changes are summaries in the below table:

	01.01.-31.12.2020	Reclassification		01.01.-31.12.2020
Interest income calculated using the effective interest method	29,514	1,069	Interest income calculated using the effective interest method	30,583
Other interest income	1,069	-1,069	Other interest income	0
Interest expenses	-3,752	0	Interest expenses	-3,752
Net interest income	**26,831**	**0**	**Net interest income**	**26,831**
Fee and commission income	16,623	0	Fee and commission income	16,623
Fee and commission expenses	-3,937	0	Fee and commission expenses	-3,937
Net fee and commission income	**12,686**	**0**	**Net fee and commission income**	**12,686**
Net result on financial instruments	**2,444**	**0**	**Net result on financial instruments**	**2,444**
Other operating income	4,308	-3,662	Other operating income	646
Other operating expenses	-5,435	2,027	Other operating expenses	-3,408
Operating income	**40,834**	**-1,635**	**Operating income**	**39,199**
Personnel expenses	-14,124	0	Personnel expenses	-14,124
Other administrative expenses	-13,343	0	Other administrative expenses	-13,343
Depreciation and amortisation	-3,578	0	Depreciation and amortisation	-3,578
Operating expenses	**-31,045**	**0**	**Operating expenses**	**-31,045**
Operating result before change in credit loss expense	**9,789**		**Operating result**	**8,154**
Other result	-2,378	1,635	Other result	-743
Credit loss expenses on financial assets	-25,557	0	Credit loss expenses on financial assets	-25,557
Operating result before tax	**-18,146**	**0**	**Result before tax**	**-18,146**
Tax on income	5,135	0	Tax on income	5,135
Result after tax	**-13,011**	**0**	**Result after tax**	**-13,011**
thereof attributable to equity holders of parent	-13,011		thereof attributable to equity holders of parent	-13,011

(4) 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 are listed below.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2021:

Standard	Name	Description	Effective for financial year
IFRS 16	Amendments to IFRS 16 Leases	Covid-19 Related Rent Concessions	from June 2020
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
IFRS 4	Amendments to IFRS 4 Insurance contracts	Deferral of IFRS 9	2021

4.1. Amendments to IFRS 16 Leases: Covid-19 Related Rent Concessions

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. Addiko Group chose not to apply the practical expedient.

4.2. Amendments to IFRS 9 Financial Instruments: Interest rate benchmark reform - Phase 2

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 interbank offered rates (IBORs) are actually replaced by alternative nearly risk free rates (RFR) based on liquid underlying market transactions.

The Bank applied these amendments to annual reporting periods beginning on or after 1 January 2021 retrospectively. Earlier application is permitted and restatement of prior period is not required. The Bank did not have any transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, therefore there is no impact on opening equity as a result of retrospective application.

The amendments introduce practical expedients in relation to accounting for modifications of financial assets and financial liabilities required by the reform. If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the effective interest rate of the financial asset or financial liability is updated to reflect the change that is required by the reform. There is consequently no adjustment of the carrying amount. In effect, the change is treated as akin to a movement in the market rate of interest. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then first the effective interest rate of the financial asset or financial liability is updated to reflect the change that is required by interest rate benchmark reform. After that, all other modifications are accounted for using the current IFRS requirements.

In addition, the amendments introduce practical expedients in case future lease payments are changed as required by the interest rate benchmark reform. In such case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

Furthermore, the amendments clarify that **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 Bank has exposure to IBORs on its financial instruments that will be reformed. Although some of the IBORs were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. As at 31 December 2021, it is known that the remaining USD LIBOR tenors will be ceased as at 30 June 2023 and it is still unclear when the announcement that will set a date for the termination of the publication of EURIBOR will take place. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates.

The Bank is in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rates, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform. The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves, revision of operational controls related to the reform and assessing of potential litigation risk. Financial risk is predominantly limited to interest rate risk.

The Bank's IBOR exposures to non-derivative financial assets as at 31 December 2021 were Loans and advances indexed to EURIBOR and LIBOR.

On 22 October 2021, the European Commission adopted the implementing regulations on the designation of a statutory replacement rate for two interest rate benchmarks, the Swiss Franc London Interbank Offered Rate (CHF LIBOR) and the Euro Overnight Index Change (EONIA).

The main focus of the Bank during 2021 was the transition of CHF LIBOR. The strategies for transition were defined and approved by the Board Members since neither a local regulation on benchmark replacement has been adopted, nor is there any recommendation on industry level or Banking Association. Annexes of contracts are in the process of preparation and have to be signed by all parties in accordance with defined strategy. Bank updated General terms and conditions and prepared the implementation of new contracts and annexes of the existing contracts in their core systems.

EURIBOR was so far reformed (the calculation methodology was changed) rather than being replaced. The Bank expects that EURIBOR will continue to exist as a benchmark rate, but to be prepared on different scenario, fallback clauses were prepared by external law firm and will be incorporated in any existing as well as new loan agreements.

The Bank further monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts and the volume of instruments that have yet to transition to an alternative benchmark rate. The Bank evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

Until 31 December 2021 financial instruments referenced to LIBOR were not transitioned to the new reference rates.

The following table shows the total amount of financial instruments which are yet to transition to the new reference rates and which are referenced to LIBOR held on 31 December 2021:

(000) BAM

	Non-derivative financial assets		Non-derivative financial liabilities		Derivatives	
	No. of contracts	Carrying amount	No. of contracts	Carrying amount	No. of contracts	Nominal amounts
CHF	24	587	0	0	0	0
USD	0	0	0	0	0	0
Total	**24**	**587**	**0**	**0**	**0**	**0**

4.3. Amendments to IFRS 4 Insurance contracts: Deferral of IFRS 9

The amendments to **IFRS 4 Insurance contracts** (Deferral to IFRS 9) provide an extension of the end date for applying the temporary exemption from IFRS 9 to 1 January 2023. These amendments are not applicable for the Bank.

(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.

In light of the ongoing Covid-19 pandemic, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available. The long-term impact of the pandemic on economic development, the development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be in hindsight overestimated or underestimated.

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 (53) Development of provisions.

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.

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details regarding provisions for legal cases and uncertainty of estimates are described in note (26) Provisions for pending legal disputes.

Taxation
The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

Regulatory requirements
The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

(6) Accounting topics affected by Covid-19

The Covid-19 outbreak and its effect on the global economy have continued to impact at different times and to varying degrees where the Bank is operating and the future effects of the pandemic still remain uncertain. The speed at which countries and territories are able to return to pre-Covid-19 levels of economic activity will vary based on the levels of continuing government support offered, the continuing levels of infection, and ability of governments to roll out vaccines across each country. There remains uncertainty regarding the efficacy and side effects of the vaccines over various time horizons, particularly as new variants of the virus emerge. A full return to pre-pandemic levels of social interaction across all key markets is unlikely in the short to medium term, despite the easing of government restrictions in many of these markets.

Covid-19 is consequently resulting in increased estimation uncertainty especially in relation to ECL models and the recognition of public moratoria on repayment of loans.

ECL models continue to be impacted by the pandemic, particularly as a result of the various government measures introduced to support borrowers during the outbreak. This continues to require enhanced monitoring of model outputs and the use of model overlays, including management judgmental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of Covid-19 on critical model inputs. For further information on credit risk provisioning methodology, reference is made to the Risk Report under one of the notes.

In light of the spread of Covid-19, a variety of measures have been taken by government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans. In most cases interest continues to accrue on the outstanding balance during the moratorium period. In case an economic loss is incurred, modification losses are recognised from accounting perspective. This results from the fact that the interest accrued, instead of being repaid or capitalised at the end of the moratorium, is repaid over the period after the moratorium. For further information on credit exposures subject to certain Covid-19 measures, reference is made to the sub-chapter "Moratoria due to Covid-19" in the Note (57) Credit risk.

(7) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items, which are measured on the following alternative basis on each reporting date.

Items	Measurement basis
Investment securities at fair value through other comprehensive income	Fair value
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell

(8) Foreign currency translation

Foreign currency translation within the Bank follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevaling at the reporting 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 2021	1 EUR = 1.95583 KM	1 USD = 1.725631 KM
31 December 2020	1 EUR = 1.95583 KM	1 USD = 1.592566 KM

(9) Leases

9.1. Leases in which the Bank is a lessee

At inception 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, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (5) “Use of estimates and assumptions/material uncertainties in relation to estimates”).

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in 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.

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 as impairment, if any, are reported under the line item “Other operating income” or "Other operating expense" and 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”.

(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”. The 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.

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. 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. Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognised upon completion of the underlying transaction. Taking into consideration product classes the following services are accrued over the period:

- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).

- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bankassurance*, representing commission income and expense from insurance brokerage.

The fees generated by the following products are recognised upon completion of the underlying transaction:
- *Transaction services*, representing fee income charged to clients for transactions performed (except credit cards) like payment order, standing order
- *Cards*, representing fee income related to prepaid and credit cards (like monthly membership fees) and acquiring business like membership fees, interchange fees, scheme fees, service fees, etc.
- *FX & DCC*, representing fee income related to foreign exchange transactions like fees from FX spot transaction or Dynamic currency conversions.
- *Trade finance*, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities.

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

In the note (31) Net fee and commission income in the notes to the statement of profit or loss, the product view is used as a base for presentation.

(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, realised 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 and expense, which are presented in “Net interest income”.

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

(14) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property 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 for non financial assets. In addition, it shows the result from legal provisions and legal income and expense. Furthermore, the insignificant modification gains and losses are presented in this position.

(16) 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, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets and features that modify consideration for the time value of money.

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

The SPPI compliance is assessed as follows:

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

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

During 2020 and 2021, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

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

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

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

Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the 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. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

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. Dividend income and 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.

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

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

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. The Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2021 and 2020.

There were no changes to the Bank´s business model during 2021 and 2020.

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.

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.

As stated in Note (1) Accounting principles and statement of compliance, the new regulatory decision prescribes minimum thresholds fo the calculation of provisions for credit losses, ie. if the Bank in accordance with its internal methodology, determines the amount of ECL higher than those arising from the Decision, it shall apply the higher ECL amount.

Minimum rates of expected credit losses as stipualtes 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%

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/ Corporate: 3% absolute increase and 200% relative increase (which corresponds to the factor of 3 or threefold relative PD increase between the probability of default at origination the probability of default at the reporting date) where the determination of significant increase in PD is based on the initial and actual probability of default of the financial instrument

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 met, it will reserve 100% of special risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.
The Bank may 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.

The Bank has implemented the functionality related to the automatic implementation of accounting write-offs in accordance with the criteria defined by the Decision on credit risk management and determination of expected credit losses number.

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 and insignificant modifications.

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.
For financial instruments in Stage 1 and 2 measured at amortised costs, the unamortised balance of the origination fees and transaction costs considered in the effective interest rate is presented in the line "Net interest income" and for financial instruments in Stage 3 measured at amortised costs, it is presented in the line "Credit loss expenses on financial

assets". The release of the credit loss allowances of the original asset and the recognition of credit loss allowance for the new asset are presented in the line ""Credit loss expenses on financial assets".

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. The Bank did not have repurchase agreement in year 2021 and 2020.

(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.

The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the minimum reserve requirement deposits are not subject to any restraints. The minimun reserve requiremens is defined by Central Bank of BiH and is used as of the indirect instruments of monetary polics.

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

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

Property, plant and equipment is measured at 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 “Depreciation and amortisation” in the income statement. Scheduled depreciation on investment property is reported separately under "Other operating expenses" in the income statement. Gains and losses on disposal 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 result”. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

(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 - 33%	7 yrs

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

(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)

(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 classified as held for sale

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.

Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale" are

presented in “Other result”. Gains and losses from disposal for assets classified as held for sale are presented in “Other operating income and other operating expense.”
For detailed information, please refer to note (47) Non-current assets classified as held for sale.

(26) Provisions

26.1. 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 and Decision on Credit Risk Management and Determining Expected Credit Losses.
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”.

26.2. 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 (34) Pesonnel expenses and note (49) Provisions.

26.3. Provisions for legal disputes held agains the Bank (pasive legal disputes)

The Bank analysis 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 cliam, is proposed for provisioning.
In cased 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, alredy 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 of withdrawal of the claim, (the pre-condition for the realization of the restructuring was the waiver fo the claim), and cases which wouldn't result with payment.

26.4. 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.

(27) Other liabilities

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

(28) Emplyee benefits

28.1. 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.

28.2. 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 3 (three) average net individual salaries of employees, and in the case of termination of employment for economic, technical and organizational reasons, the Bank prepares the redundancy program, and 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.

(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. Subscribed (registered) 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. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method	**30,134**	**30,583**
Financial assets at fair value through other comprehensive income	1,931	1,744
Financial assets at amortised cost	28,203	28,839
Total interest income	**30,134**	**30,583**
Financial liabilities measured at amortised cost	-2,826	-3,500
o/w lease liabilites	*-39*	*-62*
Negative interest from financial assets	-582	-252
Total interest expense	**-3,408**	**-3,752**
Net interest income	**26,726**	**26,831**

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -3,408 thousand (YE20: BAM -3,752 thousand) includes expenses of BAM -2,787 thousand (YE20: BAM -3,438 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Debt securities	**1,931**	**1,744**
Governments	1,508	926
Credit institutions	416	631
Non-financial corporations	7	187
Loans and advances	**28,203**	**28,839**
Governments	14	32
Credit institutions	20	142
Other financial corporations	251	274
Non-financial corporations	7,479	8,164
Households	20,439	20,227
Total	**30,134**	**30,583**

Interest expenses break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Deposits	**-2,787**	**-3,438**
Governments	-36	-92
Credit institutions	-130	-103
Other financial corporations	-424	-348
Non-financial corporations	-147	-180
Households	-2,050	-2,715
Other financial liabilities	**-39**	**-62**
Negative interest from financial assets	-582	-252
Central banks	-582	-252
Total	**-3,408**	**-3,752**

(31) Net fee and commission income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Accounts and Packages	5,671	5,447
Transactions	3,834	3,455
Cards	2,440	2,410
Loans	622	490
Trade finance	1,398	1,350
Securities	0	0
Bancassurance	1,175	764
Foreign exchange & Dynamic currency conversion	3,993	2,677
Other	88	30
Fee and commission income	**19,221**	**16,623**
Accounts and Packages	-481	-416
Transactions	-580	-533
Cards	-3,042	-2,631
Securities	-53	-50
Bancassurance	0	0
Client incentives	-93	-24
Trade finance	0	0
FX changes	-9	-12
Loans	-39	-139
Other	-115	-132
Fee and commission expenses	**-4,412**	**-3,937**
Net fee and commission income	**14,809**	**12,686**

The nature of fee and comission income and expenses is described in Note (31).

(32) Net result on financial instruments

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Exchange difference, net	-53	90
Financial assets at fair value through other comprehensive income	693	2,354
Total	**640**	**2,444**

The amount of BAM 693 thousand (YE20: BAM 2,354 thousand) is related to gain on sale of debt securities.

(33) Other operating income and other operating expenses

Other operating income and other operating expenses - net

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Deposit guarantee	-1,824	-1,793
Banking levies and other taxes	-838	-811
Net result from sale of non financial assets	1,321	274
Result from operate lease assets	18	40
Result from other income and other expenses	-177	-472
Total	**-1,500**	**-2,762**

Other operating income and other operating expenses - gross

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Other operating income	**1,615**	**646**
Gains from sale of non financial assets	1,430	408
Income from operating lease assets	18	40
Other income	167	198
Other operating expenses	**-3,115**	**-3,408**
Losses from sale of non financial assets	-109	-134
Deposit guarantee	-1,824	-1,793
Banking levies and other taxes	-838	-811
Other expenses	-344	-670
Total	**-1,500**	**-2,762**

(34) Personnel expenses

(000) BAM

	31.12.2021	31.12.2020
Wages and salaries	-7,379	-7,535
Social security	-2,123	-2,170
Variable remuneration	-1,611	-733
Other personal tax expenses	0	-28
Voluntary social expenses	-1,036	-1,082
Expenses for retirement benefits	-2,472	-2,530
Expenses for severance payments	0	-6
Income from release of other employee provisions	519	94
Other personnel expenses	-568	-134
Total	**-14,670**	**-14,124**

	31.12.2021	31.12.2020
Employees at closing date (Full Time Equivalent - FTE)	323	348
Employees average (FTE)	336.42	352.04

(35) Other administrative expenses

(000) BAM

	31.12.2021	31.12.2020
IT expense	-7,761	-7,788
Premises expenses (rent and other building expenses)	-2,670	-2,828
Legal and advisory costs	-791	-645
Advertising costs	-1,160	-1,065
Other administrative expenses	-1,009	-1,017
Total	**-13,391**	**-13,343**

(36) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Property, plant and equipment	-1,554	-1,833
o/w right of use assets	*-671*	*-891*
Intangible assets	-1,464	-1,745
Total	**-3,018**	**-3,578**

(37) Other result

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Net result from legal provision and legal income/expense	**3,823**	**3,355**
Release of provisions for legal cases and income from legal cases	4,022	3,686
Allocation of provisions for passive legal cases and legal costs	-199	-331
Impairment / reversal of impairment from non financial assets	**-720**	**-3,388**
Reversal of impairment	0	0
Impairment	-720	-3,388
Net result from remeasurement of Non-current assets classified as held for sale	**0**	**-316**
Reversal of impairment	0	0
Impairment	0	-316
Modification gain or loss	**-216**	**-394**
Total	**2,887**	**-743**

Release of provisions for legal cases and income from legal cases includes other income from legal cases recognised based on positive outcome of legal dispute in the amount of BAM 3,632 thousand based on out of court settlement (2020. 3,685 thousand). Further details regarding provisions for legal cases are included in the note (26) Provisions and note (65) Legal risk.

The line item “Impairment on non-financial assets” in 2021 in the amount of BAM 720 thousand includes impairment of prepayment of related DXC contract in the amount of BAM 685 thousand, which was driven by the the early renegotiation of a new contract with a central IT supplier at better terms, concluded in July 2021, replacing the terms of the previous contract. In addition, this position includes also the impairment of investements in branch that was closed in 2021 in the amount of 35 thousand.

The COVID-19 debt payment moratorium imposed by Banking Agency of the Federation of Bosnia and Herzegovina determined the recognition of BAM -216 thousand net modification loss.

(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. - 31.12.2021	01.01. - 31.12.2020
Change in CL on financial instruments at FVTOCI	**1,905**	**-1,457**
Change in CL on financial instruments at amortised cost	**-531**	**-20,944**
Net allocation to risk provision	-2,258	-22,566
Proceeds from loans and receivables previously impaired	2,357	2,090
Directly recognised impairment losses	-630	-468
Net allocation of provisions for commitments and guarantees given	**2,150**	**-3,156**
Total	**3,524**	**-25,557**

(39) Taxes on income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Current tax	0	0
Deferred tax	-1,375	5,135
Total	**-1,375**	**5,135**

39.1. Reconciliation of effective tax rate

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

(000) BAM

	31.12.2021	31.12.2020
Result before tax	**16,007**	**-18,146**
Theoretical income tax expense based on B&H corporate tax rate of 10 %	-1,601	1,815
Tax effects		
Effects of non-deductible expenses	-332	-2,175
Effects of tax exempt income	874	1,442
Effects of temporary differences from previous years	-	4,053
Used tax losses from previous years	1,059	-
Effects from the change of deferred taxes on temporary differences	-1,375	-
Tax on income (effective tax rate: 8% (2020: 28%)	**-1,375**	**5,135**

39.2. Movements in deferred tax balances

In the financial year, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled. Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and book values as presented in the following table:

(000) BAM

2021	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Balance at 31 December Deferred tax assets	Deferred tax liabilities
Property and equipment and intangible assets	-270	150	-	-120	-	120
Investment securities at FVTOCI	-187	-	220	33	33	-
Debt securities - credit risk component	222	-190	-	32	32	-
Provisions for legal cases	1,054	-182	-	872	872	-
Allowance for expected credit losses	3,083	-1,133	-	1,950	1,950	-
Tax losses carried forward	-	-	-	-	-	-
Other	209	97		306	306	-
Impairment of non-financial assets	837	-117	-	720	720	-
Tax assets (liabilities) before set-off	**4,948**	**-1,375**	**220**	**3,793**	**3,913**	**120**
Set-off of tax	0.0	0.0	0	0	0	0
Tax assets (liabilities)	**4,948**	**-1,375**	**220**	**3,793**	**3,913**	**120**

(000) BAM

2020	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Balance at 31 December Deferred tax assets	Deferred tax liabilities
Property and equipment and intangible assets	-	-270	-	-270		270
Leases						
Investment securities at FVTOCI	-231		44	-187		187
Debt securities - credit risk component		222		222	222	-
Provisions for legal cases	-	1,054	-	1,054	1,054	-
Allowance for expected credit losses	-	3,083	-	3,083	3,083	-
Tax losses carried forward	-	-	-	-	-	-
Other	-	209	-	209	209	-
Impairment of non-financial assets	-	837	-	837	837	-
Tax assets (liabilities) before set-off	**-231**	**5,135**	**44**	**4,948**	**5,405**	**457**
Set-off of tax	0	0	0	0	0	0
Tax assets (liabilities)	**-231**	**5,135**	**44**	**4,948**	**5,405**	**457**

The total change in deferred taxes in the financial statements is BAM 1,155 thousand (2020: 5,179 thousand). Of this, BAM -1,375 thousand (2020: 5,135 thousand) is reflected in the current income statement as deferred tax income and an amount of BAM 220 thousand (2020: 44 thousand) is shown in other comprehensive income in equity.

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

(000) BAM

	2021	2020
Balance at start of period (01.01.)	**4,948**	**-231**
Tax income (expense) recognised in profit or loss	-1,375	5,135
Tax income (expense) recognised in OCI	220	44
Balance at end of period (31.12.)	**3,793**	**4,948**

(000) BAM

	2021	2020
Deferred tax assets	3,913	5,405
Deferred tax liabilities	-120	-457
Total	**3,793**	**4,948**

39.3. Tax losses carried forward

In accordance with the Corporate Income Tax Act, the taxable losses may be carried forward for the next five years.

The Bank has not recognised deferred tax assets on tax losses carried forward 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 5,851thousand which expire in 2025.

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

(000) BAM

Tax losses	2021	2020
Applicable tax rate - current year	10%	10%
Total tax losses carried forward	5,851	16,440
thereof fully/ unlimited utilisable	-	-
thereof restricted utilisable	5,851	16,440
1st following year	-	5,543
2nd following year	-	-
3rd following year	-	-
4th following year	5,851	-
5th following year	-	10,897
Theoretical Deferred Tax asset	**585**	**1,644**
Recognised DTA	**-**	**-**
Unrecognised DTA	**585**	**1,644**

Notes to the statement of financial position

(40) Cash reserves

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	53,288	0	53,288
Cash balances at central banks	188,782	-189	188,593
Other demand deposits	49,519	-250	49,269
Total	**291,589**	**-439**	**291,150**

(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

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 was BAM 80,650 thousand (YE20: BAM 77,461 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 01.01.2021	**236,440**
Changes in the gross carrying amount	1,861
Gross carrying amount at 31.12.2021	**238,301**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2020	**178,747**
Changes in the gross carrying amount	57,693
Gross carrying amount at 31.12.2020	**236,440**

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

(000) BAM

	Stage 1
ECL allowance as at 01.01.2021	**-514**
Changes in the loss allowance	75
ECL allowance as at 31.12.2021	**-439**

(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
Foreign exchange and other movements	-2
ECL allowance as at 31.12.2020	**-514**

(41) Loans and receivables

The Bank measures all loans and receivables at amortised cost.

41.1. Loans and advances to credit institutions

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	34	-9	25
Credit institutions	34	-9	25

(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

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**127**	**0**	**0**	**0**	**127**
Changes in the gross carrying amount	-93	0	0	0	-93
Gross carrying amount at 31.12.2021	**34**	**0**	**0**	**0**	**34**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**262**	**0**	**0**	**0**	**262**
Changes in the gross carrying amount	-135	0	0	0	-135
Gross carrying amount at 31.12.2020	**127**	**0**	**0**	**0**	**127**

41.2. Loans and advances to customers

(000) BAM

31.12.2021	Gross carrying amount	ECL			Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Governments	334	-4	0	0	330
Other financial corporations	5,481	-129	0	-131	5,221
Non-financial corporations	203,378	-2,017	-4,284	-14,184	182,893
Households	331,854	-3,114	-7,102	-42,430	279,208
Total	**541,047**	**-5,264**	**-11,386**	**-56,745**	**467,652**

(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

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**379,007**	**139,773**	**72,843**	**0**	**591,623**
Changes in the gross carrying amount	17,563	-37,369	-9,644	0	-29,450
Transfer between stages	-9,266	-7,311	16,577	0	0
Write-offs	-109	-124	-18,402	0	-18,635
Changes due to modifications that did not result in derecognition	-154	-317	-79	0	-550
Foreign exchange and other movements	-1,828	2	-115	0	-1,941
Gross carrying amount at 31.12.2021	**385,213**	**94,654**	**61,180**	**0**	**541,047**

(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	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**

The total gross book value decreased during 2021, with the decrease in the level of credit risk 3 mainly coming through write-offs as a result of settling debts from regular collection and settlement, which was followed by a decrease in impairment.

Development of ECL allowances of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-7,074**	**-18,184**	**-65,393**	**0**	**-90,651**
Changes in the loss allowance	6,036	892	-9,261	0	-2,333
Transfer between stages	-3,975	5,863	-1,888	0	0
Changes in models/risk parameters	0	0	0	0	0
Write-offs	12	46	19,621	0	19,679
Foreign exchange and other movements	-263	-3	176	0	-90
Unwinding	0	0	318	0	318
ECL allowance as at 31.12.2021	**-5,264**	**-11,386**	**-56,745**	**0**	**-73,395**

(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	-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**

LOANS AND ADVANCES TO HOUSEHOLDS

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	211.758	60.407	55.848	0	328.013
Changes in the gross carrying amount	33.991	-10.252	-5.725	0	18.014
Transfer between stages	-21.661	12.154	9.507	0	0
Write-offs/utilisation	-109	-121	-13.377	0	-13.607
Changes due to modifications that did not result in derecognition	-152	-220	-78	0	-450
Foreign exchange and other movements	-6	13	-121	0	-114
Gross carrying amount at 31.12.2021	**223.821**	**61.981**	**46.054**	**0**	**331.856**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**237.900**	**42.409**	**58.251**	**0**	**338.560**
Changes in the gross carrying amount	85.785	-80.397	-6.790	0	**-1.402**
Transfer between stages	-111.565	98.613	12.952	0	**0**
Write-offs/utilisation	-174	-34	-8.483	0	**-8.691**
Changes due to modifications that did not result in derecognition	-161	-143	-25	0	**-329**
Foreign exchange and other movements	-10	7	-56	0	**-59**
Gross carrying amount at 31.12.2020	**211.775**	**60.455**	**55.849**	**0**	**328.079**

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-2.651**	**-9.449**	**-51.467**	**0**	**-63.567**
Changes in the loss allowance	3.401	-1.456	-5.783	0	**-3.838**
Transfer between stages	-3.878	3.758	120	0	**0**
Write-offs/utilisation	12	46	14.597	0	**14.655**
Foreign exchange and other movements		-2	104	0	**102**
ECL allowance as at 31.12.2021	**-3.116**	**-7.103**	**-42.429**	**0**	**-52.648**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-2.696**	**-7.013**	**-55.705**	**0**	**-65.414**
Changes in the loss allowance	1.948	-5.543	-3.130	0	**-6.725**
Transfer between stages	-1.905	3.103	-1.198	0	**0**
Write-offs/utilisation	3	4	8.438	0	**8.445**
Foreign exchange and other movements	0	0	129	0	**129**
ECL allowance as at 31.12.2020	**-2.650**	**-9.449**	**-51.466**	**0**	**-63.565**

The total gross carrying amount decreased slightly during the first half of 2021, mainly due to repayments that were higher than the repayments of new loans mainly due to the consequences of the Covid-19 crisis. In addition, the coverage of provisions for expected credit losses at credit risk level 1 increased slightly so that the total amount of provisions for expected credit losses remained almost the same, despite some use through write-offs.

LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**166.366**	**73.435**	**16.986**	**0**	**256.787**
Changes in the gross carrying amount	-18.512	-25.693	-4.041	0	-48.246
Transfer between stages	7.888	-14.958	7.070	0	0
Write-offs/utilisation	0	-3	-5.025	0	-5.028
Changes due to modifications that did not result in derecognition	-2	-97	-1	0	-100
Foreign exchange and other movements	-31	-11	6	0	-36
Gross carrying amount at 31.12.2021	**155.709**	**32.673**	**14.995**	**0**	**203.377**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**253.208**	**3.530**	**12.816**	**0**	**269.554**
Changes in the gross carrying amount	-85.173	69.169	3.786	0	**-12.218**
Transfer between stages	-1.735	738	997	0	**0**
Write-offs/utilisation	0	0	-614	0	**-614**
Changes due to modifications that did not result in derecognition	-17	-47	0	0	**-64**
Foreign exchange and other movements	67	-2	0	0	**65**
Gross carrying amount at 31.12.2020	**166.350**	**73.388**	**16.985**	**0**	**256.723**

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-4.389**	**-8.411**	**-13.917**	**0**	**-26.717**
Changes in the loss allowance	2.495	2.258	-3.356	0	**1.397**
Transfer between stages	138	1.870	-2.008	0	**0**
Write-offs/utilisation	0	0	5.024	0	**5.024**
Foreign exchange and other movements	-261	0	72	0	**-189**
ECL allowance as at 31.12.2021	**-2.017**	**-4.283**	**-14.185**	**0**	**-20.485**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-1.946**	**-708**	**-8.314**	**0**	**-10.968**
Changes in the loss allowance	-4.095	-6.344	-5.987	0	**-16.426**
Transfer between stages	1650	-1.359	-291	0	**0**
Write-offs/utilisation	0	0	613	0	**613**
Foreign exchange and other movements	1	0	61	0	**62**
ECL allowance as at 31.12.2020	**-4.390**	**-8.41**	**-13.918**	**0**	**-26.719**

LOANS AND ADVANCES TO GENERAL GOVERNMENTS

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**636**	**0**	**0**	**0**	**636**
Changes in the gross carrying amount	1.490	0	0	0	1.490
Foreign exchange and other movements	-1.792	0	0	0	-1.792
Gross carrying amount at 31.12.	**334**	**0**	**0**	**0**	**334**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**1.076**	**0**	**0**	**0**	**1.076**
Changes in the gross carrying amount	-1.864	0	0	0	**-1.864**
Foreign exchange and other movements	1.423	0	0	0	**1.423**
Gross carrying amount at 31.12.	**635**	**0**	**0**	**0**	**635**

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-20**	**0**	**0**	**0**	**-20**
Changes in the loss allowance	18	0	0	0	**18**
Foreign exchange and other movements	-2	0	0	0	**-2**
ECL allowance as at 31.12.2021	**-4**	**0**	**0**	**0**	**-4**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-16**	**0**	**0**	**0**	**-16**
Changes in the loss allowance	-6	0	0	0	-6
Foreign exchange and other movements	2	0	0	0	2
ECL allowance as at 31.12.2020	**-20**	**0**	**0**	**0**	**-20**

LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**247**	**5.931**	**9**	**0**	**6.187**
Changes in the gross carrying amount	596	-1.424	122	0	-706
Transfer between stages	4.507	-4.507	0	0	0
Gross carrying amount at 31.12.2021	**5.349**	**0**	**131**	**0**	**5.481**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**4.369**	**0**	**9**	**0**	**4.378**
Changes in the gross carrying amount	-4.864	5.931	0	0	1.067
Foreign exchange and other movements	742	0	0	0	742
Gross carrying amount at 31.12.2020	**247**	**5.930**	**9**	**0**	**6.186**

(000) BAM

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-14**	**-324**	**-9**	**0**	**-347**
Changes in the loss allowance	122	89	-122	0	**89**
Transfer between stages	-235	235	0	0	**0**
ECL allowance as at 31.12.2021	**-127**	**0**	**-131**	**0**	**-258**

(000) BAM

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-80**	**0**	**-9**	**0**	**-89**
Changes in the loss allowance	66	-324	0	0	-258
ECL allowance as at 31.12.	**-14**	**-324**	**-9**	**0**	**-347**

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

	31.12.2021	31.12.2020
Corporate	3.22%	3.02%
Retail	7.03%	7.11%

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

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

(000) BAM

	31.12.2021		31.12.2020	
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
Other financial corporations	0	0	1,457	-1
Non-financial corporations	24,259	-98	31,221	-47
Households	15,627	-299	20,017	-168
Total	**39,886**	**-397**	**52,695**	**-216**

(42) Investment securities

(000) BAM

	31.12.2021	31.12.2020
Fair value through other comprehensive income (FVTOCI)	243,068	204,047
Total	**243,068**	**204,047**

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

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2021	**206,112**
Changes in the gross carrying amount	36,054
Gross carrying amount at 31.12.2021	**242,166**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2020	**195,701**
Effects of adopting new regulatory framework	**347**
Gross carrying amount at 01.01.2020	**196,048**
Changes in the gross carrying amount	10,064
Gross carrying amount at 31.12.2020	**206,112**

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2021	**-2,218**
Changes in the loss allowance	1,905
Foreign exchange and other movements	-2
ECL allowance as at 31.12.2021	**-315**

(000) BAM

	Stage 1
ECL allowance as at 01.01.2020	**-416**
Effects of adopting new regulatory framework	-347
ECL allowance as at 01.01.2020	**-763**
Changes in the loss allowance	-1,457
Foreign exchange and other movements	2
ECL allowance as at 31.12.2020	**-2,218**

42.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

	31.12.2021	31.12.2020
Debt securities	**242,650**	**203,894**
Governments	113,129	83,916
Credit institutions	119,729	110,181
Non-financial corporations	9,792	9,797
Equity instruments	**418**	**153**
Other financial corporations	64	64
Non-financial corporations	354	89
Total	**243,068**	**204,047**

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

(000) BAM

	31.12.2021	31.12.2020
S.W.I.F.T SCRL	95	89
Sarajevska berza d.d. Sarajevo	64	64
Badeco Adria dd Sarajevo	224	0
JP Elektroprivreda BIH d.d. Sarajevo	16	0
PIVARA TUZLA DD TUZLA	12	0
ZATVORENI INVESTICIJSKI FOND SA JAVNOM PONUDOM "EUROFOND-1" D.D. TUZLA	4	0
JP ELEKTROPRIVREDA HZ HB MOSTAR	2	0
IF MI GROUP D.D. SARAJEVO	1	0
Total	**418**	**153**

(43) Tangible assets

(000) BAM

	31.12.2021	31.12.2020
Owned property, plant and equipment	19,048	19,303
Land and buildings	17,466	17,591
Plant and equipment	1,582	1,712
Right of use assets	1,487	1,292
Land and buildings	1,105	1,086
Plant and equipment	382	206
Investment property	49	54
Total	**20,584**	**20,649**

(44) Intangible assets

(000) BAM

	31.12.2021	31.12.2020
Purchased software	6,091	6,308
Total	**6,091**	**6,308**

(45) Development of tangible and intangible assets

45.1. Development of cost and carrying amounts

(000) BAM

31.12.2021	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 01.01.2021	**37,267**	**15,824**	**1,910**	**549**	**412**	**35,571**	**91,533**
Changes due to IFRS 5	0	0	0	0	0	0	0
Transfers	7	-8	0	0	1	0	0
Additions	465	275	857	393	0	1,247	3,237
Disposals	0	-1,546	0	0	0	0	-1,546
Other changes	0	0	-666	-380	0	0	-1,046
Write-offs	-720	-1,578	0	0	0	0	-2,298
Acquisition cost 31.12.2021	**37,019**	**12,967**	**2,101**	**562**	**413**	**36,818**	**89,880**
Cumulative depreciation 31.12.2021	-19,553	-11,385	-996	-180	-364	-30,727	-63,205
Carrying amount 31.12.2021	**17,466**	**1,582**	**1,105**	**382**	**49**	**6,091**	**26,675**

(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**

45.2. Development of depreciation and amortisation

(000) BAM

31.12.2021	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Pland and equipment	Investment properties	Intangible assets	Total
Cumulative depreciation and amortisation 01.01.2021	**-19,676**	**-14,112**	**-824**	**-343**	**-358**	**-29,263**	**-64,576**
Changes due to IFRS 5	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0
Disposals	0	1,532	0	0	0	0	1,532
Scheduled depreciation	-497	-379	-459	-213	-6	-1,464	-3,018
Impairment	0	0	0	0	0	0	0
Other changes	0	0	287	376	0	0	663
Write-offs	620	1,574	0	0	0	0	2,194
Cumulative depreciation and amortisation 31.12.2021	**-19,553**	**-11,385**	**-996**	**-180**	**-364**	**-30,727**	**-63,205**

(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**

(46) Other assets

(000) BAM

	31.12.2021	31.12.2020
Prepayments and accrued income	2,261	2,653
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	8	149
Other remaining assets	54	50
Total	**2,323**	**2,852**

(47) Non-current assets 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

	31.12.2021	31.12.2020
Property plant and equipment	1,023	3,752
Total	**1,023**	**3,752**

(48) Financial liabilities measured at amortised cost

(000) BAM

	31.12.2021	31.12.2020
Deposits	798,606	785,200
Deposits of credit institutions	915	788
Deposits of customers	797,690	784,412
Other financial liabilities	9,001	8,241
o/w lease liabilities	*1,512*	*1,308*
Total	**807,607**	**793,441**

48.1. Deposits of credit institutions

(000) BAM

	31.12.2021	31.12.2020
Current accounts / overnight deposits	915.0	787.0
Deposits with agreed terms	0.0	1.0
Total	**915.0**	**788.0**

48.2. Deposits of customers

(000) BAM

	31.12.2021	31.12.2020
Current accounts / overnight deposits	**592,168**	**551,390**
Governments	32,489	20,696
Other financial corporations	6,572	3,518
Non-financial corporations	198,981	142,593
Households	354,126	384,583
Deposits with agreed terms	**205,522**	**233,022**
Governments	3,976	5,417
Other financial corporations	29,834	25,711
Non-financial corporations	15,271	27,539
Households	156,441	174,355
Total	**797,690**	**784,412**

Average interest rates on deposits can be summarized as follow:

	31.12.2021	31.12.2020
Corporate	-0.24%	-0.32%
Retail	-0.4%	-0.49%

(49) Provisions

(000) BAM

	31.12.2021	31.12.2020
Pending legal disputes and tax litigation	8,724	10,543
Commitments and guarantees granted	2,406	4,531
Provisions for variable payments	2,560	1,943
Pensions and other post employment defined benefit obligations	101	94
Restructuring measures	394	53
Total	**14,185**	**17,164**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims, which normally occur in banking business. 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. For more information please see note (65) Legal risk.

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.

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

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2021	**169,983**	**32,350**	**136**	**0**	**202,469**
Changes in the nominal value	-15,870	-2,959	-335	0	-19,164
Transfer between stages	18,229	-18,428	199	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2021	**172,342**	**10,963**	**0**	**0**	**183,305**

(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
ECL allowance as at 01.01.2021	**-2,296**	**-2,173**	**-62**	**0**	**-4,531**
Changes in the loss allowance	1,658	400	92	0	2,150
Transfer between stages	-1,173	1,203	-30	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-24	-1	0	0	-25
ECL allowance as at 31.12.2021	**-1,835**	**-571**	**0**	**0**	**-2,406**

(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	-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**

49.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2021	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2021
Pensions and other post employment defined benefit obligations	94	0	7	0	0	0	101
Restructuring measures	53	0	549	-208	0	0	394
Pending legal disputes and tax litigation	10,543	0	0	-1,430	-389	0	8,724
Provision for variable payments	1,943	0	1,611	-514	-480	0	2,560
Total	**12,633**	**0**	**2,167**	**-2,152**	**-869**	**0**	**11,779**

(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	-25	0	10,543
Provision for variable payments	2,409	0	733	-1,199	0	0	1,943
Total	**14,268**	**0**	**739**	**-2,349**	**-25**	**0**	**12,633**

(50) Other liabilities

(000) BAM

	31.12.2021	31.12.2020
Deferred income	138	143
Accruals	4,160	3,250
Other liabilities	3,817	802
Total	**8,115**	**4,195**

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

(51) Equity

(000) BAM

	31.12.2021	31.12.2020
Equity	**207,585**	**196,837**
Share capital	100,403	100,403
Statutory reserves	25,101	25,101
Fair value reserve	28	3,912
Retained earnings	82,053	67,421
Non-controlling interest	0	0

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 100,403 thousand (2020: BAM 100,403 thousand) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 532,500 (2020: 532,500) registered shares. The proportionate amount of the share capital per share amounts BAM 188.55 (2020: 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.

Cumulated results represent accumulated net profit brought forward.

Pursuant to Banking Act of FBiH, the Bank recorded a profit in the amount of BAM 14,632 thousand in the financial year 2021. In the next General Assembly, a proposal will be made to distribute profit as dividend.

(52) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to cash flows from operating, investment and financing activities. The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers. The cash flow from investing activities includes cash inflows and outflows arising from securities, 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.

As of 1 January 2021 the following changes have been introduced in Segment Performance Reporting:

- re-segmentation of sub-segment Micro – now known as Standard (private entrepreneurs and profit-oriented legal entities with less than BAM 978 ths annual gross revenue) from segment Consumer to segment SME.

Comparative figures have been adapted accordingly.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.

Business Segmentation

The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages.

Consumer strategy

Addiko Bank's strategy is to offer modern banking, focusing on products for the essential needs of customers unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. In the segment Consumer the focus is on commission income and consumer lending. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger with services such as Addiko Chat Banking on Viber, Webloans, mLoans and of doing its business through the network of 28 branches. In the context of the Covid-19 crises, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

SME Finance Strategy

SME business is a main strategic focus segment of Addiko Bank serving its products to around 3 thousand clients within this segment, in which the Bank is targeting the "real economy" with working capital loans, investment loans and a strong focus on trade finance products. Addiko's strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are digitalised and the related competitive advantage. In recent years Addiko Bank has started to build up a new digital platform which will cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. With it, Addiko Bank also plans to continue to digitally serve the untapped potential of smaller legal entities and consequently increasing the loan volumes and related commission income.

Mortgage, Large and Public lending are not part of the "focus area". Given the gradual run-down strategy, mortgage lending products are not marketed. Also, lending products in the Large and Public Finance segment are not actively marketed, rather focuses on maintaining the clients with a favourable risk and reward ratio and provide account keeping services.

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

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	27,183	8,990	1,411	2,489	283	1,167	41,524
Net interest income	16,934	5,200	1,411	1,794	166	1,220	26,725
o/w regular interest income	18,234	5,268	1,322	1,647	259	1,971	28,702
Net fee and commission income	10,250	3,790	0	695	127	-53	14,809
Net result from financial instruments	0	0	0	0	0	641	641
Other operating result	0	0	0	0	0	-1,500	-1,500
Operating income	**27,183**	**8,990**	**1,411**	**2,489**	**293**	**308**	**40,674**
Operating expenses	**-17,896**	**-4,755**	**-40**	**-922**	**-432**	**-7,033**	**-31,079**
Operating result before impairments and provisions	**9,288**	**4,235**	**1,371**	**1,567**	**-140**	**-6,725**	**9,596**
Other result	0	0	0	0	0	2,887	2,887
Credit loss expenses on financial assets	-2,650	-1,575	2,212	2,745	777	2,014	3,524
Operating result before tax	**6,638**	**2,660**	**3,583**	**4,312**	**638**	**-1,824**	**16,008**
Business volume							
Net loans and receivables	260,056	138,336	18,944	42,693	4,813	2,839	467,677
o/w gross performing loans customers	265,207	141,148	18,933	44,160	4,879	0	474,328
Financial liabilities at AC	502,920	180,493	0	49,431	64,845	9,917	807,607

(000) BAM

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	25,524	8,148	1,789	2,468	164	1,424	39,516
Net interest income	15,692	5,972	1,789	1,860	42	1,474	26,830
o/w regular interest income	17,613	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	2,444	2,444
Other operating result	0	0	0	0	0	-2,762	-2,762
Operating income	**25,524**	**8,148**	**1,789**	**2,468**	**164**	**1,106**	**39,199**
Operating expenses	**-20,416**	**-3,704**	**-45**	**-485**	**-338**	**-6,058**	**-31,045**
Operating result before impaiements and provisions	**5,107**	**4,444**	**1,744**	**1,982**	**-173**	**-3,316**	**8,154**
Other result	-238	-54	-91	-12	0	-349	-743
Credit loss expenses on financial assets	-7,712	-14,574	321	-2,630	-862	-99	-25,556
Operating result before tax	**-2,843**	**-10,184**	**1,974**	**-659**	**-1,035**	**-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

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

(000) BAM

31.12.2021	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Transactions	1,479	1,981	278	96	0	3,834
Accounts and Packages	4,852	777	19	23	0	5,671
Cards	2,402	37	1	0	0	2,440
FX & DCC	3,678	270	26	19	0	3,993
Securities	0	0	0	0	0	0
Bancassurance	1,175	0	0	0	0	1,175
Loans	501	74	46	1	0	622
Trade finance	0	1,046	348	3	0	1,398
Other	43	20	25	0	0	88
Fee and commission income	**14,129**	**4,206**	**743**	**143**	**0**	**19,221**
Cards	-2,992	-48	-1	0	0	-3,042
Transactions	-224	-299	-43	-15	0	-580
Client incentives	-93	0	0	0	0	-93
Securities	0	0	0	0	-53	-53
Accounts and Packages	-481	0	0	0	0	-481
Bancassurance	0	0	0	0	0	0
Other	-88	-69	-5	-2	0	-163
Fee and commission expenses	**-3,879**	**-416**	**-48**	**-16**	**-53**	**-4,412**
Net fee and commission income	**10,250**	**3,790**	**695**	**127**	**-53**	**14,809**

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

(000) BAM

31.12.2020	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: 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

Risk Report

(53) 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.

(54) 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.

(55) 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 2021, 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 and regulatory reporting 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.

(56) 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.

(57) Credit risk

57.1. 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.

57.2. 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.

57.3. 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.

57.4. 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.

57.5. 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.
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.

Breakdown of net exposure within the Bank in accordance with IFRS 7.35M as at 31 December 2021:

31.12.2021	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	238.301	-439	237.862	0	0	0	238.301	237.862
Loans and receivables	479.901	-16.650	463.251	61.180	-56.745	4.426	541.081	467.677
Investment securities[2]	242.965	-315	242.650	0	0	0	242.965	242.650
On balance total	**961.167**	**-17.404**	**943.763**	**61.180**	**-56.745**	**4.426**	**1.022.347**	**948.189**
Off balance total	**183.305**	**-2.406**	**180.899**	**0**	**0**	**0**	**183.305**	**180.899**
Total credit risk exposure	**1.144.472**	**-19.810**	**1.124.662**	**61.180**	**-56.745**	**4.426**	**1.205.652**	**1.129.088**

The following table shows the exposure in accordance with IFRS 7.35M as at 31 December 2020:

(000) BAM

31.12.2020	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	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	206,113	-2,219	203,894	0	0	0	206,113	203,894
On balance total	**961,460**	**-27,991**	**933,469**	**72,843**	**-65,393**	**7,450**	**1,034,303**	**940,919**
Off balance total	202,333	-4,468	197,865	136	-62	74	202,469	197,939
Total credit risk exposure	**1,163,793**	**-32,459**	**1,131,334**	**72,929**	**-65,455**	**7,524**	**1,236,772**	**1,138,858**

[1] In position „Cash reserves“ only included Other demand depostits and Cash reserves at Central bank.
[2] In postiin „Investment securities are not included Equity instruments.

57.6. Credit risk exposure by rating class

At 31 December 2021 roughly 20.82%(YE20:17.35%) 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 2021 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 2021 by BAM 11,466 thousand.

The following table shows the exposure by rating classes and market segment as at 31 December 2021:

31.12.2021	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	(000) BAM Total
Consumer	10,008	141,973	90,779	35,088	23,809	3,531	305,188
SME	33,332	135,459	71,052	26,866	15,202	168	282,079
Non-Focus	416	66,337	30,619	15,070	21,676	64	134,182
o/w Large Corporate	299	50,313	27,981	9,495	0	0	88,088
o/w Mortgage	1	11,492	2,284	5,574	21,677	58	41,086
o/w Public Finance	116	4,532	354	1	-1	6	5,008
Corporate Center[1)]	207,206	18,498	216,286	0	4	42,209	484,203
Total	**250,962**	**362,267**	**408,736**	**77,024**	**60,691**	**45,972**	**1,205,652**

[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 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 Center1)	172,694	40,024	215,284	0	1,978	16,866	446,846
Total	**214,615**	**369,536**	**446,644**	**113,902**	**72,157**	**19,918**	**1,236,772**

[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.

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

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	21,198	0	0	0	21,198
2A-2E	236,930	3,925	0	0	240,855
3A-3E	118,158	24,642	0	0	142,800
Watch	5,658	65,757	469	0	71,884
NPE	0	0	60,691	0	60,691
No rating	3,268	330	21	0	3,619
Total gross carrying amount	**385,212**	**94,654**	**61,181**	**0**	**541,047**
Loss allowance	-5,264	-11,386	-56,745	0	-73,395
Carrying amount	**379,948**	**83,268**	**4,436**	**0**	**467,652**

(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	3,453	902	0	0	4,355
Total gross carrying amount	**379,007**	**139,773**	**72,843**	**0**	**591,623**
Loss allowance	-7,074	-18,184	-65,393	0	-90,651
Carrying amount	**371,933**	**121,589**	**7,450**	**0**	**500,972**

Loans and advances to credit institutions at amortised cost:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	0	0	0	0	0
2A-2E	25	0	0	0	25
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	**25**	**0**	**0**	**0**	**25**
Loss allowance	0	0	0	0	0
Carrying amount	**25**	**0**	**0**	**0**	**25**

(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	**0**	**0**	**0**	**0**	**0**
Loss allowance	127	0	0	0	127
Carrying amount	**0**	**0**	**0**	**0**	**0**

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	157,687	0	0	0	157,687
2A-2E	18,496	0	0	0	18,496
3A-3E	24,573	0	0	0	24,573
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	42,209	0	0	0	42,209
Total gross carrying amount	**242,965**	**0**	**0**	**0**	**242,965**
Loss allowance	-315	0	0	0	-315
Carrying amount	**242,650**	**0**	**0**	**0**	**242,650**

(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	14,982	0	0	0	14,982
Total gross carrying amount	**206,113**	**0**	**0**	**0**	**206,113**
Loss allowance	-2,219	0	0	0	-2,219
Carrying amount	**203,894**	**0**	**0**	**0**	**203,894**

Commitments and financial guarantees given:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	22,558	0	0	0	22,558
2A-2E	102,777	105	0	0	102,882
3A-3E	46,373	6,208	0	0	52,581
Watch	490	4,650	0	0	5,140
NPE	0	0	0	0	0
No rating	144	0	0	0	144
Total gross carrying amount	**172,342**	**10,963**	**0**	**0**	**183,305**
Loss allowance	-1,835	-571	0	0	-2,406
Carrying amount	**170,507**	**10,392**	**0**	**0**	**180,899**

(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	-2,172	-62	0	-4,530
Carrying amount	**167,687**	**30,178**	**74**	**0**	**197,939**

57.7. Exposure by business sector

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

31.12.2021	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	2,643	-570
B Mining and quarrying	7,868	-92
C Manufacturing	60,231	-8,282
D Electricity, gas, steam and air conditioning supply	1,805	-47
E Water supply	897	-17
F Construction	17,128	-389
G Wholesale and retail trade	77,471	-8,733
H Transport and storage	3,271	-134
I Accommodation and food service activities	4,043	-441
J Information and communication	812	-195
K Financial and insurance activities	2,987	-60
L Real estate activities	7,857	-489
M Professional, scientific and technical activities	4,293	-69
N Administrative and support service activities	3,676	-218
O Public administration and defence, compulsory social security	0	0
P Education	480	-11
Q Human health services and social work activities	6,979	-358
R Arts, entertainment and recreation	508	-5
S Other services	429	-375
Loans and advances	**203,378**	**-20,485**

(000) BAM

	Non-financial corporations	
31.12.2020	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**

57.8. Presentation of financial assets by overdue days

(000) BAM

31.12.2021	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	268,686	14,201	1,460	937	19,904	305,188
SME	266,605	1,018	6,093	193	8,170	282,079
Non-Focus	111,277	1,528	476	92	20,809	134,182
o/w Large Corporate	88,088	0	0	0	0	88,088
o/w Mortgage	18,182	1,528	476	91	20,809	41,086
o/w Public Finance	5,007	0	0	1	0	5,008
Corporate Center	484,203	0	0	0	0	484,203
Total	**1,130,771**	**16,747**	**8,029**	**1,222**	**48,883**	**1,205,652**

(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	446,846	0	0	0	0	446,846
Total	**1,145,280**	**16,786**	**11,376**	**2,152**	**61,178**	**1,236,772**

57.8.1. 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 2021.

(000) BAM

	OPENING balance 1.1.2021	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 31.12.2021
Non-financial corporations	11,672	18,153	-8,891			-240	20,694
Households	8,159	8,022	-3,033			-374	12,774
Loans and advances	**19,831**	**26,175**	**-11,924**			**-614**	**33,468**

The following table shows the forbearance status in the course of the 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 forbearance exposure was as follows in 2021:

(000) BAM

	Closing Balance 31.12.2021	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
Non-financial corporations	20,694	11,769	497	8,428	89
Households	12,774	6,354	1,066	5,354	91
Loans and advances	**33,468**	**18,123**	**1,563**	**13,782**	**180**

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 following table shows the collateral allocation for the forbearance exposure at the YE 2021:

(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	10,204	9,706	431	0	0	67
Retail	8,900	4,515	4,385	0	0	0
Total	**19,104**	**14,221**	**4,816**	**0**	**0**	**67**

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**

57.8.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2021, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 8 thousand (2020: BAM 149 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).

57.8.3. MORATORIA DUE TO COVID-19

The outbreak of the COVID-19 pandemic in the first quarter of 2020 has prompted a series of unprecedented emergency measures.

In Bosnia and Herzegovina, regulatory authority has issued statements or guidelines on how to deal with the impact of the outbreak, including in relation to easing loan terms and conditions for impacted borrowers.

Although with variations in terms of overall design, scope and duration, these programs have primarily taken the form of temporary payment moratoria, where the broad parameters including duration, treatment of interest and borrowers eligibility criteria, are defined by regulators, combined with suspended right of creditors to enforce during the pandemic.

The following table shows the amount of exposure under moratoria per market segment in YE2021:

(000) BAM

31.12.2021	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	794	-130	28	-16	822	-146
SME	0	0	0	0	0	0
Non Focus	0	0	0	0	0	0
o/w Large Corporate	0	0	0	0	0	0
o/w Mortgage	0	0	0	0	0	0
o/w Public Finance	0	0	0	0	0	0
Corporate Center	0	0	0	0	0	0
Total	**794**	**130**	**28**	**16**	**822**	**146**

The following table shows the amount of exposure under moratoria per market segment in YE2020:

(000) BAM

31.12.2020	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	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**

(58) Development of risk provisions

58.1. Method of calculating risk provisions

Provisions are calculated in line with the international accounting standard for financial instruments (IFRS 9). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of 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 certain country 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 2020 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 resonable.

Despite better overall situation with Covid 19, Bank accounts with 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 risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies (wiiw). In general, market expectations continuously improve as demonstrated also by overall upward revisions of publicly available forecasts up to December 2021, accompanied by modest, but quite evident decrease in uncertainty. However, Addiko perceives uncertainty levels to be historically high, still remaining elevated in relation to pre-Covid shock, and risks weighing down significantly on baseline trajectories. Strong rebound amid current short-term and medium-term risks obviously provides less chance of additional improvement. Therefore, scenario-probabilities used to assign weights to a particular scenario were adjusted in favor of negative scenario as depicted in table below. These probabilities are defined in a joint review process. By default, the scenario probabilities stay the same as in the previous delivery. In case there is a strong argument for a revision, any expert team member can propose to amend the probability distribution. The proposal is reviewed jointly by the research team. If the argument is strong enough, wiiw´s team adopts the change.

Scenario probabilities[1]	Baseline case	Optimistic case	Pesimistic case
May 2021 wiiw forecast report	55%	20%	25%
October 2021 wiiw forecast report	55%	10%	35%

[1] wiiw calibrates also adverse scenario that reflects extreme severity of calibrated shocks, used for static and dynamic stress testing purposes. No probability is assigned to this type of scenario, considered to be highly unlikely, yet plausible.

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 for 31.12.2021. The values shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases

31.12.2021	Baseline case		Optimistic case	Pessimistic case
	2022[1)]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
• Real GDP (constant prices)	3,1	3,3	4,5	1,9
• Unemployment Rate (ILO, average %)	16,5	15,7	13,8	17,9
• CPI Inflation (average % YoY)	1,0	1,6	1,5	1,3

[1] The values represent average value for the period

Projections for the euro area and Addiko countries of operation use a starting point of wiiw's Autumn 2021 forecasts, which had a cut-off data of September 24th 2021. wiiw country experts have checked these forecasts and updated where necessary, with a cut-off date for the updated assessments of September 24th. The scenarios are differentiated by the severity and duration of the associated economic impact of Covid-19, country-specific rebound patterns and the effectiveness of monetary and fiscal stimulus assumed. Baseline forecast is the outcome of wiiw´s expert team assessment of current economic developments, medium-term outlooks in real and financial sector, and risks surrounding them. Additionally, for specific Addiko requirements, scrutinizing initial conditions, narrative shaping and baseline projections takes form of joint expert meetings between wiiw and Addiko teams, mutually challenging the rationale behind specific trajectories. The calibration of shocks that leads to alternative scenarios is implicitly derived from EBA´s stress testing assumptions, i.e. any factor of conservativism that affected original deviation from the baseline path in EBA´s exercise is indirectly transposed into internal framework. Technically, adverse scenario depends on EBA´s deviation of adverse to baseline, which is imposed to wiiw´s baseline as well. Optimistic and pessimistic cases are ½ of deviation used as described above.

This leads to a quite dispersed distribution of potential outcomes, conditional on risk assessment and its materialization. For example, in comparison to ECB´s positive and negative scenarios from December 2021, in terms of GDP growth, wiiw´s corresponding alternative scenarios are roughly three times distance from baseline than it is in ECB´s case of calibrated dispersion. For the same reason, this is a source of confidence that selected 3 scenarios, in conjunction with probability assessment provided, cover the range of potential developments that should constitute a basis for Addiko´s ECL computation scheme.

The respective narratives are as follows:

- Baseline: Strong fiscal stimuli and loose monetary policy in major advanced economies continue supporting positive economic outlook despite bottlenecks in international supply chains and uncertainty about effectiveness of vaccines. The main driver of growth during the first half of 2021 has been delayed consumption, although with the re-opening of the economies and fiscal stimuli gradually being repelled amid economic recovery, greater employment levels and consumer credit will become main channels supporting consumption. Euro area GDP is expected to exceed pre-crisis levels already in 2022, slowly converging to long-term path in subsequent years. On average, real growth will come close to 3% over three-year horizon. Although inflation has spiked due to described imbalances between supply and demand, which was anticipated in previ-ous forecasting cycle, most of signals point to transitory nature of these developments. Thus, inflation rate should be more moderate in 2022, around 1,6% and dampened in years to follow. Countries where Addiko concentrates its operations experienced much stronger recovery dynamics than expected, with overall stabile labour market conditions. Supported by foreign demand recovery, these trends should continue. Pre-crisis levels of GDP are expected to be exceeded in all the countries in the sample by 2022. On average, 2022-2024 period will will lag somewhat, but still notably growing 3,5% annually. The recovery pace and mid-term developments will de-pend mostly on the structural reforms that the countries will undertake, on investment in infrastructure and on FDI inflows. Of course, depending on foreign demand reimaging robust and no surprises from mutat-ing virus.

- Optimistic: Although the virus remains in the population, it does not constitute danger to global health anymore in this scenario. A combination of partial immunity from either having had the virus or been vac-cinated (vaccination rates are expected to continue increasing and reach 60% in Western Balkans and 80% European Union of the total population on average), plus a shot of an updated vaccine each year, will make SARS-CoV-2 into another virus that we live with. Social and economic life and mobility patterns reach pre-pandemic levels during 2022, with medium-term prospects depending on implementation of a digital recognition system of international vaccine certificates. International labour markets remain constrained until then. Economies close the output gap quicker than expected. This is above all because of a draw-down in pent up (forced) savings faster than in the baseline scenario, due to better confidence. Further-more, emerging markets will generally enjoy increased capital flows and appreciation of domestic curren-cies. Nevertheless, inflation exceeds the targets quicker than expected so that central banks proceed with abolishing quantitative easing and tighter monetary policy ahead of schedule. Margin squeezes can be expected with firms struggling to pass the full impact of higher input costs onto consumers amid fragile demand. However, serious turmoil is not to be expected, credit risks will not materialize in neither low-income nor high-income countries, while financial institutions will remain healthy and still seen essential in supporting the recovery, not facing additional capital charges. Euroarea growth could potentially end up 1,4 p.p. above the baseline in 2022-2024. Similar pattern should then be seen in Addiko´s countries as well in ABSA of operation, and the remaining markets in the sample 1,3 p.p

- Pessimistic: The negative scenario involves the emergence of one or more mutations which spread more quickly and cannot be brought under control using existing vaccines. As a result, governments are pushed to combine soft-containment measures against vaccination sceptics with occasional regional lockdowns (right up until 2024, various ‘lockdown’ conditions will have to remain in place to try to prevent healthcare systems being overwhelmed). The implementation of the international digital recognition system of vaccine certificate occurs only in 2023. However, while estimates showed that in the first wave of 2020 the hit to economic growth from negative public health outcomes and lockdowns was very strong, the second/third wave showed this relationship is becoming less pronounced, indicating that societies and economies can adapt. Therefore, over time we would expect the negative impact on economic growth from further lockdowns to diminish. Nevertheless, emerging markets face capital outflows simultaneously producing depreciation pressures. Fragile recovery indeed would result in slower consumption dynamics, fortunately relieving part of existing inflationary pressures amid persisting supply constraints. Credit risks materialize in low-income countries but no negative externalities to high-income markets. International financial institutions face additional capital charges but withstand the pressure. Thus, central banks would continue to extend the period of loose monetary policy until 2024 to support the economy. Full blown recession would still be avoided, but real GDP growth rates would stay well below baseline, in this scenario symmetrically to opti-mistic case in terms of absolute deviations (in opposite direction). This would bring down the expectations of average growth in the region to 2,4% over the next three years, with the stable pattern of growth diffusion within the sample.

The following table shows the macro-economic scenarios used for calculation of ECL in the previous reporting period end:

31.12.2020	Baseline case		Optimistic case	Pessimistic case
	First 12 months[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 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 55 per cent weighting of base case (2020: 60%), optimistic a 10 per cent weighting (2020: 10%)and pessimistic case a 35 per cent weighting (2020: 30%). Final ECL is further adjusted according to minimal coverage prescribed by Decision on Credit Risk Management and Determination of Expected Credit Losses of Banking Agency of Federation of Bosnia and Herzegovina.

(000) BAM

31.12.2021	Probability weighted	Optimistic case	Base case	Pessimistic case
• Consumer	8,677	7,207	8,331	9,641
• SME	4,908	4,458	4,776	5,244
• Non focus	2,974	2,526	2,842	3,309
• Corporate Center	8	3	6	12
• Total (Stage 1 and 2)	**16,576**	**14,193**	**15,955**	**18,206**

(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**

58.2. Development of risk provisions

The increase of risk provisions in 2021 is mainly caused by provision requirements in the consumer and SME portfo-lio, mainly driven by allocations in the NPE Portfolio. On the other hand the overall ECL coverage for performing loans (Stage 1 and 2) decreased during 2021 especially due to consideration of updated macro-economic outlook within the ECL calculation. Partially due to moratoria granted by the Bank, as well as due to various supportive measures initiated by governments, the impact of Covid-19 did not generate a material decrease of the asset quality during 2021 (no material increase in NPE and related risk provisions).

58.3 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 2021 a refinement/recalibration of all segments and sub-subsdiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, a reassessment of the quantitative staging thresholds and an update of the macro forecasts to reflect latest available information. In addition, an empirically based LGD model was developed and introduced in the retail area.

(59) 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 BAM 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 2021 as well as 31 December 2020:

(000) BAM

Collateral Distribution	31.12.2021	31.12.2020
• Exposure	1,205,214	1,219,349
• Internal Collateral Value (ICV)	398,645	378,970
• therof CRE	280,954	255,210
• thereof RRE	89,392	107,845
• thereof financial collateral	8,205	7,697
• thereof guarantees	1,880	391
• thereof other	18,214	7,827
ICV coverage rate	**34%**	**31%**

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 dis-counted 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.

(000) BAM

31.12.2021	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	**70,171**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**70,171**	**-65,734**
Other financial corporations	131	0	0	0	0	0	0	0	131	-131
Non-financial corporations	23,975	0	0	0	0	0	0	0	23,975	-23,160
Households	46,065	0	0	0	0	0	0	0	46,065	-42,443
Commitments and financial guarantees	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loan commitments given	0	0	0	0	0	0	0	0	0	0

(000) BAM

31.12.2020	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

(60) Market risk

60.1. 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.

60.2. 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 a 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 2021 and 2020 amounts to:

2021	Minimum	Maximum	Average	31 December
Interest rate risk	82	286	160	181
Foreign currency risk	1	7	3	2
Price risk	-	-	-	-
Credit spread risk	30	319	145	177
Total	113	612	309	361

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

60.3. Overview - market price risk

60.3.1 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 31.12.2021 is BAM 181 thousand (comparable VaR figure as at 31 December 2020: BAM 278 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	31.12.2021	31.12.2020
Parallel up 200bp	-5,747	-243
Parallel down 200bp	1,957	-3,162
Parallel shock up BSBC	-5,583	-221
Parallel shock down BSBC	1,957	-3,175
Steepener shock	1,359	1,076
Flattener shock	-4,188	-2,321
Short rates shock up	-5,703	-1,541
Short rates shock down	3,533	1.275

The trading items of the Bank were relatively stable in 2021. Changes in interest risk mainly resulted from adjust-ments 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 11% on average in 2021 as compared to 8% on average in 2020; group view - interest risk equity ratio amounted to 3% on average in 2021 as compared to 2% on average in 2020).

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 2021 amounts to BAM 23 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2020 was BAM 2 thousand.

60.3.2. FOREIGN EXCHANGE RISK

The main foreign exchange risk drivers are the currencies. The total volume of open currency positions as at 31 December 2021 is roughly BAM 5,03 million (volume per 31 December 2020 of approx. BAM 2,25 million), with the majority attributed to the currencies. The value at risk for foreign exchange risk was approximately BAM 1,1 thousand per day as at 31 December 2021 (value at risk as at 31 December 2020: BAM 2,5 thousand), at a confidence interval of 99%.The limit of BAM 17,6 thousand was adhered to as at 31 December 2021.

Sensitivity analysis

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2021 and 31 December 2020, considering that the Bank represents the main segment of the consolidated financial statement. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

Currency	FX Open position 31 December 2021	10% increase	10% decrease	FX Open position 31 December 2020	10% increase	10% decrease
USD	225	22,5	-22,5	-270	-27	27
CHF	38	3,8	-3,8	79	8	-8

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.

60.3.3. EQUITY RISK

With year end and during 2021 the Bank did not have stocks in its portfolio. In that sence the value at risk for the equity risk at the Bank is amounted to BAM 0 thousand as at 31 December 2021 with a one-day holding period and a confidence level of 99%.

60.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 177 thousand at 31 December 2021 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2020: BAM 218 thousand). The limit of BAM 499 thousand was adhered to as at 31 December 2021. 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.

(61) Liquidity risk

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.

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.

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 2021, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 218% in May 2021 and its peak of 314% in June 2021.

Per December 2021, the counterbalancing capacity at the Bank dd was structured as follows:

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	57,653
Securities eligible for Repo	182,485
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	**240,138**

Per December 2020, the counterbalancing capacity at the Bank dd 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

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.

61.4. Overview - liquidity situation

The liquidity situation of the Bank in 2021 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 797,690 thousand. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2022.

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

31.12.2021	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	807,607	810,517	620,178	13,508	70,601	102,841	3,389
Deposits of customers	797,690	800,546	611,773	13,508	69,959	101,917	3,389
Deposits of credit institutions	915	915	915	0	0	0	0
Other financial liabilities	9,002	9,056	7,490	0	642	924	0
Loan commitments	0	92,017	92,017	0	0	0	0
Financial guarantees	0	17,826	17,826	0	0	0	0
Other commitments	0	73,462	73,462	0	0	0	0
Total	**807,607**	**993,822**	**803,483**	**13,508**	**70,601**	**100,841**	**3,389**

(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
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**

(62) Operational risk

62.1. 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.

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 (B1 heads) 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.

62.2. 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.

62.4. Exposure and 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.

(63) 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.

(64) 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.

(65) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 6,326 active legal disputes with a total value of BAM 128,642 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 2019.

As at 31 December 2021, 1,981 requests were realized (78% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (308 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 255 as at 31 December 2021.

Total amount of write-offs for balance sheet receivables is BAM 53,288 thousand (BAM 15,928 thousand for performing clients and BAM 37,359 thousand for non-performing clients. Total amount of write-offs for off-balance sheet receivables is BAM 43,098 thousand.

Passive legal disputes

As at 31 December 2021, there were 288 open court proceedings against the Bank, with total nominal value of BAM 110,9 million, excluding contingent penalty interest. This amount includes 22 claims with nominal value of BAM 0.29 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 25 claims with nominal value of BAM 26.1 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 trans-ferred to transferee) are not recorded in accounting records. The overall number of passive legal disputes decreased in 2021.

The largest number of proceedings is related to claims connected to CHF currency clause and increase of interest margin – total of 170 claims with nominal value of BAM 2,8 million, and 4 claims with nominal value of BAM 8.4 mil-lion, which combined the claims for damages in addition to CHF currency clause and increase of margin. One of the 4 combined claims, with value of BAM 5.3 millioni, is under closing procedure due to settlement agreement concluded and imple-mented in financial part in the December 2021. (settlement due amount is paid in the December 2021.). the Claim is closed by final court decision in February 2022.

Of the most significant court decisions made in favour of the Bank in 2021, we have listed: 5 decisions on damage claims proceedings (Hermes d.o.o. Ljubuški BAM 16,1 million – Constitutional court's decision on the rejection of the plaintiff's appeal, Caresos BAM 1.5 million – Constitutional court's decision on rejection of the plaintiff's appeal, Cybercomp d.o.o. Sanski Most BAM 1,3 million – Second instance court's decision on rejection of the plaintiff's claim, Adnan Nazifović BAM 0.48 million – Supreme court's decision on rejection of the plaintiff's appeal, Alija Beširović 0.34 million – Supreme court's decision on rejection of the plaintiff's appeal), 3 decisions at declarative claims, without payment risk (Ener-gopetrol Shareholders BAM 2,9 million – Second instance court's decision on the rejection of the plaintiff's alternative claim and Constitutional court's decision on the rejection of the plaintiff's appeal; TMTI Trade d.o.o. Grude BAM 0.5 million – First instance court's decision on rejection of the plaintiff's claim,), 1 decision at CHF cases by the lawsuits of legal entities, that confirmed the legality of the currency clause in CHF (Bihaćka pivovara d.d. BAM 1.3 million– Constitutional court's decision on confirmation of the legality of the curren-cy clause in CHF), 139 final judgments of the Cantonal court by the lawsuits of individuals that confirmed the legality of the currency clause in CHF, 4 Supreme court's decisions and 12 Constitutional court's decisions, which also confirmed the legality of the currency clause in CHF and loan processing fee.

The Bank regularly assesses the amount of provisions for expenses for litigations. The assessment is based on the esti-mated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned BAM 8.7 million for litigations and claims as of 31 December 2020, which the Management believes to be sufficient amount.

During 2021, the Bank continued with intensified activities for resolving claims and litigations, and management of associated legal risk. The strategies for court proceedings, the adequate legal representation and coordination of Bank's defence is established, as well as the process of out-of-court settlement of disputes, record-ing and reporting on litiga-tions 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 2021 which collection had positive P&L effect fully.

The following is overview of court proceedings as of 31.12.2021

Type of case	Number of cases	Value of cases (in BAM thousand)	Provisions (in BAM thousand)
Brush – responsibility of third parties*	25	26,199	0
Debt payment	6	1,090	0
Compensation for damages	20	61,931	5,752
Unfair enrichment	1	4	0
Labor dispute	16	231	857
Old foreign currency savings	1	0	0
Determination	30	18,418	27
Currency clause / margin**	189	3,057	2,088
Total	**288**	**110,931**	**8,724**

*Two claims from the Brush – responsibility of third parties, with value of BAM 25,1 million, are closed in 2022.
**Currency clause / margin groupe of cases includes 19 claims with nominal value of BAM 0.23 million according to which the claims have been already paid in previous periods, hence they do not represent any additional risk of losses but are in the state of open court proceedings based on legal remedy.

Supplementary information required by IFRS

(66) Analysis of remaining maturities

(000) BAM

Analysis of remaining maturity as at 31.12.2021	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	210,500	80,650	0	0	0	0	0	291,150
Financial assets at fair value through other comprehensive income	418	0	9,907	130,943	101,800	10,325	232,743	243,068
Financial assets at amortised cost	74,355	38,420	89,765	164,956	100,181	202,540	265,137	467,677
Tangible assets	-	-	-	-	-	0	20,584	20,584
Intangible assets	-	-	-	-	-	0	6,091	6,091
Tax assets	-	-	-	-	-	0	5,576	5,576
Current tax assets	-	-	-	-	-	0	1,783	1,783
Deferred tax assets	-	-	-	-	-	0	3,793	3,793
Other assets	-	-	-	-	-	2,323	0	2,323
Non-current assets held for sale, financial instruments	-	-	-	-	-	1,023	0	1,023
Total	**285,273**	**119,070**	**99,672**	**295,899**	**201,981**	**507,361**	**530,131**	**1,037,492**
Financial liabilities measured at amortised cost	612,607	21,232	70,328	100,245	3,195	704,167	103,440	807,607
Provisions	-	-	-	-	-	0	14,185	14,185
Other liabilities	-	-	-	-	-	8,115	0	8,115
Total	**612,607**	**21,232**	**70,328**	**100,245**	**3,195**	**712,282**	**117,625**	**829,907**

(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 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 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
Other liabilities	-	-	-	-	-	4,195	0	4,195
Total	**566,934**	**44,783**	**98,233**	**75,252**	**8,239**	**714,145**	**100,655**	**814,800**

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.

(67) Leases from the view of Addiko 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 723 thousand in 2021.

As at 31 December 2021 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2021
up to 1 year	642
from 1 year to 5 years	924
more than 5 years	0
Total undiscounted lease liabilities	**1,566**

As at 31 December 2021 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2021
Short-term leases	873
Leases of low value assets	0
Total	

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**

(68) Leases from the view of Addiko Bank as lessor

As at 31 December 2021 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2021
up to 1 year	230
from 1 year to 5 years	1,186
more than 5 years	1,409
Total	**2,825**

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**

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

(69) Assets/liabilities denominated in foreign currencies

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

(000) BAM

	31.12.2021	31.12.2020
Assets	557,230.0	1,007,362
of which: EUR	480,262	485,387
of which: USD	27,237	24,707
of which: CHF	6,122	475
of which: BAM	519,949	492,287
of which: RSD	45	37
of which: HRK	2,009	2,377
of which: other currencies	1,868	2,092
Liabilities	825,261	814,800
of which: EUR	277,962	296,998
of which: USD	27,013	24,977
of which: CHF	6,083	4,670
of which: BAM	512,209	483,990
of which: RSD	0	0
of which: HRK	1,994	2,053
of which: other currencies	0	2,112

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency.

(70) 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

	31.12.2021	31.12.2020
Loan commitments, given	92,017	105,376
Financial guarantees, given	17,826	21,686
Other commitments, given	73,462	75,407
Total	**183,305**	**202,469**

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.

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.

70.1. 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

31.12.2021	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Investment securities at FVTOCI	218,126	24,524	418	243,068
Equity instruments	0	0	418	418
Debt securities	218,126	24,524	0	242,650
Total	**203,894**	**24,524**	**418**	**243,068**
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	**0**	**0**	**0**	**0**

(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				
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**

The reconciliation of the assets reported under level III as at 31 December 2021 was as follows:

(000) BAM

31.12.2021	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	153		265						418
Equity instruments	153		265						418
Total	**153**		**265**						**418**

Equity instruments acquired during 2021 are recorded at 1 BAM in accordance with Banking Agency decision which prescribes according to which assets are registered at market value or net book value of the loan, whichever is lower. Then the adjustment to the market value is done and presented in the position Changes in fair value reserve.

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**

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 defaults.

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.

70.2. 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

31.12.2021	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	291,150	291,142	-8	0	0	291,142
Financial assets at amortised cost	467,677	493,628	25,951	0	0	493,628
Loans and receivables	467,677	493,628	25,951	0	0	493,628
Total	**758,827**	**784,770**	**25,943**	**0**	**0**	**784,770**
Liabilities						
Financial liabilities measured at amortised cost	807,607	808,885	1,278	0	0	808,885
Deposits	798,605	799,883	1,278	0	0	799,883
Other financial liabilities	9,002	9,002	0	0	0	9,002
Total	**807,607**	**812,613**	**1,278**	**0**	**0**	**812,613**

(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	798,447	5,006	0	0	798,447
Deposits	785,200	790,206	5,006	0	0	790,206
Other financial liabilities	8,241	8,241	0	0	0	8,241
Total	**793,441**	**798,447**	**5,006**	**0**	**0**	**798,447**

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 correspond to their carrying amounts largely due to the short term maturities of these instruments.

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 positions 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:

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Financial assets	**6,466**	**1,100**	**1,814**	**5,623**	**0**	**919**	**61**
Loan and advances	0	0	2	1	0	919	61
Placements	6,466	1,100	1,812	5,622	0	0	0
Derivatives	0	0	0	0	0	0	0
Other assets	**0**	**0**	**1**	**3**	**3**	**48**	**0**
Financial liabilities	**248**	**0**	**548**	**158**	**87**	**1,904**	**55**
Deposits	9	0	10	13	87	795	55
Other financial liabilities	239	0	528	145	0	1,109	0
Other liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(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
Derivatives	0	0	0	0	0	0	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**
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(000) BAM

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Interest and similar income	0	0	0	0	0	44	2
Interest expenses	-9	0	-15	0	0	0	0
Fee and commission income	0	1	1	0	0	3	2
Fee and commission expenses	-6	0	-56	0	0	-4	0
Other administrative expenses	-234	0	-475	-144	0	-16	0
Gains on derecognition of financial assets FVOCI	0	0	0	0	0	0	0
Other operating income	0	0	2	0	0	0	0
Credit loss expenses on financial assets	-31	0	-2	-23	0	-94	0
Total	**-279**	**1**	**-545**	**-167**	**0**	**-67**	**4**

(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 derecognition of financial assets FVOCI	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**

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

(000) BAM

	31.12.2021	31.12.2020
Management and Supervisory Board remunerations	1,536	1,645
Taxes and contributions on remunerations	41	27
Total	**1,577**	**1,672**

Other long term benefits in the amount of BAM 592 thousand (2020. BAM 792 thousand) are included as part of Provisions for variable payments and will be payed to Management in the following periods.

(71) Capital management

71.1. 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 profit of current financial year from ordinary capital items, intangible assets, insufficient regulatory reserves, 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 regulators, 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.

71.2. Own funds and capital requirements

Own funds according to the Banking Agency decisions 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 2021 and 31 December 2020 amount to:

	31.12.2021			31.12.2020		
	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		31.12.2021	31.12.2020
	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	67,420
3	Statutory reserves	25,101	25,101
4	Accumulated other comprehensive income (and other reserves)	28	3,912
5	**CET1 capital before regulatory adjustments**	**192,952**	**196,836**
	CET1 capital: regulatory adjustments		
8	Intangible assets	-6,091	-6,308
9	Other deductions from common equity	-3,760	-5,135
10	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-9,851**	**-11,443**
11	**Common Equity Tier 1 (CET1) capital**	**183,101**	**185,393**
	Tier 2 (T2) capital: instruments and provisions		
12	General credit risk allowances	-	-
13	Deductions from supplementary capital	-	-
14	**Tier 2 (T2) capital**	**-**	**-**
15	**Total capital (TC = T1 + T2)**	**183,101**	**185,393**
16	Amount of exposure weighted for credit risk / Total risk-weighted assets	608,523	635,130
17	Total amount of exposure for position, currency and merchandise risk	4,231	-
18	Weighted operating risk	41,815	42,074
19	**Total risk weighted assets**	**654,569**	**677,204**
	Capital ratios and buffers %		
15	CET1 ratio	27.97%	27.38%
16	TC ratio	27.97%	27.38%

*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:

- decrease in OCI in the amount of BAM 3,9 milion is caused by decrease in fair value of debt instruments;
- decrease in regulatory adjustment of BAM 1,4 milion is related to the decrease of recognised DTA for S1 and S2;

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 23 million during the reporting period. The decrease of RWAs for credit risk by BAM 27 million is due to decreased new volumes. The Bank has fund requirement for market risk because net open foreign – exchange position is above 2% of its total own funds resulting in an increase of RWAs for market risk by BAM 4 million. The RWA for operating risks decreased by BAM 0,2 million.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the FBA Decision on Minimum Standards for Bank Capital Management, was 16.5% at 31 December 2021, down from 17.1% at 31 December 2020. The fall was driven by increase in the total leverage exposure.

(000) BAM

Ref1		31.12.2021	31.12.2020
1	Tier 1 capital	183,101	185,393
2	Total leverage ratio exposure	1,107,653	1,085,266
22	**Leverage ratio %**	**16.5%**	**17.1%**

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

(72) Events after the reporting date

Related to events after reporting date, there was evolving Russia-Ukraine situation. The ongoing conflict situation does not impact Addiko Bank d.d. directly, as it has no operating presence in those countries. However, indirect effects, such as financial market volatility, sanctions-related knock-on effects on some of our customers cannot be ruled out, though. The Bank has scanned the whole portfolio and has identified one exposure which have portion of their operations in Russia and Ukraine, and consequently is monitoring this exposure. So far there has not been an increase in expected credit losses.

(73) Boards and Officers of the Company

1 January to 31 December 2021

Supervisory Board

Chairman of the Supervisory Board:
Hans-Hermann Lotter from 31.12.2015 till 8.2.2021
Jann Kaufmann from 8.2.2021 till 15.12.2021
Edgar Flaggl from 15.12.2021

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

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

Management Board

Sanela Pašić, Chairman 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
Belma Sekavić-Bandić, Member of the Management Board from 18.06.2016 till 31.8.2021

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, 23 March 2022
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

Selma Omić
Member of the Management Board

Mario Ivanković
Member of the Management Board

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, 23 March 2022
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

ADDIKO BANK DD
1.3.1
SARAJEVO

Selma Omić
Member of the Management Board

Mario Ivanković
Member of the Management Board

Independent Auditors' report

To the shareholders of Addiko Bank d.d. Sarajevo

Opinion

We have audited the financial statements of Addiko Bank d.d. Sarajevo ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in the Federation of Bosnia and Herzegovina, 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.

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

KPMG

Independent Auditors' report
To the shareholders of Addiko Bank d.d. Sarajevo *(continued)*

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.

Impairment of loans and receivables from customers

As at 31 December 2021, gross loans and advances to customers: BAM 541 million, related impairment allowance: BAM 73 million and impairment loss recognised in the income statement for the year then ended: BAM 0.5 million (31 December 2020: gross loans and receivables: BAM 592 million, impairment allowance: BAM 91 million and impairment loss recognised in the income statement for the year then ended: BAM 21 million).

Refer to Accounting policies, Note 5 Use of estimates and assumptions/material uncertainties in relation to estimates, Note 41 Loans and receivables, and Note 57 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and receivables from customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions in estimating the amounts of such impairment. The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina ("FBA"), which combines the requirements of IFRS 9 "Financial Instruments" with the prescribed minimum requirements for provisioning. The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below BAM 100 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information, as well as specific rules of the FBA regarding various minimum provisioning requirements (together "collective impairment allowance").	Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management and information technology (IT) specialists included, among others: • Inspecting the Bank's ECL methods, and assessing their compliance with the relevant requirements of the regulatory and financial reporting framework. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors; • Making relevant inquiries of the Bank's risk management and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Bank's IT control environment for data security and access; • Testing the design and implementation of selected controls over the approval, recording and monitoring of loans, and also testing operating effectiveness of selected controls over the approval and recording, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances.

Independent Auditors’ report
To the shareholders of Addiko Bank d.d. Sarajevo *(continued)*

Key Audit Matters (continued)

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above BAM 100 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected sale proceeds from the related collateral and the minimum period for collateral disposal, as well as the FBA’s specific minimum provisioning requirements. In the wake of the above factors, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	• For loss allowances calculated on a collective basis: — Evaluating the overall ECL modelling approach, including challenging the key risk parameters for specific representative portfolios (PD, EAD and LGD) by reference to historical realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank’s ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; • For impairment allowances calculated individually: — selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures and loans with significant change in the provision coverage; — for the sample selected, taking into account client business, market conditions and payment history; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3; — for individually significant exposures classified in Stage 3, challenging key assumptions applied in the Management Board’s estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to loan files and market rates;

Independent Auditors' report
To the shareholders of Addiko Bank d.d. Sarajevo *(continued)*

Key Audit Matters (continued)

Key audit matter *(continued)*	**How our audit addressed the matter** *(continued)*
	• For loan exposures in totality: — Assessing the adequacy of expected credit losses against the various minimum provisioning requirements prescribed by the FBA; — Critically assessing the overall reasonableness of the impairment allowances, including the loans provision coverage development and share of the gross performing and non-performing exposure in total gross exposure and the performing and non-performing loans provision coverage. — Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Matter

The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 24 February 2021.

Other Information

Management is responsible for the other information. The other information comprises the Key data, Letter from the CEO and Management report included in the Annual Report of the Bank, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina ("Law on Accounting and Auditing"). Those procedures include considering whether the Management Report has been consistent with financial statements for the same financial year.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion the information given in the Management Report

KPMG

Independent Auditors' report
To the shareholders of Addiko Bank d.d. Sarajevo *(continued)*

Other Information (continued)

for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the statutory accounting requirements applicable to banks in the Federation of Bosnia and Herzegovina, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 auditors' 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 judgment 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditors’ report
To the shareholders of Addiko Bank d.d. Sarajevo *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements (continued)

- 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 auditors’ 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 auditors’ 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Vedran Vukotić.

KPMG B-H d.o.o. za reviziju *23 March 2022*

Registered Auditors
Zmaja od Bosne 7-7a
71000 Sarajevo
Bosna i Hercegovina

Kpmg

D.O.O. ZA REVIZIJU
KPMG B-H
SARAJEVO

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 re-payment 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 expo-sure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been cov-ered 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 re-maining financial intermediaries, financial auxiliaries and captive financial in-stitutions 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 perform-ing 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, in-cludes private entrepreneurs and profit-oriented entities with annual gross rev-enues 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 in-cluded. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corpo-rate 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

Imprint

Publisher of the Financial Report and responsible for the content:
Addiko Bank d.d
Trg solidarnosti 12
71 000 Sarajevo
Tel. +387 (33) 755-755
www.addiko-fbih.ba

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.