Addiko Bank


# Addiko Bank

# Financial statements

## for the year ended 31 December 2019 and Independent auditor's report

This version of the 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 financial reports and the accompanying audit report takes precedence over this translation.

Addiko Bank

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

| | | | (000) BAM |
|---|---|---|---|
| **Selected items of the Profit or Loss statement** | **YE19** | **YE18** | **Change (%)** |
| Net banking income | 40,611 | 36,906 | 10.0% |
| Net interest income | 27,581 | 24,337 | 13.3% |
| Net fee and commission income | 13,030 | 12,569 | 3.7% |
| Net result on financial instruments | 1,081 | 298 | >100% |
| Other operating result | -1,684 | -3,056 | 44.9% |
| Operating expenses | -32,346 | -32,192 | 0.5% |
| **Operating result before change in credit loss expense** | **7,662** | **1,956** | **>100%** |
| Credit loss expenses on financial assets | -372 | 6,804 | >100% |
| Tax on income | 0 | 0 | |
| **Result after tax** | **7,290** | **8,760** | **-16.8%** |
| | | | |
| **Performance ratios** | **YE19** | **YE18** | **Change (pts)** |
| Net interest income/total average assets | 2.9% | 2.7% | 0.24 |
| Return on tangible equity | 3.6% | 4.3% | -0.71 |
| Cost/income ratio | 77.0% | 84.0% | 7.00 |
| Cost of risk ratio | 0.04% | -1.5% | 1.54 |
| | | | |
| **Selected items of the Statement of financial position** | **Dec19** | **Dec18** | **Change (%)** |
| Loans and receivables to customers | 542,309 | 494,724 | 9.6% |
| o/w gross performing loans | 542.492 | 495,318 | 9.5% |
| Deposits of customers | 728,279 | 654,725 | 11.2% |
| Equity | 215,050 | 204,223 | 5.3% |
| Total assets | 986,996 | 890,324 | 10.9% |
| Risk-weighted assets | 713,429 | 633,430 | 12.6% |
| | | | |
| **Balance sheet ratios** | **Dec19** | **Dec18** | **Change (pts)** |
| Loan to deposit ratio | 74.5% | 75.6% | 1.10 |
| NPE ratio | 7.7% | 11.0% | -3.30 |
| NPE coverage ratio | 86.1% | 87.6% | -1.50 |
| Liquidity coverage ratio | 412.0% | 530.0% | -118.0 |
| Common equity tier 1 ratio | 26.1% | 27.3% | -1.22 |
| Total capital ratio | 26.1% | 27.3% | -1.22 |

# Letter from the CEO

Dear All,

Addiko Bank dd Sarajevo ended 2019 successfully, in line with its plans. Simplicity in communication, focus on essentials and efficiency continue to be our drivers that help us to be a bank, focusing on consumer lending in the retail segment and the SME sector lending. We continued to make progress in both these segments at growth rates above market average and moved one step closer to our goal of profiling the bank as the first specialist bank in the country.

In 2019 we have maintained the stability and profitability of our business, with key business parameters recording a positive upward trend. We grew our lending business by 9.6% and our deposits by 11.2%. Both indicate growth stronger than market average and demonstrate trust of our customers in our business model.

Significant progress was also made in the net interest and commission income growth. While investing in digital developments, we managed to support our growth within a controlled cost environment, leading to improvements in our cost to income ratio. Our nonperforming exposures were further reduced, while maintaining strong provisions coverage, implying very small credit risk in the bank's books.

These improved trends in all business aspects, leading to significant operational profit increase, with strong capital and liquidity base, give us comfort that we will continue successfully on the path to implement our strategy and serve the needs of our customers.

After successful listing of the shares of our Group on the Vienna Stock Exchange in 2019. Addiko shares attracted the investment of many international investors, demonstrating confidence in our strategy and business model.

As we are continuing our journey, I would like to take the opportunity to express gratitude to our clients and partners for trust and cooperation. And last, but not least, to emphasize the appreciation to all employees of Addiko Bank for their remarkable results and motivation throughout 2019 on behalf of entire Management and Supervisory board.

Sanela Pasic

President of the Management Board of Addiko Bank dd Sarajevo

# Annual Report 2019

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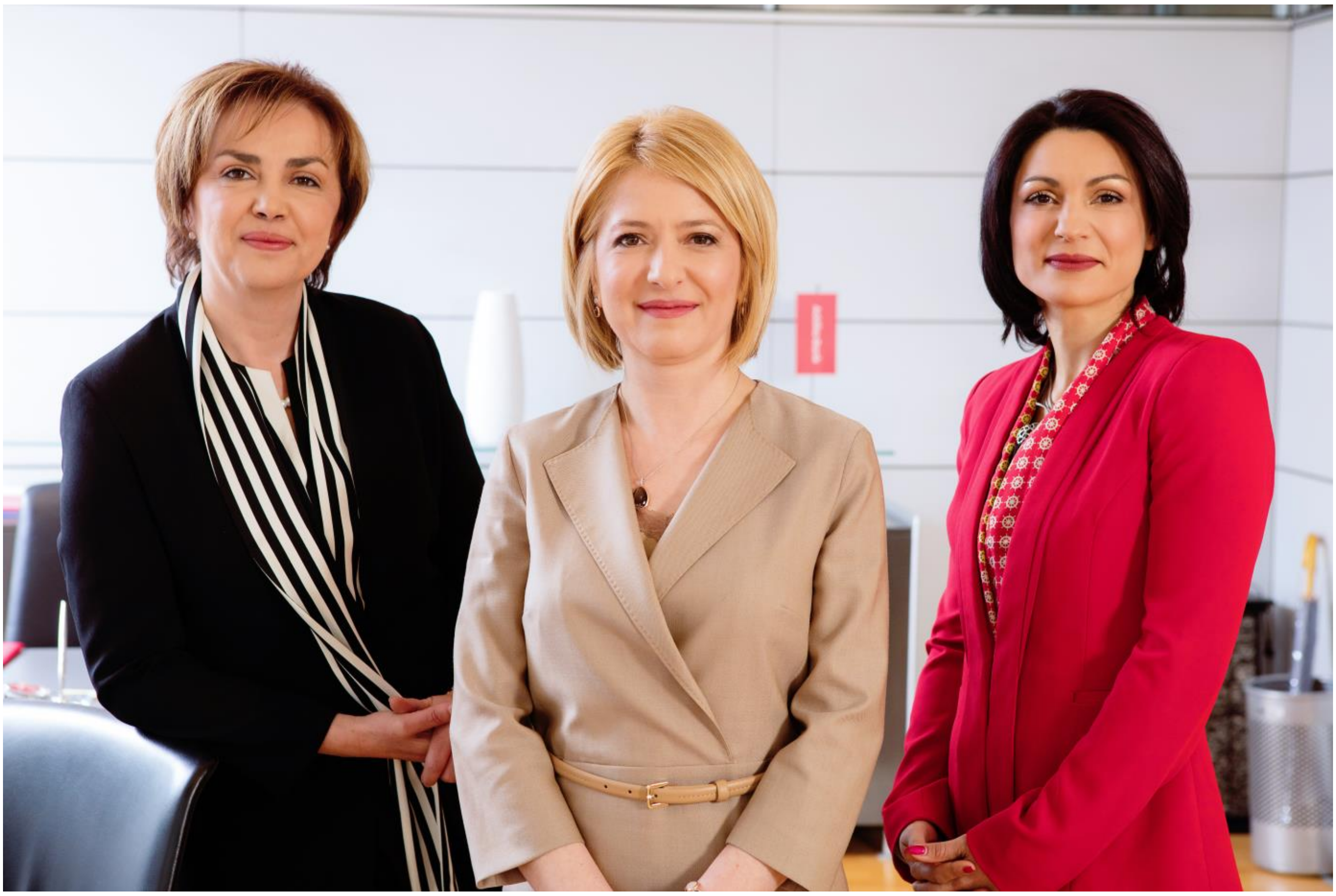
The tables in this report may contain rounding differences.

# Board of Addiko Bank dd Sarajevo



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

# Management Report

## 1. Overview of Addiko Bank

Addiko Bank d.d. Sarajevo (hereinafter referred to also as Addiko Bank or the Bank) is owned by Addiko Bank AG hereinafter referred to also as Addiko Group or the Group).

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Bank services as of 31 December 2019 more than 108 thousand customers in Bosnia and Herzegovina, using a well-dispersed network of 35 branches and modern digital banking channels.

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

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

## 2. General economic environment

Growth momentum remains quite strong by post-crisis standards and has even picked up in Croatia recently. However, the growth rates in excess of 4% recorded in 2018 in three of the countries of operation (Slovenia, Serbia and Montenegro) could not be sustained last year, albeit for varying reasons. Using an unweighted average, the pace of expansion across the five countries of operation slowed down from 4% in 2018 to an estimated 3.1% last year. Growth was strongest in Serbia (3.4%) and Montenegro (3.3%) and weakest in Bosnia and Herzegovina (2.7%), while the economies of Croatia and Slovenia grew by an estimated 3.0% and 2.9%, respectively.

Over the next two years, growth in the five countries of operation (unweighted average) is projected to slow down further – albeit only marginally, to 2.8% in both 2020 and 2021. There are two key reasons for this: (i) the weakening external demand, not least reflecting protectionist risks, and (ii) in some cases domestic capacity constraints, such as skills and labour shortages. Although most Addiko countries of operation continue to have quite high unemployment rates, these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth. At the same time, in those countries where the labour shortages have been most pronounced, such as Slovenia and (to a lesser extent) Croatia, they started subsiding recently thanks to increased hiring of foreign labour.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and ultra-loose ECB policy. Supply side factors, such as depressed energy prices, indicate that inflationary pressure will not emerge anytime soon. Across all countries of operation, inflation has picked up somewhat from 2014-16 levels (when many countries experienced a period of deflation) but will remain at historically low levels. The main determining factor for credit growth in the next 2-3 years in Addiko countries will be the stance of the ECB. This makes sense, considering the very strong trade and investment integration between Addiko countries and the bloc and their fixed exchange rate regimes (except in Serbia). Slovenia is in fact part of the euro area, and Montenegro uses the euro as a legal tender. To this end, the signs for credit growth are quite positive. In September 2019, the ECB cut its deposit rate into negative territory (to -0.5%) and restarted its asset purchase programme in the volume of EUR 20 billion per month, while keeping its refinancing rate unchanged at 0%.

All five countries of operation are at a fairly positive point in the credit cycle: lending growth to the non-financial private sector was firmly positive in all countries of operation last year. The strongest growth was observed in Serbia (8.9% year-on-year), followed by Bosnia and Herzegovina (6.7%), Montenegro (6.6%), Slovenia (4.6%) and Croatia (3.2%). In all countries of operation, credit demand from households has been stronger than that from companies, which supported private consumption growth.

In Croatia, real GDP growth accelerated to an estimated 3% last year (from 2.7% in 2018), not least thanks to tourism season surprising on the upside. However, for 2020-2021 wiiw projects a growth deceleration to 2.7% per year on account of the weakening external demand. The Croatian government aims to join the ERM 2 by January 2021 at the latest, paving the way for euro accession two years later. To this end, the country committed itself to implement reforms in six policy areas, three of which are in the banking sector. The assessment of the country's progress in its application to join the ERM 2 (and the European Banking Union) by the ECB and the European Commission is expected in June-July of this year. Credit growth in Croatia has been sustained exclusively thanks to borrowing by households, whereas loans to the corporate sector have been declining slightly (by 1.7% as of November 2019, year-on-year).

In Slovenia, the very high real GDP growth from 2018 (4.1%) could not be repeated last year, but at an estimated 2.9% was still reasonably solid. However, wiiw expects growth to subside further going forward, to 2.6% in 2020 and 2.4% in 2021, mostly on account of the weakening external demand. The recent economic weakness in Germany has already affected Slovenian exports and the country's car production has suffered, but the performance of the important pharmaceuticals industry has remained strong. Following severe consumer loan restrictions imposed by the Central Bank in late 2019, household credit has started decelerating from the high growth rate of around 6% per year recorded last year.

In Serbia, growth slowdown has been not as pronounced as initially expected: real GDP still grew by an estimated 3.4% last year, partly thanks to the construction of the Serbian part of Turk Stream gas pipeline. For 2020 and 2021, the wiiw growth forecast has been revised upwards as well, to 3.4% and 3.2% respectively. This is partly due to the recent favourable international political developments, including improved Serbia-Kosovo relations and the related abolition of Kosovo's 100% import tariff on goods from Serbia and Bosnia and Herzegovina (which had been in place since late 2018). FDI inflows should continue to support investment, while rising wages and generous social policies will underpin private consumption growth. Credit growth picked up strongly in 2018 on the back of higher confidence, and although the current growth rate of around 9% per year may not be sustained, the outlook for the next two years is positive.

In Bosnia and Herzegovina, economic growth slowed down by nearly 1 pp last year (to an estimated 2.7%), mainly because of the disappointing export performance, with the weakness in the euro area increasingly spilling over. Growth is projected to subside further this year, to 2.5%, but should rebound to 2.8% in 2021, with the economy benefitting from remittance inflows and increased tourism exports. After more than a year of political deadlock, the formation of the new government should facilitate economic reforms this year, although the country's prospects of obtaining EU candidate status in the near future remain questionable and would require a major constitutional reform. Credit growth has picked up pace somewhat recently and has approached nearly 8% year-on-year in the case of the household sector.

In Montenegro, growth slowdown has been particularly sharp, from 5.1% in 2018 to an estimated 3.3% last year, mainly on account of the fiscal consolidation in the face of high public (and foreign) debt, with spending cuts falling mostly on public investment projects. Growth is projected to subside further going forward, to 3.0% this year and 2.9% in 2021, reflecting weakening investment activity as well as a slump in private and public consumption. The current government strategy is to ensure a fiscal surplus in 2020-2022, which should help bring down the public debt to 62% of GDP. Given the already high levels of corporate and private debt, the pace of credit expansion may weaken from its current rather high rate in excess of 6% per year.

## 3. Significant events in 2019

### 3.1. Addiko Group goes public

On 12 July 2019, the shares of Addiko Bank AG were admitted to the Official Market of the Vienna Stock Exchange and started trading in the ATX Prime market segment.

Based on the total number of 19,500,000 shares and the offering price of EUR 16.0 per share, reflecting a market capitalization of EUR 312.0 million. This IPO was the third and at that time largest listing in the top segment of the Vienna Stock Exchange this year and was the largest listing in the European financial sector in 2019.

On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market.

As announced on 12 August 2019 by Citigroup Global Markets Limited, acting as Stabilization Manager, the Greenshoe Option was exercised in full (975,000 shares) herewith confirming the free float of ca. 55% after the stabilization period of 30 days.

## 3.2. Rating agency Moody's assigns first-time ba2 Baseline Credit Assessment to Addiko Bank AG

On 4 April 2019, Moody's Investors Service assigned for the first-time a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and a Ba2(cr)/NP(cr) Counterparty Risk Assessments to Addiko Bank AG. Concurrently, the rating agency assigned a Ba3 long-term and NP short-term deposit ratings and counterparty risk ratings to Addiko. The outlook on Addiko's long-term deposit rating is stable.

On 11 October 2019, Moody's assigned a Ba3 long-term local currency rating to Addiko's planned issuance of Subordinated Tier 2 Notes and placed the rating on review for upgrade. Concurrently, the rating agency placed on review for upgrade Addiko's long- and short-term Ba3/NP deposits ratings, as well as the bank's long- and short-term Ba2(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments) and Ba3/NP Counterparty Risk Ratings analysis.

On 6 December 2019 Moody's confirmed Addiko Bank AG's ratings (outlook stable) concluding the rating review for Addiko opened on 11 October 2019 to reflect Addiko Bank's announcement on 19 November 2019 to postpone a planned issuance of subordinated debt.

## 3.3. Transformation towards out-of-branch sales and digital development

### 3.3.1. Great customer experience with efficient distribution transformation

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

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

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

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

### 3.3.2. Digital transformation

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

Therefore, Addiko Bank is continuously working on modernizing, improving and digitally transforming its business on all levels-process, procedural, operational, production, service with these reflecting the Bank's dedication to providing the straightforward banking service.

In November, Addiko Bank's Virtual branch was recognised as the "Best Product Innovation" in whole of Europe and received the "Retail Banking Europe Award 2019". The Retail Banking Europe Awards are presented to the most innovative banking institutions and are considered recognition for the best retail banking practices.

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

Consumer segment the share of consumer loans sold digitally improved to 5.2% in 2019 (2.25% for 2018) and the contribution of Bank@Work to 33% (19% for 2018).

#### 3.3.3. Branches

At year end 2019 Addiko Bank operates a total of 35 branches. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

### 3.4. Continuous cost management and efficiency gains

With a continued focus on process optimisation and establishing a lean, efficient and integrated organisation, a further initiative has been initiated.

Addiko Bank expects that its operating expenses for 2020 demonstrate a continuation of the 2019 performance.

# 4. Financial development of the Bank

## 4.1. Analysis of the reported result

(000) BAM

| | YE19 | YE18 | Change (%) |
|---|---|---|---|
| Net banking income | 40,611 | 36,906 | 10.0% |
| Net interest income | 27,581 | 24,337 | 13.3% |
| Net fee and commission income | 13,030 | 12,569 | 3.7% |
| Net result on financial instruments | 1,081 | 298 | >100% |
| Other operating result | -1,684 | -3,056 | 44.9% |
| **Operating income** | **40,008** | **34,148** | **17.2%** |
| **Operating expenses** | **-32,346** | **-32,192** | **0.5%** |
| **Operating result before change in credit loss expense** | **7,662** | **1,956** | **>100%** |
| Credit loss expenses on financial assets | -372 | 6,804 | >100% |
| **Operating result before tax** | **7,290** | **8,760** | **-16.8%** |
| Tax on income | 0.0 | 0.0 | |
| **Result after tax** | **7,290** | **8,760** | **-16.8%** |

The **result after tax** of BAM 7,290 thousand, mainly driven by the continued execution of Addiko's focus strategy reflected in a further increased share of the two focus segments Consumer and SME.

**Net interest income** increased in 2019 from BAM 24,337 thousand at YE18, by BAM 3,244 thousand, or 13.3%, to BAM 27,581 thousand at YE19. This was primarily due to a decrease in interest expenses from BAM 5,100 thousand at YE18, by BAM -1,670 thousand, to BAM -3,443 thousand at YE19, predominantly resulting from lower interest expenses for customer deposit of BAM -1,580 thousand – mainly caused by a shift from higher yield term deposits to lower yield current deposits.

Interest income increased from BAM 29,451 thousand at YE18, by BAM 1,573 thousand, to BAM 31,024 thousand at YE19. This development is reflecting an increase of regular interest income within mostly in the focus areas Consumer and SME lending, and smaller increase in Large and Public Finance, which over-compensated the decrease of interest income from Mortgage. Moreover, interest income from NPEs reduced by BAM 359 thousand compared to YE18 given the successful reduction of NPEs during 2019. The **net interest** margin amounts to 294bp at YE19, compared to 270bp YE18.

**Net fee and commission income** increased from BAM 12,569 thousand in 2018, by BAM 461 thousand, or 3.7%, to BAM 13,030 thousand in 2019.

This was primarily due to the increase of fee and commission income from BAM 16,292 thousand at YE18, by BAM 503 thousand, to BAM 16,795 thousand at YE19, which was mainly driven by stronger income from Securities&brokerage, FX and dynamic currency conversion as well as roll out of further functionalities for guarantee and trade finance products in the SME segment.

**Net result on financial instruments** shows an increase of BAM 783 thousand, mainly driven by the sale of debt instruments.

On a reported basis, the other operating result as sum of other operating income and other operating expense changed in 2019 from BAM -3,056 thousand at YE18, by BAM 1,372 thousand, to BAM -1,684 thousand at YE19. The development was mainly driven by the following significant items:

- Recognition of BAM -363 thousand restructuring costs as part of cost initiatives executed during the second half of 2019. The related impact, resulting from predominantly back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.
- Net release in BAM 714 thousand provision expenses mainly driven by the release of provisions in connection with the settlement strategy for long term lasting passive legal cases. This compared with a net increase of BAM -790 thousand provision expenses in YE18.

The deposit guarantee costs in the amount of BAM -1,670 tousand essentially correspond to previous year figures.

**Operating expenses** increased marginally from BAM -32,192 thousand in 2018, by BAM 154 thousand, or 0.5% to BAM -32.346 thousand at the current reporting date:

Personnel expenses decreased marginally compared to the previous period from BAM -15,252 thousand at YE18 to BAM -15,116 thousand at YE19. The number of employees expressed in full-time equivalent (‘FTE’) at 31 December 2019 was 352 (YE18: 373 FTEs) which constitutes, as a result of efficiency and right sizing programs, a decrease of 21 employees from 31 December 2018.

Other administrative expenses decreased from BAM -14.863 thousand at YE18, by BAM 919 thousand, or 6.2% to BAM -13,944 thousand at YE19. This development was mainly driven by the implementation of the new leasing standard (IFRS 16, starting from 1.1.2019) and the related decrease in rental expenses. An increase of some type in the administrative expenses (such as IT) is primarily reflecting investments to grow the business and enhance the digital capabilities of the Bank. The impact of inflation was partially absorbed by the cost savings from the productivity programmes within the Bank.

Depreciation and amortisation increased from

BAM -2,077 thousand at YE18, by BAM -1,209 thousand, to BAM -3,286 thousand at YE19. This development was predominantly driven by depreciation in the amount of BAM -854 thousand for the right of use assets recognised in the course of the first-time implementation of the new leasing standard IFRS 16 and the corresponding decrease in rental expenses.

**Credit loss expenses on financial assets** amount to BAM -372 thousand (YE18: BAM 6,804 thousand). The allocation of provisions is mainly caused by unsecured portfolio due to higher NPE inflows as well as migration of clients from STAGE 1 to STAGE 2 (caused by PD shift) and recalibration of PD model and the model implementation at the 2018-year end). Releases within the other portfolios was caused by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate.

## 4.2. Analysis of the statement of financial position

(000) BAM

| | 31.12.2019 | 31.12.2018 | Change (%) |
|---|---|---|---|
| Cash reserves | 210,290 | 152,974 | 37.5% |
| Financial assets held for trading | 6 | 0 | 100% |
| Loans and receivables | 542,571 | 495,294 | 9.5% |
| Loans and advances to credit institutions | 262 | 570 | -54.0% |
| Loans and advances to customers | 542,309 | 494,724 | 9.6% |
| Investment securities | 195,553 | 207,581 | -5.8% |
| Tangible assets | 22,800 | 16,680 | 22.1% |
| Intangible assets | 5,781 | 4,671 | 23.8% |
| Tax assets | 1,783 | 1,947 | -8.4% |
| Current tax assets | 1,783 | 1,783 | - |
| Deferred tax assets | 0 | 164 | -100.0% |
| Other assets | 4,318 | 4,809 | -10.2% |
| Non-current assets and disposal groups classified as held for sale | 3,894 | 4,368 | -10.9% |
| **Total assets** | **986,996** | **890,324** | **10.9%** |

The statement of financial position of Addiko Bank shows the simple and solid interest-bearing asset structure: more than 54.9% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds. Regarding the statement of financial positions, Addiko’s strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is shown by the increased share of these two segments of 76.06% of the gross performing loan book (YE18: 74.88%).

The performance in new disbursements, which outperformed the market growth, in these focus segments over the last 12 months clearly highlights that Addiko is delivering on its business strategy, with an increase in the volumes of gross performing loans of +3.5% in Consumer lending and +9.5% in the SME loan books.

As of YE19 the total assets of Addiko Bank in the amount of BAM 986,996 thousand rise above the level as of YE18 of BAM 890,324 thousand, corresponding to an increase of BAM 96,672 thousand or 10.9%. The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Federal Banking Agency) increased to BAM 713,429 thousand (YE18: BAM 633,430 thousand) reflecting the increases of volumes in the focus segments.

**Cash reserve** increased by BAM 57,316 thousand to BAM 210,290 thousand as of 31 December 2019 (YE18: BAM 152,974 thousand). This was primarily driven by deposit inflows.

Overall **loans and receivables** increased to BAM 542,571 thousand from BAM 494,724 thousand at year end 2018:

- Loans and receivables to credit institutions (net) decreased by BAM 308 thousand to BAM 262 thousand (YE18: BAM 570 thousand).
- Loans and receivables to customers (net) increased by BAM 47,585 thousand to BAM 542,309 thousand (YE18: BAM 494,724 thousand). In line with the Bank's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending, which was partly offset by the decrease in the Mortgage Business.

The **investment securities** slightly decreased from BAM 207,581 thousand to BAM 195,553 thousand in YE19, they are largely invested in high rated government, corporate and bank bonds and most of it have a maturity of less than five years. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

**Tangible assets** increased to BAM 22,800 thousand compared to BAM 16,680 thousand at YE18, which can be traced back to the first-time implementation of IFRS 16, leading to the recognition of a right of use asset in the amount of BAM 3,639 thousand at the 1. January 2019.

**Tax assets** decreased to BAM 1,783 thousand (YE18: BAM 1,947 thousand), as a consequence of the utilisation of deferred tax assets.

**Other assets** decreased to BAM 4,318 thousand (YE18: BAM 4,809 thousand), this position includes mainly repossessed assets and advance payments in relation to IT projects aimed to increase operational efficiency.

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(000) BAM

| | 31.12.2019 | 31.12.2018 | Change (%) |
|---|---|---|---|
| Financial liabilities held for trading | 0 | 44 | -100.0% |
| Financial liabilities measured at amortised cost | 752,911 | 665,177 | 13.2% |
| Deposits of credit institutions | 12,343 | 604 | >100% |
| Deposits of customers | 728,279 | 654,725 | 11.2% |
| Other financial liabilities | 12,289 | 9,848 | 24.8% |
| Provisions | 15,272 | 17,221 | -11.3% |
| Tax liabilities | 231 | 0 | 100.0% |
| Current tax liabilities | 0 | 0 | - |
| Deferred tax liabilities | 231 | 0 | 100.0% |
| Other liabilities | 3,532 | 3,659 | -3.5% |
| Equity | 215,050 | 204,223 | 5.3% |
| **Total equity and liabilities** | **986,996** | **890,324** | **10.9%** |

On the liabilities' side, **financial liabilities measured at amortised cost** increased to BAM 752,911 thousand compared to BAM 665,177 thousand at year end 2018:

- Deposits of credit institutions increased from BAM 604 thousand to BAM 12,343 thousand as of YE19.
- Deposits of customers increased to BAM 728,279 thousand (YE18: BAM 654,725 thousand).
- Other financial liabilities increased from BAM 9,848 thousand at YE18 to BAM 12,289 thousand at YE19, which can be traced back to the first-time implementation of IFRS 16 regulations.

**Provisions** decreased from BAM 17,221 thousand at YE18 to BAM 15,272 thousand at YE19. This was primarily influenced by release of provision and off-court settlement for legal matters on CHF loans.

**Other liabilities** decreased slightly from BAM 3,659 thousand to BAM 3,532 thousand and include accruals for services received but not yet invoiced as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from BAM 204,223 thousand to BAM 215,050 thousand is reflecting the net impact in the amount of BAM 10.827 thousand for the year 2018 and the 2019 total comprehensive income, which includes the profit for the reporting period in the amount of BAM 7,290 thousand as well as changes in other comprehensive income in the amount of BAM 3,537 thousand. This change is mainly due to favourable market related movements from debt instruments measured at FVTOCI.

The **capital base** of Addiko Bank is solely made up of CET1 and stands at 26.1% (YE18: 27.3%), well above the Overall Capital Requirements of 14.5% based on currently valid Banking Agency decision.

The **return on tangible equity** with 3.6% for 2019 compared to 4.3% for YE18 is reflecting the stable Bank's performance.

## 5. Analysis of non-financial key performance indicators

Regarding the non-financial key performance indicators, please refer to the separately published consolidated non-financial report.

## 6. 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 organization.

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 (ICS) consists of a set of rules, procedures and organizational 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.

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 organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls.

## 7. Research & Development

Addiko Bank does not conduct any Research & Development activities.

## 8. Mid-Term Targets and Outlook

### 8.1. Mid-Term Targets

Addiko Bank was able in 2019 to successfully continue its progress towards achieving mid-term target levels and we are convinced that the continuous focus on Consumer and SME lending activities as well as payment services ("focus areas") in the CSEE region and a rigorous commitment to digital transformation, will enable a continuation of the established track record and a visible result of this strategy.

While the banking industry continued to experience a challenging low interest rate environment and continued pricing pressure in the financial year 2019, Addiko Bank managed to further improve the adjusted net interest margin, towards its mid-term target to reach a NIM of approximately 4%. The continuous shift of the loan book from the "non-focus" to the "focus areas" in line with the mid-term target of 80% (60.2% as of YE19), complemented by a further optimization of the funding position towards the mid-term targeted LDR of ~100% (74.5% as of YE19) will support Addiko Bank's efforts for further improvement in the upcoming years.

Addiko Bank further expects its operating expenses for 2020 to continue the developments in 2019, largely as a result of additional cost reduction initiatives which have been implemented during the second half of 2019.

Amid a stable low interest rate environment, cost of risk is expected to increase slightly along with the loan book shifting toward the focus areas unsecured consumer and SME lending. While precise forecasts are difficult in the current environment, Addiko Bank projects a cost of risk (net loans) in its mid-term target of approximately 1.6%.

### 8.2. Outlook 2020

The global measures to counter contagion of the coronavirus (COVID-19) have resulted in subdued social and economic activity in various regions across the world that will have adverse effects on global economic growth. In addition, uncertainty on the further development of the situation has resulted in a significant deterioration in market confidence. The degree of the impact on the global economy and financial markets is yet to be seen. Central banks including the ECB, the United States Federal Reserve and the Bank of England have implemented further expansionary monetary policy such as interest rate cuts, asset purchases and generous liquidity facilities for commercial banks. Additionally, governments are expected to implement stimulus measures and support the hardest hit sectors of the economy.

At the same time, developments in the European banking sector are expected to continue. 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 profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments.

In view of these challenges, but also these opportunities, the Addiko Group has continued to push ahead with its digital transformation and was thus able to take further significant steps towards achieving its medium-term goals. The locally operating banks have successfully positioned themselves as innovative and targeted specialist lenders in the areas of unsecured consumer loans and loans for small and medium-sized enterprises. This will enable them to continue to expand their growth and margins profitably in the coming year, while maintaining a balanced risk/return profile and a balance sheet financed primarily by deposits with a good equity base.

On the back of this Addiko remains with the expectation of a moderately slower growth outlook on the back of very loose monetary condition, increased complexity of regulations and overall geopolitical uncertainties. The main risk factors influencing the banking industry include worsened interest rate outlooks, political or regulatory measures against banks as well as geopolitical and global economic uncertainties. Addiko Group will continue to execute its focused strategy as a consumer and SME specialist lender in the CSEE region, and further drive digital transformation along the value proposition convenience and speed. Rigorously managed risk-return profile and self-funding principle in each entity will remain strong anchors in the strategy. Cost of risk is expected to increase slightly along with the loan book shifting toward the focus areas unsecured consumer and SME lending.

Sarajevo, 25. March 2020
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

Belma Sekavić

Selma Omić

# Financial Statements


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# I. Statement of comprehensive income

## Statement of profit or loss

(000) BAM

| | Note | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|---|
| Interest income calculated using the effective interest method | | 29,878 | 28,488 |
| Other interest income | | 1,146 | 963 |
| Interest expenses | | -3,443 | -5,114 |
| Net interest income | (27) | 27,581 | 24,337 |
| Fee and commission income | | 16,795 | 16,292 |
| Fee and commission expenses | | -3,765 | -3,723 |
| Net fee and commission income | (28) | 13,030 | 12,569 |
| Net result on financial instruments | (29) | 1,081 | 298 |
| Other operating income | (30) | 2,312 | 1,510 |
| Other operating expenses | (30) | -3,996 | -4,566 |
| **Operating income** | | **40,008** | **34,148** |
| Personnel expenses | (31) | -15,116 | -15,252 |
| Other administrative expenses | (32) | -13,944 | -14,863 |
| Depreciation and amortisation | (33) | -3,286 | -2,077 |
| **Operating expenses** | | **-32,346** | **-32,192** |
| **Operating result before change in credit loss expense** | | **7,662** | **1,956** |
| Credit loss expenses on financial assets | (34) | -372 | 6,804 |
| **Operating result before tax** | | **7,290** | **8,760** |
| Tax on income | (35) | 0 | 0 |
| **Result after tax** | | **7,290** | **8,760** |
| thereof attributable to equity holders of parent | | 7,290 | 8,760 |

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Result after tax attributable to ordinary shareholders (in TBAM) | 7,290 | 8,760 |
| Number of ordinary shares (in units of shares) | 532,500 | 532,500 |
| **Earnings per share (in BAM)** | **13.69** | **16.45** |

## Statement of other comprehensive income

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Result after tax** | **7,290** | **8,760** |
| **Other comprehensive income** | **3,537** | **-5,480** |
| **Items that will not be reclassified to profit or loss** | **53** | **-3** |
| Fair value reserve - equity instruments | 53 | -3 |
| Net change in fair value | 59 | -3 |
| Income Tax | -6 | 0 |
| **Items that may be reclassified to profit or loss** | **3,484** | **-5,477** |
| Fair value reserve - debt instruments | 3,484 | -5,477 |
| Net change in fair value | 4,946 | -4,782 |
| Net amount transferred to profit or loss | -1,073 | -1,173 |
| Income Tax | -389 | 478 |
| **Total comprehensive income for the year** | **10,827** | **3,280** |
| thereof attributable to equity holders of parent | 10,827 | 3,280 |

# II. Statement of financial position

(000) BAM

| | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash reserves | (36) | 210,290 | 152,974 |
| Financial assets held for trading | (37) | 6 | 0 |
| Loans and receivables | (38) | 542,571 | 495,294 |
| Loans and receivables to credit institutions | | 262 | 570 |
| Loans and receivables to customers | | 542,309 | 494,724 |
| Investment securities | (39) | 195,553 | 207,581 |
| Tangible assets | (40) | 22,800 | 18,680 |
| Property, plant and equipment | | 22,800 | 18,680 |
| Intangible assets | (41) | 5,781 | 4,671 |
| Tax assets | | 1,783 | 1,947 |
| Current tax assets | | 1,783 | 1,783 |
| Deferred tax assets | | 0 | 164 |
| Other assets | (43) | 4,318 | 4,809 |
| Non-current assets and disposal groups classified as held for sale | (44) | 3,894 | 4,368 |
| **Total assets** | | **986,996** | **890,324** |
| | | | |
| **Liabilities** | | | |
| Financial liabilities held for trading | (45) | 0 | 44 |
| Financial liabilities measured at amortised cost | (46) | 752,911 | 665,177 |
| Deposits of credit institutions | | 12,343 | 604 |
| Deposits of customers | | 728,279 | 654,725 |
| Other financial liabilities | | 12,289 | 9,848 |
| Provisions | (47) | 15,272 | 17,221 |
| Tax liabilities | | 231 | 0 |
| Deferred tax liabilities | | 231 | 0 |
| Other liabilities | (48) | 3,532 | 3,659 |
| Total liabilities | | 771,946 | 686,101 |
| | | | |
| **Equity** | (49) | | |
| Share capital | | 100,403 | 100,403 |
| Statutory reserves | | 25,101 | 25,101 |
| Fair value reserve | | 2,502 | -1,035 |
| Retained earnings | | 87,044 | 79,754 |
| Total equity | | 215,050 | 204,223 |
| **Total liabilities and equity** | | **986,996** | **890,324** |

# III. Statement of changes in equity

(000) BAM

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

(000) BAM

| 31.12.2018 | Share capital | Statutory reserves | Regulatory reserves | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Equity as at 01.01.2018** | **100,403** | **0** | **133,391** | **2,834** | **-24,581** | **212,047** |
| **Impact of adopting IFRS 9 Note (49)** | **0** | **0** | **0** | **1,611** | **-12,715** | **-11,104** |
| **Equity as at 01.01.2018** | **100,403** | **0** | **133,391** | **4,445** | **-37,296** | **200,943** |
| Allocation of regulatory reserves | 0 | 25,101 | -133,391 | 0 | 108,290 | 0 |
| Result after tax | 0 | 0 | 0 | 0 | 8,760 | 8,760 |
| Other comprehensive income | 0 | 0 | 0 | -5,480 | 0 | -5,480 |
| Total comprehensive income | 0 | 0 | 0 | -5,480 | 8,760 | 3,280 |
| **Equity as at 31.12.2018** | **100,403** | **25,101** | **0** | **-1,035** | **79,754** | **204,223** |

# IV. Statement of cash flows

(000) BAM

| | 2019 | 2018 |
|---|---|---|
| **Cash reserves at the end of previous period (01.01.)** | **152,974** | **234,984** |
| **Result after tax** | **7,290** | **8,760** |
| Depreciation and amortisation of intangible assets and tangible fixed assets | 3,286 | 2,077 |
| Change in risk provisions on financial instruments | 372 | -6,804 |
| Change in provision | 806 | 1,926 |
| Gains (losses) from disposals of intangible assets tangible fixed assets and financial investments | -2,029 | -1,130 |
| Investment securities | -1,073 | -257 |
| Intangible and tangible assets | -956 | -873 |
| Subtotal | 9,725 | 4,829 |
| Loans and advances to credit institutions and customers | -75,105 | -67,991 |
| Investment securities | 17,054 | -46,638 |
| Financial assets held for trading | -6 | 6 |
| Other assets | 1,801 | 1,283 |
| Financial liabilities measured at amortised cost | 88,161 | 14,433 |
| Financial liabilities held for trading | -44 | 44 |
| Provisions | -2,535 | -3,969 |
| Other liabilities from operating activities | -127 | -702 |
| Interests received | 27,215 | 25,926 |
| Interests paid | -3,266 | -4,961 |
| **Cash flows from operating activities** | 62,873 | -77,740 |
| Proceeds from the sale of: | 409 | 512 |
| Tangible assets, investment properties, lease assets and intangible assets | 409 | 512 |
| Payments for purchases of: | -5,966 | -4,782 |
| Tangible assets, investment properties, lease assets and intangible assets | -5,966 | -4,782 |
| **Cash flows from investing activities** | -5,557 | -4,270 |
| **Cash flows from financing activities** | - | - |
| **Cash reserves at end of period (31.12.)** | 210,290 | 152,974 |

The cash flows from operating activities include the principle portion of lease payments in the amount of BAM 926 thousand, presented under Financial liabilities measured at amortised cost.

# V. Condensed notes

## Company

Addiko bank d.d. Sarajevo (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 under the name Hypo Alpe-Adria-Bank d.d. Mostar.

By decision of the Municipal Court in Sarajevo from 31 October 2016 the Bank changed the name and registered office of the company according to which the new company name is Addiko Bank d.d. Sarajevo, based in Sarajevo at Trg Solidarnosti No. 12.

The Bank conducts its operations in Federation of Bosnia and Herzegovina through the headquarters in Sarajevo and 35 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 34/4 OG. Consolidated reports of the parent company can be found at www.addiko.com.

Until 30 March 2018, the Bank was the 100% owner of Addiko Invest d.o.o. Mostar. The Company was responsible for the establishment and management of investment funds: Investment fund CROBiH Fond d.d. Mostar (“IF CROBiH”), Open investment fund Addiko BH Equity, Investment fund Fortuna fond d.d. Cazin, and OIF Kapital. On 30 March 2018, the sale and transfer of share were completed based on Contract on transfer of share between the Bank and the buyer, and by the Decision of the Municipal Court in Mostar on change of name, members and transfer of share no. Tt-O-270/18 of 18 April 2018, the registration of these changes was completed.

## Accounting policies

### (1) Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board.

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

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

The provisions of the new accounting standard for leases (IFRS 16) took effect on 1 January 2019. The adoption of IFRS 16 has resulted in changes of accounting policies for lease contracts. Further details of the specific IFRS 16 accounting policies, estimates and judgments applied in the current period and its quantitative and qualitative impact are described in more detail in Note (3) Application of new standards and amendments. Apart from adoption and impact of IFRS 16, the same estimates, judgments, accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements.

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

On 30 March 2020, the Management Board of the Bank approved the financial statements as at 31 December 2019 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 2019.

## (2) Reclassification

For the purpose of better presentation and compliance with IFRS, the Bank applied a new report, and reclassified certain positions of the Statement of profit or loss and Statement of financial position for 2018, as disclosed hereunder:

(000) BAM

| Positions 2018 Reclassified | 2018 Reclassified | Reclasification | 2018 Reported | Positions 2018 Reported |
|---|---|---|---|---|
| Interest income calculated using the effective interest method | 28,488 | -992 | 29,480 | Interest and similar income |
| Other interest income | 963 | 963 | 0 | - |
| Interest expenses | -5,114 | 0 | -5,114 | Interest and similar expenses |
| Net interest income | 24,337 | -29 | 24,366 | **Net Interest income** |
| Fee and commission income | 16,292 | 2,795 | 13,497 | Fee and commission income |
| Fee and commission expenses | -3,723 | -24 | -3,699 | Fee and commission expenses |
| Net fee and commission income | 12,569 | 2,771 | 9,798 | **Net fee and commission income** |
| Net result on financial instruments | 298 | -1,712 | 2,010 | Net income on financial operations |
| Other operating income | 1,510 | -1,107 | 2,617 | Other operating income |
| - | | -977 | 977 | Collected written-off recievables |
| Other operating expenses | -4,566 | -4,566 | | |
| **Operating income** | **34,148** | **-5,620** | **39,768** | **Operating income** |
| Personnel expenses | -15,252 | 658 | -15,910 | Personnel expenses |
| Other administrative expenses | -14,863 | 3,196 | -18,059 | General and administrative expense |
| Depreciation and amortisation | -2,077 | 0 | -2,077 | Depreciation and amortization |
| **Operating expenses** | **-32,192** | **3,854** | **-36,046** | **Operating expenses** |
| **Operating result before change in credit loss expense** | **1,956** | **-1,766** | **3,722** | **Profit before impairment losses, provisions and income tax** |
| Credit loss expenses on financial assets | 6,804 | 1,766 | 5,038 | Impairment losses and provisions, net |
| **Operating result before tax** | **8,760** | **0** | **8,760** | **Profit before income tax** |
| Tax on income | 0 | 0 | 0 | Income tax |
| **Result after tax** | **8,760** | **0** | **8,760** | **Net profit for current year** |
| thereof attributable to equity holders of parent | 8,760 | 0 | 8,760 | - |

(000) BAM

| Positions 2018 Reclassified | 2018 Reclassified | Reclasification | 2018 Reported | Positions 2018 Reported |
|---|---|---|---|---|
| **Assets** | | | | **Assets** |
| Cash reserves | 152,974 | 125,635 | 27,339 | Cash funds |
| - | | -74,381 | 74,381 | Funds at the account with Central Bank of Bosnia and Herzegovina |
| - | | -51,254 | 51,254 | Funds at other banks |
| Loans and receivables | 495,294 | 7,626 | 487,668 | Financial assets at amortised cost |
| Loans and receivables to credit institutions | 570 | 570 | | - |
| Loans and receivables to customers | 494,724 | 494,724 | | - |
| - | | -7,626 | 7,626 | Other financial assets |
| Investment securities | 207,581 | 0 | 207,581 | Financial assets trough OCI |
| Tangible assets | 18,680 | 0 | 18,680 | Property and equipment |
| Property, plant and equipment | 18,680 | 18,680 | | - |
| Intangible assets | 4,671 | 0 | 4,671 | Intangible assets |
| Tax assets | 1,947 | 164 | 1,783 | Prepaid income tax |
| Current tax assets | 1,783 | 1,783 | | - |
| Deferred tax assets | 164 | 164 | | - |
| Other assets | 4,809 | -167 | 4,976 | Other assets |
| Non-current assets and disposal groups classified as held for sale | 4,368 | 0 | 4,368 | Assets available for sale |
| **Total assets** | **890,324** | **-3** | **890,327** | **Total assets** |
| | | | | |
| **Liabilities** | | | | **Liabilities** |
| Financial liabilities held for trading | 44 | 44 | | - |
| Financial liabilities measured at amortised cost | 665,177 | 665,177 | | - |
| Deposits of credit institutions | 604 | -7 | 611 | Due to other banks |
| Deposits of customers | 654,725 | 0 | 654,725 | Due to customers |
| Provisions | 17,221 | 2,745 | 14,476 | Provisions |
| - | | -1,307 | 1,307 | Provisions for financial commitments and contingencies |
| Other liabilities | 3,659 | -11,326 | 14,985 | Other liabilities |
| Total liabilities | 686,101 | -3 | 686,104 | Total liabilities |
| | | | | |
| Equity | | | | Equity |
| Share capital | 100,403 | 0 | 100,403 | Share capital |
| Statutory reserves | 25,101 | 0 | 25,101 | Statutory reserves |
| Fair value reserve | -1,035 | 0 | -1,035 | Fair value reserve |
| Retained earnings | 79,754 | 0 | 79,754 | Retained earnings |
| Total equity | 204,223 | 0 | 204,223 | Total equity |
| **Total liabilities and equity** | **890,324** | **0** | **890,324** | **Total liabilities and equity** |

## (3) Application of new standards and amendments

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

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2019:

| Standard | Name | Description | Effective for financial year |
|---|---|---|---|
| IFRS 16 | Leases (New Standard) | Replacing IAS 17 | 2019 |
| IFRS 9 | Financial Instruments (Amendments) | Prepayment Features with Negative Compensation | 2019 |
| IFRIC 23 | Uncertainty over Income Tax Treatments | Accounting for uncertainties in income taxes | 2019 |
| IAS 28 | Amendments to IAS 28 Investments in Associates and Joint Ventures | Long term Interests in Associates and Joint Ventures | 2019 |
| IAS 19 | Amendments to IAS 19 Employee Benefits | Plan Amendment, Curtailment or Settlement | 2019 |
| IFRS 3, IFRS 11, IAS 12, IAS 23 | Annual Improvements to IFRS Standards 2015-2017 Cycle | IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs | 2019 |

### 3.1. IFRS 16 Leases

**IFRS 16** "Leases" was published by the IASB in January 2016. IFRS 16 took effect on 1 January 2019, superseding the previous guidance IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces significant changes to lessee accounting and requires new disclosures of information on lease contracts.

#### 3.1.1. Accounting policies

#### 3.1.1.1. Leases in which Bank is a lessee

At inception of a contract entered into on or after 1 January 2019, the Bank assessed whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Bank has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The 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 expenses are accounted on straight-line basis over the remaining lease term.

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 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.

Under IFRS 16, lease incentives are recognised as part of the measurement of right of use assets and lease liabilities whereas under IAS 17 they resulted in recognition of a lease incentive liability and amortised as a reduction of rental expense on a straight-line basis.

In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets. Previously under IAS 17 it was required to recognise a provision for onerous lease contracts.

IFRS 16 requires that a lessor recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor, rather than the maximum amount guaranteed as required by IAS 17.

**3.1.1.2. Leases in which Bank is a lessor**

With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

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.

### 3.1.1.3. 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, 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”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets.

### 3.1.2. Impact of application of IFRS 16 Leases

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either “operating” or “finance” by lessees. Instead, a right of use asset and a lease liability are recognised for all leases henceforth.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for a consideration.

The list of practical expedients which the Bank has made use of is provided in 3.1.3. Transition and transitional disclosures.

The Bank assessed the impact on its financial statements including an assessment of whether it exercises any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions. Mainly land and buildings are subject to lease at the Bank. Generally, the Bank uses its incremental borrowing rate as the discount rate.

As at 31 December 2018, the Bank’s future minimum lease payments under non-cancellable operating leases amount to BAM 4 million on an undiscounted basis under IAS 17, which the Bank assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

Based on the information available from the initial implementation of IFRS 16, the Bank had no effect of the implementation of the new standard on initial balance of retained earnings. The effects of applying IFRS 16 lead to an increase in total assets of BAM 3,315 thousand and an increase in lease liabilities of BAM 3,315 thousand.

IFRS 16 did not have a material impact on accounting for Bank as a lessor, due to the strategic decision of the Bank to focus on core banking business. The same provisions as under IAS 17 still apply under IFRS 16 to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Bank’s statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognised.

The combination of a straight-line depreciation of the right of use assets and the effective interest rate method applied to the lease liabilities results in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The application of IFRS 16 has an impact on the statement of cash flow of the Bank. Under IAS 17, all lease payments on operating leases were presented as part of cash flow from operating activities.

Under IFRS 16, 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. Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of operating activities.

### 3.1.3. Transition and transitional disclosures

The Bank applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. There was no cumulative effect of adopting IFRS 16 to be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. For contracts under which the Bank acts as lessee a right of use asset at the amount equal to the lease liability was recognised in the statement of financial position (subsequently right of use assets were adjusted for accruals and prepayments). The Bank applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Bank did not apply IFRS 16 to any leases on intangible assets. The Bank used the exemptions for short term leases and leases of low value whereby the right of use asset is not recognised. For leases previously classified as operating leases under IAS 17, the applicable discount rate is the lessee's incremental borrowing rate determined at the date of initial application.

The Bank applied the following practical expedients and exemptions:

- option which allows to adjust the right of use asset by the amount of provision for onerous leases recognised in the statement of financial position immediately before the date of initial application was applied
- practical expedients not to recognise right of use assets but to account for the lease expenses on straight-line basis over the remaining lease term for short-term leases (12 month) and for leases for which the underlying asset is of low value were applied
- initial direct costs from the measurement of the right of use asset at the date of initial application were excluded
- the Bank used a hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease
- non-lease components have to be separated from lease components (expedient not to separate non-lease components was not applied)
- contracts which were not classified as leases under IAS 17 in conjunction with IFRIC 4 were not reviewed under the definition of a lease in IFRS 16
- instead of performing an impairment review on the right of use assets at the date of initial application, the Bank has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16

Reconciliation of undiscounted operating lease commitments acc. IAS 17 as of 31 December 2018 and lease liabilities acc. IFRS 16 recognised on 1 January 2019:

(000) BAM

| | Carrying amount |
|---|---|
| **Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018** | 4,025 |
| (-) Discounting (using incremental borrowing rate as at 1 January 2019) | -269 |
| **Off-balance operating lease obligations (IAS 17) discounted** | 3,756 |
| (+) Minimum lease payments on finance lease as at 31 December 2018 | 0 |
| (-) Exemption for short-term leases | -105 |
| (-) Exemption for leases of low-value assets | -336 |
| (+/-) Extension and termination options reasonably certain to be exercised | 0 |
| (+) Variable lease payments based on an index or a rate | 0 |
| (-) Residual value guarantees | 0 |
| (+/-) Other | 0 |
| **Lease liabilities recognised as a result of the initial application of IFRS 16 as at 1 January 2019** | 3,315 |

Recognition of right of use assets at the date of initial application of IFRS 16:

(000) BAM

| | Carrying amount |
|---|---|
| **Right of use assets unadjusted as at 1 January 2019** | 3,315 |
| (+) Prepayments and accruals | 0 |
| (-) Onerous contracts (IAS 37) | 0 |
| **Right of use assets recognised as a result of the initial application of IFRS 16 as at 1 January 2019** | 3,315 |

The recognised right of use assets relate to the following types of assets:

(000) BAM

| | Carrying amount |
|---|---|
| Land and buildings | 2,827 |
| Property, plant and equipment | 488 |
| **Total** | **3,315** |

The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 January 2019 was 2.99% for land and buildings and 2.53% for property, plant and equipment.

### 3.2. IFRS 9 Financial instruments

Based on the amendments of IFRS 9 introduced in 2017 financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a “held to collect” business model. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Bank.

### 3.3. IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over whether the tax treatment will be accepted by the tax authority. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty (either the most likely amount method or the expected value method) and accounting for circumstances change or when there is new information that affects the judgements. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. This interpretation does not result in any significant changes within the Bank.

### 3.4. IAS 28 Investments in Associates and Joint Ventures

The **IAS 28** amendments clarify that companies should account for long term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. This includes the impairment requirements in IFRS 9. The amendments to IAS 28 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any changes, due to the fact that Bank has no an associate or joint venture.

### 3.5. IAS 19 Employee benefits

The **IAS 19** amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan (amendment, settlement or curtailment). An entity has to recognise any reduction in a surplus (even if that surplus was not previously recognised because of the impact of the asset ceiling which is recognised in other comprehensive income) in profit or loss as part of past service costs, or a gain or loss on settlement. The amendments to IAS 19 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Bank.

### 3.6. Annual improvements to IFRS Standards 2015-2017 Cycle

The collection of **annual improvements to IFRSs 2015-2017** includes amendments to the following standards: IFRS 3 Business Combinations clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date. IFRS 11 Joint Arrangements clarifies that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation; IAS 12 Income Taxes clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity; IAS 23 Borrowing costs clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted. These amendments do not result in any significant changes within the Bank.

The following new standards, interpretations and amendments to existing standards issued by the IASB and published by Accounting and Auditing Commission of Bosnia and Herzegovina were not yet effective:

| Standard | Name | Description | Effective for financial year |
|---|---|---|---|
| Conceptual Framework | Amendments to Conceptual Framework | Amendments to references to Conceptual Framework | 2020 |
| IAS 1 and IAS 8 | Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors | New definition of materiality | 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Amendments to IFRS 9 Financial instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures | Interest rate benchmark reform | 2020 |

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

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

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

The following new standards and interpretations issued by the IASB have not yet been published by Accounting and Auditing Commission of Bosnia and Herzegovina and were therefore not adopted early by the Bank. The table also includes the expected effective dates:

| Standard | Name | Description | Effective for financial year |
|---|---|---|---|
| IFRS 3 | Amendments to IFRS 3 Business Combinations | Amendments to definition of business | 2020 |
| Amendments to IAS 1 | Amendments to IAS 1 Presentation of Financial Statements | Classification of liabilities as current or non-current | 2022 |

The **IFRS 3** amendments provide application guidance to help distinguish between an acquisition of business and a purchase of group of assets that does not constitute a business. The amendments to IFRS 3 will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not result in any significant changes within the Bank.

The amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. These amendments to IAS 1 will be effective for accounting periods beginning on or after 1 January 2022. These amendments will not result in any significant changes within the Bank.

### (4) Standards used for comparative periods

Until 31 December 2018 IAS 17 Leases was the applicable standard for lease contracts. On the 1 January 2019 it was superseded by IFRS 16 Leases. As IFRS 16 is not applied fully retrospectively the comparative period is still under the regime of IAS 17.

In the comparative period, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet) at lease inception. Leases that transferred substantially all the risks and rewards of ownership were classified as finance lease and the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset. Other leases were classified as operating leases and were not recognised in the Bank´s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the lease term.

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

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. In the case of operating leases concluded by the Bank as a lessor when lease payments were agreed in a currency other than the functional currency of the lessor, an embedded foreign currency derivative is not separated when the currency in which lease payments are denominated is the functional currency of a lessee who is substantial counterparty to the lease contract, or when the currency in which lease payments are denominated is a currency that is commonly used in lease contracts in the economic environment in which the transaction takes place.

With the exception of real estate, leased assets are reported under the item “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 item “other operating income” or "other operating expense" and scheduled depreciation under “depreciation and amortisation”.

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

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

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

For further information on credit risk provisioning methodology, reference is made to financial assets in note (13) Financial instruments as well as to the Risk Report under Note (56) Development of risk provisions.

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

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

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

For further details regarding the measurement of financial instruments, see Note (13) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see Note (68) 68.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in Note (38) Loans and receivables as well as note (39) Investment securities.

**Deferred tax assets**
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans. For further details regarding tax loss carried forward please refer to Note (35) Taxes on income.

**Provisions**
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in Note (47).

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

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

For further details regarding lease contracts please refer to Note (3) 3.1. IFRS 16 Leases and for the comparative period to Note (4) Standards used for comparative periods.

## (6) Foreign currency translation

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

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

| | | |
|---|---|---|
| 31 December 2019 | 1 EUR = 1.95583 BAM | 1 USD = 1.74799 BAM |
| 31 December 2018 | 1 EUR = 1.95583 BAM | 1 USD = 1.70755 BAM |

## (7) Revenue from contract with customers

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

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

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

## (8) Earnings per share

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

During 2019 and 2018 there were no share dilution effects.

## (9) Net interest income

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

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

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

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

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

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

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

### (10) Net fee and commission income

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

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

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

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

### (11) Net result on financial instruments

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

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

### (12) Other operating income and other operating expenses

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

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill (if any) and non-consolidated equity investments.

## (13) Financial instruments

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

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

### 13.1. 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 2018 and 2019, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

**Classification and measurement of financial assets and financial liabilities**

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

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

A financial asset is recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss).
On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

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

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

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

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

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

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

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

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

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

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

There were no changes to the Bank´s business model during 2019 and 2018.

## 13.2. 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, 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.

**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 Bank's staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortised 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 about credit risk management and establishment of 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.

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.

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 YE 2019 ECL. The amounts 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.

| Bosnia & Herzegovina | 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) | 3.0 | 3.5 | 4.0 | 2.1 |
| Unemployment Rate (ILO, average %) | 18.5 | 16.1 | 15.9 | 18.2 |
| CPI Inflation (average % YoY) | 1.2 | 1.9 | 2.0 | 1.1 |

[1] The numbers represent average values for the quoted periods

Economic growth has slowed so far in 2019 and the headline growth rate is likely to be below 3% for the year as a whole. The slowdown in the euro area, a key source of export demand and remittances, appears to have had an impact on economic activity. Given the importance of exports for growth, the slump in industrial production this year is certainly not a good sign for future growth prospects. In year-on-year terms, industrial output has contracted in every month of 2019 so far. This was particularly owing to weaker foreign demand according to the central bank, and the decline was registered across the manufacturing, mining and energy sectors. Export of services have continued to grow this year, but not enough to make up for the slowdown in exports of goods. Positive real GDP growth is continuing to create demand for labour, and as a result the unemployment rate continues to fall. Outward migration is also exerting downward pressure on the rate of unemployment, while the central bank also noted the impact of a rise in retirement and negative demographic trends. Although the labour market remains far from any degree of tightness, the positive trends are putting upward pressure on wages. In line with trends seen elsewhere in the region, the construction sector is undergoing healthy growth at present, and this should continue. In terms of private investment, credit demand is robust, and interest rates are at historically low levels. Although some government infrastructure spending has been affected by delays related to political issues, public investment is likely to be quite strong during the forecast period, especially that related to road and energy infrastructure. Inflation will remain at historically low levels, albeit rising a bit towards the end of the forecast period as unemployment continues to decline.

Optimistic scenario assumes that the economy is increasing open, and the positive impact would be felt via various channels: goods and services exports, remittances, FDI and other capital inflows. Growth rises significantly above the baseline scenario, albeit not as high as in the pre-crisis years. Chinese investment continues to grow in the Western Balkans, providing a muchneeded source of infrastructure funding. In response, the EU speeds up accession momentum, and allocates extra funding from its budget for the Western Balkans. Higher foreign direct investment arrives in the Western Balkans, reflecting EU accession momentum.

Pessimistic scenario assumes substantial growth slowdown in 2020. Real GDP growth would remain below the baseline in 2021-22, before returning to the baseline in 2023-24. This scenario assumes a broad economic downturn in the world's key economies, but no significant financial volatility. As a result, the downturns that is projected versus the adverse scenario are both much shallower, and the recovery comes more quickly. Whereas in the adverse scenario projected that both years 1and 2 involve deep (and fairly equal in terms of size) recessions, in this pessimistic scenario assumed that the main impact is felt in year 1, and that by year 2 the downturn is much shallower. Under this scenario, the negative impact of weaker global growth would be felt via the trade, tourism, remittances and FDI channels. However, there would be no significant negative financial shock (this is an importance difference between the negative and adverse scenarios).

**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.

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

In addition to the general derecognition criteria (see chapter "Derecognition and contract modification") the following specific criteria fulfilment would lead to the derecognition of financial assets:
- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings;
- Unsecured financial asset if no repayment occurred within a period of one year on observed financial asset;
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral:
  a. Real estate collateral, if no repayment occurred within a period of 5 years

b. By movables, if no repayment occurred within a period of 2 years
c. Other (i.e. not “a” or “b”), if no repayment occurred within a period of 1 year;
- Financial assets which have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations;
- Financial asset for which the bank´s right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement;
- Other triggers were defined for financial assets that are treated as non-recoverable.

## 13.3. Derecognition and contract modification

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

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

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

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

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

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

### (14) 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.

### (15) 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.

### (16) 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.

### (17) Cash reserves

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

### (18) Tangible assets: Property, plant and equipment

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see Note (3) 3.1. IFRS 16 Leases and for the comparative period note (4) Standards used for comparative periods. 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 |

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

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

## (19) Intangible assets

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

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

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

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

## (20) 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.

### (21) 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.

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

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement.
For detailed information, please refer to Note (44) Non-current assets and disposal groups classified as held for sale.

### (23) Emplyee benefits

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 recognised in the income statement in the same period as the cost of staff salaries.

Long-term employee benefits: retirement severance payments

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

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

In accordance with the Amendments to International Accounting Standard ("IAS") 19: Employee Benefits", additional provisions or reversal of such provisions are recognised in the Income statement, under "Personnel expenses", assuming they are not related to actuarial gains and losses, otherwise they shall be immediately recognised in other comprehensive income. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

## (24) Provisions

### 24.1. 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 draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.

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

### 24.2. 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 (30) Other operating income and other operating expenses.

### 24.3. Provisions for passive legal disputes

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

### 24.4. 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.

## (25) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognised at their nominal value, the liabilities at amortised cost.

## (26) Equity

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

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

Statutory reserves represents 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 includes 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

### (27) Net interest income

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Interest income calculated using the effective interest method** | **29,878** | **28,488** |
| Financial assets at fair value through other comprehensive income | 2,141 | 1,863 |
| Financial assets at amortised cost | 27,737 | 26,625 |
| **Other interest income** | **1,146** | **963** |
| Other assets | 1,146 | 963 |
| **Total interest income** | **31,024** | **29,451** |
| Financial liabilities measured at amortised cost | -3,357 | -4,961 |
| o/w lease liabilites | -91 | - |
| Negative interest from financial assets | -86 | -153 |
| **Total interest expense** | **-3,443** | **-5,114** |
| **Net interest income** | **27,581** | **24,337** |

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -3,443 thousand (YE18: BAM -5,114 thousand) includes expenses of BAM -3,266 thousand (YE18: BAM -4,961 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Debt securities** | **2,141** | **1,863** |
| Governments | 1,314 | 1,316 |
| Credit institutions | 627 | 485 |
| Corporate | 200 | 62 |
| **Loans and receivables** | **27,737** | **26,625** |
| Governments | 52 | 108 |
| Credit institutions | 156 | 266 |
| Other financial institutions | 206 | 101 |
| Corporate | 7,531 | 6,472 |
| Retail | 19,792 | 19,678 |
| **Other assets** | **1,146** | **963** |
| **Total** | **31,024** | **29,451** |

Interest expenses break down by instrument and sector as follows:

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Deposits** | **-3,266** | **-4,961** |
| Governments | -41 | -20 |
| Credit institutions | -99 | -119 |
| Other financial intitutions | -187 | -114 |
| Corporate | -89 | -155 |
| Retail | -2,850 | -4,553 |
| **Other financial liabilities** | **-91** | **0** |
| **Negative interest from financial assets** | **-86** | **-153** |
| Central Bank | -86 | -153 |
| **Total** | **-3,443** | **-5,114** |

## (28) Net fee and commission income

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| Maintenance | 4,752 | 4,099 |
| Transactions | 3,399 | 3,246 |
| Cards | 2,749 | 3,757 |
| Loans | 449 | 452 |
| Trade finance | 1,000 | 712 |
| Bancassurance | 914 | 670 |
| FX & DCC | 3,502 | 3,309 |
| Other | 30 | 47 |
| **Fee and commission income** | **16,795** | **16,292** |
| Maintenance | -325 | 0 |
| Transactions | -579 | -611 |
| Cards | -2,397 | -2,856 |
| Securities | -45 | -34 |
| Client incentives | -95 | -79 |
| FX changes | -10 | 0 |
| Loans | -172 | 0 |
| Other | -142 | -143 |
| **Fee and commission expenses** | **-3,765** | **-3,723** |
| **Net fee and commission income** | **13,030** | **12,569** |

## (29) Net result on financial instruments

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| Exchange difference | 8 | 41 |
| Financial assets at fair value through other comprehensive income | 1,073 | 257 |
| **Total** | **1,081** | **298** |

The amount of BAM 1,073 thousand is related to gain on sale of debt securities.

## (30) Other operating income and other operating expenses

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Other operating income** | **2,312** | **1,510** |
| Release of provisions for legal cases | 714 | 0 |
| Gains from sale of non financial assets | 1,086 | 873 |
| Other income | 512 | 637 |
| **Other operating expenses** | **-3,996** | **-4,566** |
| Restructuring expenses | -363 | 0 |
| Additional provisions for legal cases | 0 | -790 |
| Losses from sale of non financial assets | -130 | 0 |
| Deposit insurance | -1,670 | -1,602 |
| Banking levies and other taxes | -793 | -791 |
| Other expenses | -1,040 | -1,383 |
| **Total** | **-1,684** | **-3,056** |

The release of BAM 714 thousand provisions for legal cases mainly relate to the release of provisions in connection with the active settlement strategy for long term lasting court cases. Furthermore, this position includes the positive impact from the updated assessment. For further details concerning legal risk, please refer to Note (63) Legal risk.

The line item “Restructuring expenses” in the amount of BAM 363 thousand includes the restructuring costs, which are part of cost initiatives executed during the second half of 2019. The related impact, resulting from predominantly back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.

As at 31 December 2019, gains or losses from sale of non financial assets other than held for sale break down by asset as follow:

(000) BAM

| | 31.12.2019 |
|---|---|
| Property, Plant and Equipment | 63 |
| Inventories (repossessed assets, emergency acquired assets, leases to go, etc.) | 893 |
| **Gains or losses on derecognition of non-financial assets** | **956** |
| o/w gains | 1.086 |
| o/w loss | -130 |

## (31) Personnel expenses

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Wages and salaries | -7,763 | -7,587 |
| Social security | -4,840 | -4,732 |
| Variable payments | -1,486 | -1,555 |
| *o/w provisions for variable payments* | *-1,157* | *-1,152* |
| Taxes and contributions | -1,030 | -1,012 |
| Expenses for severance payments | -157 | -152 |
| Income from release of accruals under IAS 19 | 243 | 0 |
| Other personnel expenses | -83 | -214 |
| **Total** | **-15,116** | **-15,252** |

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Employees at closing date (Full Time Equivalent - FTE) | 352 | 373 |
| Employees - average during the year (FTE) | 375.38 | 367.29 |

## (32) Other administrative expenses

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| IT expense | -7,587 | -7,455 |
| Premises expenses (rent and other building expenses) | -3,035 | -3,906 |
| Legal and advisory costs | -730 | -590 |
| Advertising costs | -1,507 | -1,461 |
| Other administrative expenses | -1,085 | -1,451 |
| **Total** | **-13,944** | **-14,863** |

## (33) Depreciation and amortization

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| Property, plant and equipment | -1,906 | -1,193 |
| Intangible assets | -1,380 | -884 |
| **Total** | **-3,286** | **-2,077** |

The increase in depreciation and amortisation for Property, plant and equipment is due the first-time application of IFRS 16 and the corresponding depreciation of the "Right of use asset". For further details, please refer to Note (42) Movement of tangible and intangible assets.

## (34) 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. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| **Change in CL on financial instruments at FVTOCI** | **21** | **1,178** |
| **Change in CL on financial instruments at amortised cost** | **-613** | **5,829** |
| Net allocation to risk provision | -1,126 | 6,381 |
| Proceeds from loans and receivables previously impaired | 1,409 | 977 |
| Directly recognised impairment losses | -896 | -1,529 |
| **Net provisions for commitments and guarantees given** | **220** | **-203** |
| **Total** | **-372** | **6,804** |

## (35) Taxes on income

(000) BAM

| | 01.01. - 31.12.2019 | 01.01. - 31.12.2018 |
|---|---|---|
| Income tax expense for the year | 0 | 0 |
| Deferred tax | 0 | 0 |
| **Total** | **0** | **0** |

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

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Operating result before tax** | **7,290** | **8,760** |
| Income tax expense based on corporate tax rate of 10 % in BiH | **729** | **876** |
| **Adjustments of tax base** | | |
| Effects of non-deductible expenses | **439** | **13,822** |
| Effects of non-deductible income | **-927** | **-824** |
| Used tax losses from previous years | **-241** | **-13,874** |
| Effect of unused tax losses from previous years | **-8,451** | **-8,692** |
| **Current income tax** | **-** | **-** |
| **Unrecognised deferred tax assets** | **-8,451** | **-8,692** |

### 35.1. Deferred tax assets/liabilities

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

The Bank has unrecognised tax losses amounting to BAM 554 thousand which expire in 2021, and BAM 7,897 thousand which expire in 2020.

Deferred tax assets and liabilities:

(000) BAM

| | 2019 Deferred Tax Liabilities | 2018 Deferred Tax Assets |
|---|---|---|
| Financial assets through other comprehensive income | -231 | 164 |
| **Total deferred Tax** | **-231** | **164** |

The total change in deferred taxes in the financial statements is BAM -395 thousand shown in other comprehensive income in equity.

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

(000) BAM

| | 2019 | 2018 |
|---|---|---|
| **Balance at start of period (01.01.)** | **164** | **-314** |
| Tax income/expense recognised in profit or loss | 0 | 0 |
| Tax income/expense recognised in OCI | -395 | 478 |
| **Balance at end of period (31.12.)** | **-231** | **164** |

## Notes to the statement of financial position

### (36) Cash reserves

(000) BAM

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

1)Cash on hand

(000) BAM

| 31.12.2018 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Cash reserves[1)] | 27,339 | 0 | 27,339 |
| Cash balances at Central Bank | 74,902 | -521 | 74,381 |
| Other demand deposits | 51,740 | -486 | 51,254 |
| **Total** | **153,981** | **-1,007** | **152,974** |

1)Cash on hand

Cash balances at Central Bank of Bosnia and Herzegovina 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 exceeding the Obligatory reserve at Central Bank of Bosnia and Herzegovina also serve to meet the requirements for minimum reserves. As at 31 December 2019, the minimum reserve held and daily due was BAM 73,389 thousand (YE18: BAM 64,549 thousand).

#### 36.1. Cash reserves at Central Bank and other demand deposits - development of gross carrying amount

(000) BAM

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

(000) BAM

| | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2018** | **207,640** |
| Changes in the gross carrying amount | -80,998 |
| Transfer between stages | 0 |
| Write-offs | 0 |
| Foreign exchange and other movements | 0 |
| **Gross carrying amount at 31.12.2018** | **126,642** |

### 36.2. Cash reserves at Central Bank and other demand deposits - development of ECL allowance

(000) BAM

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

(000) BAM

| | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2018** | **-2,300** |
| Changes in the loss allowance | -163 |
| Transfer between stages | 0 |
| Write-offs | 0 |
| Changes in models/risk parameters | 1,468 |
| Foreign exchange and other movements | -12 |
| **ECL allowance as at 31.12.2018** | **-1,007** |

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (1-month ECL). The overall reduction of stage 1 loss allowances is result from change in ECL calculation from 6-month ECL in 2018 to 1-month ECL in 2019.

## (37) Financial assets held for trading

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Derivatives | 6 | 0 |
| **Total** | **6** | **0** |

## (38) Loans and receivables

The Bank measures all loans and receivables at amortised cost.

### 38.1. Loans and receivables from credit institutions

(000) BAM

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

(000) BAM

| 31.12.2018 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Loans and receivables | 570 | 0 | 570 |
| Credit institutions | 570 | 0 | 570 |
| **Total** | **570** | **0** | **570** |

### 38.2. Loans and receivables from customers

(000) BAM

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

(000) BAM

| 31.12.2018 | Gross carrying amount | ECL | | | Carrying amount (net) |
|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | |
| Governments | 2,717 | -27 | 0 | 0 | 2,690 |
| Other financial institutions | 9,435 | -174 | 0 | -9 | 9,252 |
| Corporate | 235,773 | -1,566 | -1,660 | -11,968 | 220,579 |
| Retail | 366,294 | -3,232 | -7,514 | -93,345 | 262,203 |
| **Total** | **614,219** | **-4,999** | **-9,174** | **-105,322** | **494,724** |

(000) BAM

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

(000) BAM

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2018** | **391,054** | **52,078** | **175,916** | **0** | **619,048** |
| Changes in the gross carrying amount | 88,372 | -30,833 | -7,870 | 0 | 49,669 |
| Transfer between stages | -11,021 | 11,371 | -350 | 0 | 0 |
| Write-offs | -1,036 | -527 | -54,053 | 0 | -55,616 |
| Foreign exchange and other movements | -16,892 | 12,752 | 5,258 | 0 | 1,118 |
| **Gross carrying amount at 31.12.2018** | **450,477** | **44,841** | **118,901** | **0** | **614,219** |

(000) BAM

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

(000) BAM

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2018** | **-4,738** | **-13,865** | **-151,822** | **0** | **-170,425** |
| Changes in the loss allowance | -3,589 | 9,439 | -2,633 | 0 | 3,217 |
| Transfer between stages | 669 | -4,898 | 4,229 | 0 | 0 |
| Changes in models/risk parameters | 2,620 | -761 | 0 | 0 | 1,859 |
| Write-offs | 122 | 138 | 46,215 | 0 | 46,475 |
| Foreign exchange and other movements | -83 | 773 | -1,311 | 0 | -621 |
| Unwinding | 0 | 0 | -1,243 | 0 | -1,243 |
| **ECL allowance as at 31.12.2018** | **-4,999** | **-9,174** | **-105,322** | **0** | **-119,495** |

Overall gross carrying amount increased during 2019, while Stage 3 decrease was mainly through write-offs as a result of debt settlements from the regular collection and workout. This was accompanied by decrease of loss allowance.

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

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Corporate | 3.03% | 3.35% |
| Retail | 7.12% | 7.26% |

## (39) Investment securities

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Fair value through other comprehensive income (FVTOCI) | 195,553 | 207,581 |
| **Total** | **195,553** | **207,581** |

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

(000) BAM

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

(000) BAM

| | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2018** | **165,875** |
| Changes in the gross carrying amount | 41,825 |
| Transfer between stages | 0 |
| Write-offs | 0 |
| Foreign exchange and other movements | 69 |
| **Gross carrying amount at 31.12.2018** | **207,769** |

Investment securities - development of ECL allowance

(000) BAM

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

(000) BAM

| | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2018** | **-1,611** |
| Changes in the loss allowance | 1,178 |
| Transfer between stages | 0 |
| Write-offs | 0 |
| Foreign exchange and other movements | -4 |
| **ECL allowance as at 31.12.2018** | **-437** |

### 39.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Debt securities** | **195,285** | **207,332** |
| Governments | 68,779 | 82,458 |
| Credit institutions | 104,006 | 100,833 |
| Non-financial corporations | 22,500 | 24,041 |
| **Equity instruments** | **268** | **249** |
| Other financial corporations | 64 | 75 |
| Non-financial corporations | 204 | 174 |
| **Total** | **195,553** | **207,581** |

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

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| CROBIH Fund | 120 | 122 |
| S.W.I.F.T SCRL | 84 | 52 |
| Registry of securities of FBiH | 0 | 43 |
| Sarajevska berza d.d. Sarajevo | 64 | 32 |
| **Total** | **268** | **249** |

## (40) Tangible assets

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Owned property, plant and equipment | 20,415 | 18,680 |
| Land and buildings | 18,353 | 16,440 |
| Plant and equipment | 2,062 | 2,240 |
| Right of use assets | 2,385 | - |
| Land and buildings | 2,062 | - |
| Plant and equipment | 323 | - |
| **Total** | **22,800** | **18,680** |

## (41) Intangible assets

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Goodwill | 0 | 0 |
| Purchased software | 5,781 | 4,671 |
| Other intangible assets | 0 | 0 |
| **Total** | **5,781** | **4,671** |

## (42) Movement of tangible and intangible assets

### 42.1. Movement of cost and carrying amounts

(000) BAM

| 31.12.2019 | Owned property, plant and equipment | | Right of use assets | | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment - internally used | Land and buildings | Plant and equipment | Intangible assets | TOTAL FIXED ASSETS |
| Acquisition cost 01.01.2019 | 35,736 | 18,543 | 0 | 0 | 30,147 | 84,426 |
| Initial IFRS 16 | 0 | 0 | 2,827 | 488 | 0 | 3,315 |
| Changes due to IFRS 5 | -542 | 0 | 0 | 0 | 0 | -542 |
| Additions | 2,875 | 454 | 0 | 0 | 2,637 | 5,966 |
| Disposals | -30 | -2,370 | 0 | 0 | -846 | -3,246 |
| Other changes | 0 | -48 | -76 | 0 | 0 | -124 |
| Acquisition cost 31.12.2019 | 38,039 | 16,579 | 2,751 | 488 | 31,938 | 89,795 |
| Cumulative depreciation 31.12.2019 | -19,686 | -14,517 | -689 | -165 | -26,157 | -61,214 |
| Carrying amount 31.12.2019 | 18,353 | 2,062 | 2,062 | 323 | 5,781 | 28,581 |

(000) BAM

| 31.12.2018 | Land and buildings | Plant and equipment - internally used | Intangible assets | TOTAL FIXED ASSETS |
|---|---|---|---|---|
| Acquisition cost 01.01.2018 | 34,494 | 23,041 | 26,864 | 84,399 |
| Changes due to IFRS 5 | 0 | 0 | 0 | 0 |
| Additions | 1,248 | 234 | 3,300 | 4,782 |
| Disposals | -6 | -4,732 | -16 | -4,754 |
| Other changes | 0 | 0 | 0 | 0 |
| Acquisition cost 31.12.2018 | 35,736 | 18,543 | 30,148 | 84,427 |
| Cumulative depreciation 31.12.2018 | -19,296 | -16,303 | -25,477 | -61,076 |
| Carrying amount 31.12.2018 | 16,440 | 2,240 | 4,671 | 23,351 |

### 42.2. Movement of depreciation and amortization

(000) BAM

| 31.12.2019 | Owned property, plant and equipment | | Right of use assets | | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment - internally used | Land and buildings | Pland and equipment | Intangible assets | TOTAL FIXED ASSETS |
| Cumulative depreciation 01.01.2019 | -19,296 | -16,303 | 0 | 0 | -25,477 | -61,076 |
| Transfer to non-current assets available-for-sale (IFRS 5) | 200 | 0 | 0 | 0 | 0 | 200 |
| Disposals | 3 | 2,197 | 0 | 0 | 700 | 2,900 |
| Scheduled depreciation | -593 | -459 | -689 | -165 | -1,380 | -3,286 |
| Impairment | 0 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 0 | 48 | 0 | 0 | 0 | 48 |
| Write-ups | 0 | 0 | 0 | 0 | 0 | 0 |
| Cumulative depreciation 31.12.2019 | -19,686 | -14,517 | -689 | -165 | -26,157 | -61,214 |

(000) BAM

| 31.12.2018 | Land and buildings | Plant and equipment - internally used | Intangible assets | TOTAL FIXED ASSETS |
|---|---|---|---|---|
| Cumulative depreciation 01.01.2018 | -18,640 | -20,428 | -24,593 | -63,661 |
| Transfer to non-current assets available-for-sale (IFRS 5) | 0 | 0 | 0 | 0 |
| Disposals | 4 | 4,658 | 0 | 4,662 |
| Scheduled depreciation | -660 | -533 | -884 | -2,077 |
| Impairment | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 |
| Write-ups | 0 | 0 | 0 | 0 |
| Cumulative depreciation 31.12.2018 | -19,296 | -16,303 | -25,477 | -61,076 |

## (43) Other assets

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Prepayments and accrued income | 1,088 | 770 |
| Inventories (repossessed assets, emergency acquired assets, leases to go, etc.) | 2,654 | 3,469 |
| Other remaining assets | 576 | 570 |
| **Total** | **4,318** | **4,809** |

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

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

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Property plant and equipment | 3,894 | 4,368 |
| **Total** | **3,894** | **4,368** |

## (45) Financial liabilities held for trading

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Derivatives | 0 | 44 |
| **Total** | **0** | **44** |

## (46) Financial liabilities measured at amortised cost

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Deposits | 740,622 | 655,329 |
| Deposits of credit institutions | 12,343 | 604 |
| Deposits of customers | 728,279 | 654,725 |
| Other financial liabilities | 12,289 | 9,848 |
| o/w lease liabilities | 2,387 | - |
| **Total** | **752,911** | **665,177** |

### 46.1. Deposits of credit institutions

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Current accounts / overnight deposits | 597 | 604 |
| Deposits with agreed terms | 11,746 | 0 |
| **Total** | **12,343** | **604** |

### 46.2. Deposits of customers

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Current accounts / overnight deposits** | **490,107** | **447,963** |
| Governments | 25,838 | 17,646 |
| Other financial institutions | 2,079 | 3,905 |
| Corporate | 114,995 | 129,001 |
| Retail | 347,195 | 297,411 |
| **Deposits with agreed terms** | **238,172** | **206,762** |
| Governments | 3,301 | 2,596 |
| Other financial institutions | 22,777 | 8,527 |
| Corporate | 24,841 | 14,032 |
| Retail | 187,253 | 181,607 |
| **Total** | **728,279** | **654,725** |

Average interest rates on deposits can be summarized as follow:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Corporate | -0.20% | -0.18% |
| Retail | -0.53% | -0.90% |
| **Total** | **-0.46%** | **0.74%** |

## (47) Provisions

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Provisions for court cases | 11,498 | 13,611 |
| Commitments and guarantees granted | 1,087 | 1,307 |
| Provisions for variable payments | 2,326 | 2,038 |
| Pensions and other post employment defined benefit obligations | 94 | 101 |
| Restructuring measures | 267 | 164 |
| **Total** | **15,272** | **17,221** |

The item “Provisions for court cases” includes provisions for legal risks in connection with customer protection claims. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. Additional information according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes.

The line item "Provisions 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 financial year 2020.

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

(000) BAM

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

(000) BAM

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2018** | **128,282** | **415** | **498** | **0** | **129,195** |
| Changes in the gross carrying amount | 16,653 | 1,411 | -101 | 0 | 17,963 |
| Transfer between stages | 0 | 0 | 0 | 0 | 0 |
| Write-offs | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange and other movements | -1 | 0 | 0 | 0 | -1 |
| **Gross carrying amount at 31.12.2018** | **144,934** | **1,826** | **397** | **0** | **147,157** |

(000) BAM

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

(000) BAM

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2018** | **-725** | **-48** | **-334** | **0** | **-1,107** |
| Changes in the loss allowance | -69 | -193 | 59 | 0 | -203 |
| Transfer between stages | 0 | 0 | 0 | 0 | 0 |
| Write-offs | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange and other movements | 1 | 1 | 1 | 0 | 3 |
| **ECL allowance as at 31.12.2018** | **-793** | **-240** | **-274** | **0** | **-1,307** |

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly increased in 2019, while at the same time the gross carrying amount in stage 1 and stage 2 increased.

### 47.2. Provisions - development of other provisions

(000) BAM

| | Carrying amount 01.01.2019 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2019 |
|---|---|---|---|---|---|---|---|
| Pensions and other post employment defined benefit obligations | 101 | 0 | 0 | -7 | 0 | 0 | 94 |
| Restructuring measures | 164 | 0 | 363 | -260 | 0 | 0 | 267 |
| Provisons for court cases | 13,611 | 0 | 0 | -1,399 | -714 | 0 | 11,498 |
| Provision for variable payments | 2,038 | 0 | 1,157 | -869 | 0 | 0 | 2,326 |
| **Total** | **15,914** | **0** | **1,520** | **-2,535** | **-714** | **0** | **14,185** |

(000) BAM

| | Carrying amount 01.01.2018 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2018 |
|---|---|---|---|---|---|---|---|
| Pensions and other post employment defined benefit obligations | 134 | 0 | 0 | -17 | -16 | 0 | 101 |
| Restructuring measures | 661 | 0 | 0 | -497 | 0 | 0 | 164 |
| Provisons for court cases | 15,360 | 0 | 790 | -2,539 | 0 | 0 | 13,611 |
| Provision for variable payments | 1,802 | 0 | 1,152 | -916 | 0 | 0 | 2,038 |
| **Total** | **17,957** | **0** | **1,942** | **-3,969** | **-16** | **0** | **15,914** |

## (48) Other liabilities

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Deferred income | 116 | 80 |
| Accruals | 2,508 | 2,799 |
| Other liabilities | 908 | 780 |
| **Total** | **3,532** | **3,659** |

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

## (49) Equity

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Equity** | **215,050** | **204,223** |
| Share capital | 100,403 | 100,403 |
| Statutory reserves | 25,101 | 25,101 |
| Fair value reserve | 2,502 | -1,035 |
| Retained earnings | 87,044 | 79,754 |
| Non-controlling interest | 0 | 0 |

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 100,403 thousand (2018: BAM 100,403 thousand) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 532,500 (2018: 532,500) registered shares. The proportionate amount of the share capital per share amounts BAM 188.55 (2018: 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 generated retained earnings in the amount of BAM 7,290 thousand in the financial year 2019. In the next General Assembly, a proposal will be made to transfer to accumulated earnings.

The effects of implementation of IFRS 9, which came into effect on 1 January 2018, in the amount of BAM 11,104 thousand were charged to retained earnings.

By the Decision of the General Assembly of the Bank from 2018, reserves for credit losses in the amount of BAM 133 milion are partially transferred to retained earnings in the amount of BAM 108 milion, and the outstanding amount of BAM 25 milion into statutory reserves.

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

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

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

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

### Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Bank's Retail Segment serves more than a hundred thousand customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than BAM 978 thousand, through a network of 35 branches and digital channels.

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

SME Business: Bank offers the full product suite to circa 2.5 thousand SME clients (companies with annual turnover between BAM 978 thousand and BAM 97,791 thousand). SME business is a main strategic segment of the Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than BAM 97,791 thousand. Bank services local and international companies by centralised and specialized local teams.

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

## Segments overview

(000) BAM

| 31.12.2019 | Retail | o/w Mortgage | o/w Consumer | SME Business | Large Corporates | Public Finance | Corporate Center | Total |
|---|---|---|---|---|---|---|---|---|
| Net banking income | 28,165 | 2,634 | 25,531 | 7,707 | 2,442 | 276 | 2,021 | 40,611 |
| Net interest income | 17,662 | 2,634 | 15,028 | 5,734 | 2,021 | 142 | 2,021 | 27,580 |
| Net fee and commission income | 10,503 | 0 | 10,503 | 1,973 | 421 | 134 | 0 | 13,031 |
| Net result on financial instruments | 0 | 0 | 0 | 0 | 0 | 0 | 1,081 | 1,081 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | 0 | -1,684 | -1,684 |
| **Operating income** | **28,165** | **2,634** | **25,531** | **7,707** | **2,442** | **276** | **1,418** | **40,008** |
| **Operating expenses** | **-21,045** | **0** | **-21,045** | **-3,445** | **-441** | **-378** | **-7,037** | **-32,346** |
| **Operating result** | **7,120** | **2,634** | **4,486** | **4,262** | **2,001** | **-102** | **-5,619** | **7,662** |
| Change in CL | -1,464 | 1,751 | -3,215 | 292 | 292 | 142 | 366 | -372 |
| **Operating result before tax** | **5,656** | **4,385** | **1,271** | **4,554** | **2,293** | **40** | **-5,253** | **7,290** |
| | | | | | | | | |
| **Business volume** | | | | | | | | |
| Loans and receivables | 271,894 | 34,245 | 237,649 | 190,973 | 73,519 | 2,474 | 3,711 | 542,571 |
| Financial liabilities at AC | 558,709 | 0 | 558,709 | 84,331 | 45,360 | 39,880 | 24,631 | 752,911 |

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 and bank levy.

(000) BAM

| 31.12.2018 | Retail | o/w Mortgage | o/w Consumer | SME Business | Large Corporates | Public Finance | Corporate Center | Total |
|---|---|---|---|---|---|---|---|---|
| Net banking income | 25,925 | 3,367 | 22,558 | 6,777 | 1,798 | 428 | 1,977 | 36,905 |
| Net interest income | 15,783 | 3,367 | 12,416 | 4,825 | 1,453 | 298 | 1,977 | 24,336 |
| Net fee and commission income | 10,142 | 0 | 10,142 | 1,952 | 345 | 130 | 0 | 12,569 |
| Net result on financial instruments | 0 | 0 | 0 | 0 | 0 | 0 | 298 | 298 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | 0 | -3,056 | -3,056 |
| **Operating income** | **25,925** | **3,367** | **22,558** | **6,777** | **1,798** | **428** | **-781** | **34,147** |
| **Operating expenses** | **-21,340** | **0** | **-21,340** | **-3,396** | **-445** | **-416** | **-6,594** | **-32,191** |
| **Operating result** | **4,585** | **3,367** | **1,218** | **3,381** | **1,353** | **12** | **-7,375** | **1,956** |
| Change in CL | 2,224 | 3,192 | -968 | 2,289 | -227 | 171 | 2,347 | 6,804 |
| **Operating result before tax** | **6,809** | **6,559** | **250** | **5,670** | **1,126** | **183** | **-5,028** | **8,760** |
| | | | | | | | | |
| **Business volume** | | | | | | | | |
| Loans and receivables | 256,977 | 43,182 | 213,795 | 172,373 | 49,237 | 8,479 | 8,228 | 495,294 |
| Financial liabilities at AC | 495,390 | 0 | 495,390 | 73,515 | 54,159 | 31,633 | 10,480 | 665,177 |

# Risk Report

## (51) 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.

## (52) 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.

## (53) 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 2019, 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 ensures that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This ensures that the risk appetite of the lending products is in line with the risk appetite of the Bank.

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

## (54) 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.

## (55) Credit risk

### 55.1. 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.

### 55.2. 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.

### 55.3. 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.

### 55.4. 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.

### 55.5. 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.

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 7.36 as at 31 December 2019:

(000) BAM

| 31.12.2019 | Performing | | | Non Performing | | | Total | |
|---|---|---|---|---|---|---|---|---|
| Financial instruments | Exposure | ECL S1&2 | Net | Exposure | ECL S3&POCI | Net | Exposure | Net |
| Cash reserves | 178,747 | -613 | 178,134 | 0 | 0 | 0 | 178,747 | 178,134 |
| Loans and receivables | 497,077 | -12,558 | 484,519 | 137,375 | -79,323 | 58,052 | 634,452 | 542,571 |
| Investment securities | 195,701 | -416 | 195,285 | 0 | 0 | 0 | 195,701 | 195,285 |
| of which debt securities | 195,701 | -416 | 195,285 | 0 | 0 | 0 | 195,701 | 195,285 |
| **On balance total** | 871,525 | -13,587 | 857,938 | 137,375 | -79,323 | 58,052 | 1,008,900 | 915,990 |
| **Off balance total** | 181,449 | -951 | 180,498 | 195 | -136 | 59 | 181,644 | 180,557 |
| **Total credit risk exposure** | 1,052,974 | -14,538 | 1,038,436 | 137,570 | -79,459 | 58,111 | 1,190,544 | 1,096,547 |

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2018:

(000) BAM

| 31.12.2018 | Performing | | | Non Performing | | | Total | |
|---|---|---|---|---|---|---|---|---|
| Financial instruments | Exposure | ECLS1&2 | Net | Exposure | ECL S3&POCI | Net | Exposure | Net |
| Cash reserves | 126,642 | -1,007 | 125,635 | 0 | 0 | 0 | 126,642 | 125,635 |
| Loans and advances | 451,617 | -14,173 | 437,444 | 163,172 | -105,322 | 57,850 | 614,789 | 495,294 |
| Investment securities | 207,769 | -437 | 207,332 | 0 | 0 | 0 | 207,769 | 207,332 |
| of which debt securities | 207,769 | -437 | 207,332 | 0 | 0 | 0 | 207,769 | 207,332 |
| **On balance total** | 786,028 | -15,617 | 770,411 | 163,172 | -105,322 | 57,850 | 949,200 | 828,261 |
| **Off balance total** | 146,759 | -1,033 | 145,726 | 396 | -274 | 122 | 147,155 | 145,848 |
| **Total credit risk exposure** | 932,787 | -16,650 | 916,137 | 163,568 | -105,596 | 57,972 | 1,096,355 | 974,109 |

### 55.6. Credit risk exposure by rating class

At 31 December 2019 roughly 21.5% (YE18: 33.2%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from other financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2019 is mainly influenced by repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2019 by BAM 26,996 thousand.

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

BAM 000

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

BAM 000

| 31.12.2018 | 1A-1E | 2A-2E | 3A-3E | Watch | NPL | No rating | Total |
|---|---|---|---|---|---|---|---|
| Consumer | 91,807 | 85,566 | 23,256 | 31,832 | 46,073 | 2,860 | 281,394 |
| SME | 53,670 | 116,993 | 93,662 | 10,454 | 9,733 | 0 | 284,512 |
| Non-Focus | 10,679 | 43,768 | 51,560 | 11,085 | 62,467 | 6,059 | 185,618 |
| o/w Large Corporates | 9,413 | 20,245 | 40,843 | 0 | 0 | 5,702 | 76,203 |
| o/w Mortgage | 1,247 | 23,421 | 2,489 | 10,655 | 62,467 | 357 | 100,636 |
| o/w Public Finance | 19 | 102 | 8,228 | 430 | 0 | 0 | 8,779 |
| Corporate Center | 207,645 | 15,113 | 114,221 | 95 | 514 | 7,243 | 344,831 |
| **Total** | 363,801 | 261,440 | 282,699 | 53,466 | 118,787 | 16,162 | 1,096,355 |

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 receivables from customers at amortised cost:

(000) BAM

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

(000) BAM

| 31.12.2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 123,723 | 884 | 0 | 0 | 124,607 |
| 2A-2E | 185,110 | 3,649 | 5 | 0 | 188,764 |
| 3A-3E | 109,189 | 7,404 | 12 | 0 | 116,605 |
| Watch | 18,340 | 32,351 | 339 | 0 | 51,030 |
| NPE | 0 | 0 | 118,544 | 0 | 118,544 |
| No rating | 14,116 | 552 | 1 | 0 | 14,669 |
| **Total gross carrying amount** | **450,478** | **44,840** | **118,901** | **0** | **614,219** |
| Credit loss allowance | -4,999 | -9,174 | -105,322 | 0 | -119,495 |
| **Carrying amount** | **445,479** | **35,666** | **13,579** | **0** | **494,724** |

Loans and receivables from banks at amortised cost:

(000) BAM

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

(000) BAM

| 31.12.2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 0 | 0 | 0 | 0 | 0 |
| 2A-2E | 570 | 0 | 0 | 0 | 570 |
| 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** | **570** | **0** | **0** | **0** | **570** |
| Credit loss allowance | 0 | 0 | 0 | 0 | 0 |
| **Carrying amount** | **570** | **0** | **0** | **0** | **570** |

Debt instruments measured at FVTOCI:

(000) BAM

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

(000) BAM

| 31.12.2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 189,152 | 0 | 0 | 0 | 189,152 |
| 2A-2E | 12,945 | 0 | 0 | 0 | 12,945 |
| 3A-3E | 5,672 | 0 | 0 | 0 | 5,672 |
| Watch | 0 | 0 | 0 | 0 | 0 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 0 | 0 | 0 | 0 | 0 |
| **Total gross carrying amount** | **207,769** | **0** | **0** | **0** | **207,769** |
| Credit loss allowance | -437 | 0 | 0 | 0 | -437 |
| **Carrying amount** | **207,332** | **0** | **0** | **0** | **207,332** |

Commitments and financial guarantees given:

(000) BAM

| 31.12.2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 25,190 | 0 | 0 | 0 | 25,190 |
| 2A-2E | 86,955 | 17 | 0 | 0 | 86,972 |
| 3A-3E | 67,866 | 32 | 0 | 0 | 67,898 |
| Watch | 684 | 659 | 2 | 0 | 1,345 |
| NPE | 0 | 0 | 193 | 0 | 193 |
| No rating | 46 | 0 | 0 | 0 | 46 |
| **Total gross carrying amount** | **180,741** | **708** | **195** | **0** | **181,644** |
| Credit loss allowance | -893 | -58 | -136 | 0 | -1,087 |
| **Carrying amount** | **179,848** | **650** | **59** | **0** | **180,557** |

(000) BAM

| 31.12.2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 33,405 | 40 | 0 | 0 | 33,445 |
| 2A-2E | 57,506 | 97 | 2 | 0 | 57,605 |
| 3A-3E | 51,785 | 147 | 1 | 0 | 51,933 |
| Watch | 750 | 1,538 | 5 | 0 | 2,293 |
| NPE | 0 | 0 | 388 | 0 | 388 |
| No rating | 1,487 | 4 | 0 | 0 | 1,491 |
| **Total gross carrying amount** | **144,933** | **1,826** | **396** | **0** | **147,155** |
| Credit loss allowance | -793 | -240 | -274 | 0 | -1,307 |
| **Carrying amount** | **144,140** | **1,586** | **122** | **0** | **145,848** |

### 55.7. Exposure by business sector

The following tables present the exposure of Corporate sector by industry based on the "NACE Code 2.0".

(000) BAM

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

(000) BAM

| | Corporate | |
|---|---|---|
| 31.12.2018 | Gross carrying amount | ECL |
| A Agriculture, forestry and fishing | 1,940 | -460 |
| B Mining and quarrying | 9,003 | -43 |
| C Manufacturing | 47,636 | -2,025 |
| D Electricity, gas, steam and air conditioning supply | 7,359 | -247 |
| E Water supply | 1,193 | -41 |
| F Construction | 17,310 | -423 |
| G Wholesale and retail trade | 96,197 | -3,182 |
| H Transport and storage | 4,368 | -112 |
| I Accommodation and food service activities | 8,458 | -31 |
| J Information and communication | 12,224 | -4,778 |
| K Financial and insurance activities | 4,971 | -111 |
| L Real estate activities | 5,824 | -46 |
| M Professional, scientific and technical activities | 2,376 | -380 |
| N Administrative and support service activities | 2,821 | -302 |
| O Public administration and defence, compulsory social security | 1,849 | -17 |
| P Education | 0 | 0 |
| Q Human health services and social work activities | 7,560 | -636 |
| R Arts, entertainment and recreation | 22 | -1 |
| S Other services | 4,662 | -2,359 |
| **Loans and receivables** | **235,773** | **-15,194** |

### 55.8. Presentation of exposure by overdue days

(000) BAM

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

(000) BAM

| 31.12.2018 | No Overdue | - overdue to 30 days | - overdue 31 to 60 days | - overdue 61 to 90 days | - overdue more than 90 days | Total |
|---|---|---|---|---|---|---|
| Retail | 222,149 | 13,411 | 998 | 852 | 43,984 | 281,394 |
| SME | 283,976 | 44 | 0 | 0 | 492 | 284,512 |
| Non-Focus | 121,551 | 4,457 | 362 | 474 | 58,774 | 185,618 |
| o/w Large Corporates | 76,203 | 0 | 0 | 0 | 0 | 76,203 |
| o/w Mortgage | 36,569 | 4,457 | 362 | 474 | 58,774 | 100,636 |
| o/w Public Finance | 8,779 | 0 | 0 | 0 | 0 | 8,779 |
| Corporate Center | 344,151 | 0 | 1 | 0 | 679 | 344,831 |
| **Total** | 971,827 | 17,912 | 1,361 | 1,326 | 103,929 | 1,096,355 |

#### 55.8.1. 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 2019. The off-balance positions only include loan commitments.

(000) BAM

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

The following table shows the forbearance status in the course of the year 2018:

(000) BAM

| | OPENING balance 01.01.2018 | 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 31.12.2018 |
|---|---|---|---|---|---|---|---|
| Corporate | 24,402 | 2,485 | -14,589 | 0 | 0 | -572 | 11,726 |
| Retail | 4,967 | 748 | -2,815 | 0 | 0 | -34 | 2,867 |
| **Loans and receivables** | **29,367** | **3,234** | **17,404** | **0** | **0** | **606** | **14,593** |

The forbearance exposure was as follows in 2019:

(000) BAM

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

The forbearance exposure was as follows in 2018:

(000) BAM

| | Closing Balance 31.12.2018 | Neither past due nor impaired | Past due but not impaired (> 0 days) | Impaired | interest income recognised in respect of forborne assets (+) |
|---|---|---|---|---|---|
| Corporate | 11,726 | 2,485 | 0 | 9,241 | 173 |
| Retail | 2,867 | 1,501 | 183 | 1,183 | 122 |
| **Loans and receivables** | **14,593** | **3,987** | **183** | **10,423** | **295** |

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

(000) BAM

| | Internal Collateral Value (ICV) in respect of forborne assets | therof 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 | 134 |
| Retail | 2,115 | 932 | 1,183 | 0 | 0 | 0 |
| **Total** | **9,887** | **8,570** | **1,183** | **0** | **0** | **134** |

Following table shows the collateral allocation for the forbearance exposure at the YE 2018:

(000) BAM

| | Internal Collateral Value (ICV) in respect of forborne assets | therof Commercial Real Estate (CRE | thereof Residential Real Estate (RRE) | thereof financial collateral | thereof guarantees | thereof other |
|---|---|---|---|---|---|---|
| Public Finance | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Large Corporates | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium and Small Corporate | 6,299 | 6,299 | 0 | 0 | 0 | 0 |
| Retail | 1,343 | 939 | 404 | 0 | 0 | 0 |
| **Total** | **7,642** | **7,238** | **404** | **0** | **0** | **0** |

55.8.2. CARRYING AMOUNTS OF INVENTORIES (REPOSSESSED TANGIBLE ASSETS)

In the financial year 2019, the Bank reported carrying amounts of inventories (for non-performing clients) of BAM 2,646 thousand (2018: BAM 3,223 thousand). Inventories (for non-performing clients) 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 repossession of collateral from the banking business (especially real estate).

## (56) Development of risk provisions

### 56.1. Method of calculating risk provisions

Provisions are calculated in line with the International Financial Reporting Standard 9: 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.

### 56.2. Development of risk provisions

The negative development of the risk provisions (costs) primarily happened due new NPL inflows during 2019, as well as due to higher migrations from STG 1 to STG2 compared to YE 2018. The NPE portfolio decreased in 2019 primarily due to internal writte-offs within Retail segment.

Transfer of responsibility for monitoring on Risk stream, new/adequate rules for monitoring, early warning system and pre-workout function in Corporate segment, as well as daily monitoring supported by clear performance goals regarding early collections, together with an incentive program in Retail segment, leads to considerable results in the early collections and a significant reduction of the NPE portfolio. The positive, decreasing trend in terms of the NPE ratio was continuous throughout 2019.

### 56.3. 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 2019 a refinement/recalibration of all segments and subsubsdiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, therefore impacting the average PD value. In addition, macro models were adapted in line with validation findings and new macro economic forecasts were used to reflect the latest available economic outlooks throughout all segments, affecting PD values. As a result of the calibration positive development (releases) of provisions were observed reflecting current asset quality and macro economic outlook. Furthermore, stage triggers on Bank level were assessed and adjusted where needed.

## (57) 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. In accordance with Addiko valuation policy, 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 2019 as well as 31 December 2018:

(000) BAM

| Collateral Distribution | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Exposure | 1,271,856 | 1,169,317 |
| Internal Collateral Value (ICV) | 455,259 | 332,559 |
| therof CRE | 306,599 | 252,591 |
| thereof RRE | 132,844 | 60,674 |
| thereof financial collateral | 4,223 | 4,345 |
| thereof guarantees | 391 | 4,171 |
| thereof other | 11,202 | 10,778 |
| **ICV coverage rate** | **36%** | **28%** |

The predominant part of the reflected stated collaterals is provided for loans and receivables (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.

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

BAM 000

| | 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 receivables** | **24,391** | **0** | **0** | **2,014** | **0** | **0** | **0** | **2,014** | **22,378** | **79,323** |
| Other financial corporations | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 10 |
| Non-financial corporations | 14,404 | 0 | 0 | 1,666 | 0 | 0 | 0 | 1,666 | 12,739 | 9,376 |
| Retail | 9,977 | 0 | 0 | 348 | 0 | 0 | 0 | 348 | 9,629 | 136 |
| **Commitments and financial guarantees** | **195** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **195** | **136** |
| Loan commitments given | 195 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |

## (58) Market risk

### 58.1. 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.

### 58.2. 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 2019 and 2018 amounts to:

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

| 2018 | Minimum | Maximum | Average | 31 December |
|---|---|---|---|---|
| Interest rate risk | 75 | 276 | 135 | 175 |
| Foreign currency risk | 1 | 3 | 2 | 1 |
| Price risk | 1 | 5 | 2 | 3 |
| Credit spread risk | 76 | 288 | 170 | 192 |
| **Total** | **153** | **572** | **309** | **371** |

### 58.3. Overview – market price risk

#### 58.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31 December 2019 is BAM 413 thousand (comparable VaR figure as at 31 December 2018: BAM 176 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 sensitivity of gain and loss to a reasonable change in interest rates (parallel movement), with all other variables left constant.

| | Sensitivity interest rate changes | Sensitivity interest rate changes | Sensitivity interest rate changes | Sensitivity interest rate changes |
|---|---|---|---|---|
| 31.12.2019 | +200bp | -200bp | +100bp | -100bp |
| BAM | 10.593 | -13.255 | 5.592 | -6.255 |
| EUR | -2.714 | 3.454 | -1.432 | 1.615 |
| CHF | -112 | 120 | -57 | 59 |
| USD | -497 | 545 | -254 | 266 |
| OTHER | 3 | -3 | 2 | -2 |
| **Total** | **7.273** | **-9.139** | **3.851** | **-4.317** |
| 31.12.2018 | +200bp | -200bp | +100bp | -100bp |
| BAM | 2 | -3 | 1 | -1 |
| EUR | -13 | 16 | -7 | 8 |
| CHF | -1 | 1 | -590 | 612 |
| USD | -1 | 1 | -516 | 541 |
| OTHER | 2 | -2 | 1 | -1 |
| **Total** | **-13** | **15** | **-7** | **7** |

The trading items of the Bank were relatively stable in 2019. Changes in interest risk mainly resulted from adjustments to variable interest positions and the shortening of the terms of fixed-rate instruments.

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 7% on average in 2019 as compared to 18% on average in 2018; group view - interest risk equity ratio ex NIB amounted to 5% on average in 2019 as compared to 11% on average in 2018).

The change in present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2019 amounts to BAM 41 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2018 was BAM 70 thousand.

58.3.2. FOREIGN EXCHANGE RISK

The total balance of open currency positions as at 31 December 2019 is roughly BAM 1.3 million (volume per 31 December 2018 of approx. BAM 3.5 million). The value at risk for foreign exchange risk was approximately BAM 1.0 thousand per day as at 31 December 2019 (value at risk as at 31 December 2018: BAM 2.7 thousand), at a confidence interval of 99%.The limit of BAM 17.6 thousand was adhered to as at 31 December 2019.

*Sensitivity analysis*

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2019 and 31 December 2018. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

| Currency | FX Open position 31 December 2019 | 10% increase | 10% decrease | FX Open position 31 December 2018 | 10% increase | 10% decrease |
|---|---|---|---|---|---|---|
| USD | -314 | -31 | 31 | 302 | 52 | -52 |
| CHF | -594 | -59 | 59 | -621 | -108 | 108 |

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.

58.3.3. EQUITY RISK

Bank held only insignificant amounts of stock in its portfolio, equity risks from an investment point of view (investments). The value at risk for the equity risk at the Bank amounted to BAM 2.1 thousand as at 31 December 2019 (value at risk as at 31 December 2018: BAM 1.6 thousand) with a one-day holding period and a confidence level of 99%.

58.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 55 thousand at 31 December 2019 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2018: BAM 192 thousand). The limit of BAM 293 thousand was adhered to as at 31 December 2019. 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.

## (59) Liquidity risk

### 59.1. Definition

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

### 59.2. General requirements

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

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

### 59.3. Risk control

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

In 2019, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 232% in February 2019 and its peak of 532% in January 2019.

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

(000) BAM

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

In 2018, the counterbalancing capacity at the Bank dd was structured as follows:

(000) BAM

| Liquidity Buffer | Available |
|---|---|
| Securities eligible for Central Bank | 66,936 |
| Securities eligible for Repo | 135,569 |
| 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** | **202,505** |

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.

### 59.4. Overview – liquidity situatio

The liquidity situation of the Bank during 2019 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

As at 31 December 2019, the Bank recorded a stable level of deposits around BAM 728,279 thousand. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2020.

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 (almost 48%) 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

| 31.12.2019 | Carrying amount | Contractual cash flows | daily due or without maturity | up to 3 months | from 3 months to 1 year | from 1 year to 5 years | > 5 years |
|---|---|---|---|---|---|---|---|
| Financial liabilities measured at amortised cost | 752.911 | 758.332 | 512.119 | 56.278 | 89.846 | 86.920 | 13.169 |
| Deposits of customers | 728.279 | 733.681 | 502.004 | 44.301 | 89.140 | 85.693 | 12.543 |
| Deposits of credit institutions | 12.343 | 12.362 | 597 | 11.765 | 0 | 0 | 0 |
| Other financial liabilities | 12.289 | 12.289 | 9.518 | 212 | 706 | 1.227 | 626 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Irrevocable loan commitments | 0 | 102.127 | 102.127 | 0 | 0 | 0 | 0 |
| Financial guarantees | 0 | 19.994 | 19.994 | 0 | 0 | 0 | 0 |
| Other commitments | 0 | 59.523 | 59.523 | 0 | 0 | 0 | 0 |
| **Total** | **752.911** | **939.976** | **693.763** | **56.278** | **89.846** | **86.920** | **13.169** |

(000) BAM

| 31.12.2018 | 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 | 665.177 | 670.572 | 457.765 | 55.761 | 57.378 | 98.816 | 852 |
| Deposits of customers | 654.725 | 660.120 | 447.313 | 55.761 | 57.378 | 98.816 | 852 |
| Deposits of credit institutions | 604 | 604 | 604 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 9.848 | 9.848 | 9.848 | 0 | 0 | 0 | 0 |
| Derivatives | 44 | 44 | 44 | 0 | 0 | 0 | 0 |
| Irrevocable loan commitments | 0 | 88.269 | 88.269 | 0 | 0 | 0 | 0 |
| Financial guarantees | 0 | 22.813 | 22.813 | 0 | 0 | 0 | 0 |
| Other commitments | 0 | 36.073 | 36.073 | 0 | 0 | 0 | 0 |
| **Total** | **665.221** | **817.771** | **604.964** | **55.761** | **57.378** | **98.816** | **852** |

## (60) Operational risk

### 60.1. 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.

### 60.2. General requirements - Operational risk management framework

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

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

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

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

### 60.3. Risk monitoring

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

### 60.4. Exposure & capital overview

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

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

## (61) 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.

The capital requirements for object risk are calculated with regard to the Pillar 1 capital requirement using the Basic Indicator Approach, the so-called BIA, in accordance with Decision on the calculation of the capital of banks (using relevant indicator). To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

## (62) 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.

## (63) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 6,834 active legal disputes with a total value of BAM 111,353 thousand led by Credit Risk Management Department.

**Loans with CHF foreign currency clause**

For the purpose of resolving loa(n 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 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.

Total amount of approved reliefs (write-offs) for balance sheet receivables is BAM 39,518 thousand (BAM 15,175 thousand for performing clients and BAM 24,343 thousand for non-performing clients. The write-off was done indirectly for non-performing clients (charged to created impairment allowance in the amount of BAM 23,963 thousand), and the total effect of conversion and liquidation to the income statement amounts to BAM 15,555 thousand.

**Passive legal disputes**

As at 31 December 2019, there were 614 open court proceedings against the Bank, with total nominal value of BAM 209.1 million, excluding contingent penalty interest. This amount includes 10 claims with nominal value of BAM 18.2 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 30 claims with nominal value of BAM 28.7 million, which are, in accordance with contracts on ceding receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk transferred to transferee) are not recorded in accounting records. The overall number of passive legal disputes decreased in 2019.

The largest number of proceedings is related to claims connected to CHF currency clause and increase of interest margin – total of 483 claims with nominal value of BAM BAM 10.3 million, and 3 claims with nominal value of BAM 26 million, which combined the claims for damages in addition to CHF currency clause and increase of margin.

In 2019 the Bank had no significant unplanned costs related to the passive litigations and the impact on the overall P&L effect was positive, which confirmes the quality of managing this kid of risk.

The Bank assesses the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned BAM 11.4 million for litigations and claims as of 31 December 2019, which the Management believes to be sufficient amount.

During 2019, the Bank continued with intensified activities for resolving claims and litigations, and management of associated legal risk.

The strategies for court proceedings are regularly, the adequate legal representation and coordination of Bank's defence is established, as well as the process of out-of-court settlement of disputes, recording and reporting on litigations and claims. Decisions received in 2019 were in accordance with our expectations.

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.

## Supplementary information required by IFRS

### (64) Analysis of remaining maturities

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.

(000) BAM

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

(000) BAM

| Analysis of remaining maturity as at 31.12.2018 | 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 | 81,828 | 71,146 | 0 | 0 | 0 | 152,974 | 0 | 152,974 |
| Financial assets held for trading | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through other comprehensive income | 249 | 1,641 | 65 | 166,841 | 38,785 | 1,955 | 205,626 | 207,581 |
| Financial assets at amortised cost | 14,927 | 67,140 | 105,356 | 188,002 | 119,869 | 187,423 | 307,871 | 495,294 |
| Tangible assets | - | - | - | - | - | 0 | 18,680 | 18,680 |
| Intangible assets | - | - | - | - | - | 0 | 4,671 | 4,671 |
| Tax assets | - | - | - | - | - | 0 | 1,947 | 1,947 |
| Current tax assets | - | - | - | - | - | 0 | 1,783 | 1,783 |
| Deferred tax assets | - | - | - | - | - | 0 | 164 | 164 |
| Other assets | - | - | - | - | - | 4,809 | 0 | 4,809 |
| Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | 4,368 | 0 | 4,368 |
| **Total** | 97,004 | 139,927 | 105,421 | 354,843 | 158,654 | 351,529 | 538,795 | 890,324 |
| Financial liabilities held for trading | 0 | 44 | 0 | 0 | 0 | 44 | 0 | 44 |
| Financial liabilities measured at amortised cost | 458,398 | 54,956 | 56,992 | 94,166 | 665 | 570,346 | 94,831 | 665,177 |
| Provisions | - | - | - | - | - | 0 | 17,221 | 17,221 |
| Tax liabilities | - | - | - | - | - | 0 | 0 | 0 |
| Current tax liabilities | - | - | - | - | - | 0 | 0 | 0 |
| Deferred tax liabilities | - | - | - | - | - | 0 | 0 | 0 |
| Other liabilities | - | - | - | - | - | 3,659 | 0 | 3,659 |
| **Total** | **458,398** | **55,000** | **56,992** | **94,166** | **665** | **574,049** | **112,052** | **686,101** |

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

## (65) Leases

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 (3) 3.1. IFRS 16 Leases and for the comparative period to Note (4) Standards used for comparative periods, 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 lease payments in the amount of BAM 1,395 thousand in 2019.

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

(000) BAM

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

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

(000) BAM

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

As at 31 December 2018 the future undiscounted minimum lease payments from non-cancellable operating leases (presented off-balance) under IAS 17 were as follows for each of the years shown below:

(000) BAM

| Maturity analysis - contractual undiscounted cashflow | 31.12.2018 |
|---|---|
| up to 1 year | 903 |
| from 1 year to 5 years | 2,104 |
| more than 5 years | 782 |
| **Total undiscounted lease liabilities** | **3,789** |

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

(000) BAM

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

As at 31 December 2018 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

| | 31.12.2018 |
|---|---|
| up to 1 year | 7 |
| from 1 year to 5 years | 45 |
| more than 5 years | 0 |
| **Total** | **52** |

Lease income in business year 2019 for the Bank amounts to BAM 32 thousand (YE18: BAM 78 thousand).

## (66) Assets/liabilities denominated in foreign currencies

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

(000) BAM

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Assets** | **986,996** | **890,324** |
| of which: EUR | 528,589 | 483,820 |
| of which: USD | 31,328 | 30,050 |
| of which: CHF | 4,941 | 9,018 |
| of which: BAM | 417,262 | 363,778 |
| of which: RSD | 20 | 9 |
| of which: HRK | 2,735 | 1,185 |
| of which: other currencies | 2,121 | 2,464 |
| **Liabilities** | **771,946** | **686,101** |
| of which: EUR | 348,196 | **297,394** |
| of which: USD | 27,744 | 29,475 |
| of which: CHF | 4,158 | 4,027 |
| of which: BAM | 386,928 | 351,528 |
| of which: RSD | 0 | 0 |
| of which: HRK | 2,620 | 1,235 |
| of which: other currencies | 2,300 | 2,442 |

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

## (67) 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

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Loan commitments, given | 102,127 | 88,269 |
| Financial guarantees, given | 19,994 | 22,813 |
| Other commitments, given | 59,523 | 36,073 |
| **Total** | **181,644** | **147,155** |

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.

## (68) 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.

### 68.1. 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

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

(000) BAM

| 31.12.2018 | Level I - from active market | Level II - based on market assumptions | Level III - based on non market assumptions | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets held for trading | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 |
| Financial assets at FVTOCI | 207,332 | 0 | 249 | 207,581 |
| Equity instruments | 0 | 0 | 249 | 249 |
| Debt securities | 207,332 | 0 | 0 | 207,332 |
| **Total** | **207,332** | **0** | **249** | **207,581** |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 0 | 44 | 0 | 44 |
| Derivatives | 0 | 44 | 0 | 44 |
| **Total** | **0** | **44** | **0** | **44** |

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

(000) BAM

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

The reconciliation of the assets and liabilities reported under level III as at 31 December 2018 was as follows:

(000) BAM

| 31.12.2018 | 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 | 347 | 0,0 | -52 | 0 | -46 | 0 | 0 | 0 | 249 |
| Equity instruments | 347 | 0,0 | -52 | 0 | -46 | 0 | 0 | 0 | 249 |
| **Total** | **347** | **0,0** | **-52** | **0** | **-46** | **0** | **0** | **0** | **249** |

**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.

### 68.2. 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

| 31.12.2019 | Carrying amount | Fair Value | Difference | Level I - from active market | Level II - based on market assumptions | Level III - based on non market assumptions |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash reserves | 210,290 | 210,321 | 31 | 0 | 0 | 210,321 |
| Financial assets at amortised cost | 542,571 | 576,565 | 33,994 | 0 | 0 | 576,565 |
| Loans and receivables | 542,571 | 576,565 | 33,994 | 0 | 0 | 576,565 |
| **Total** | **752,861** | **786,886** | **33,994** | **0** | **0** | **786,886** |
| **Liabilities** | | | | | | |
| Financial liabilities measured at amortised cost | 752,911 | 757,206 | 4,326 | 0 | 0 | 757,206 |
| Deposits | 740,622 | 744,917 | 4,326 | 0 | 0 | 744,917 |
| Other financial liabilities | 12,289 | 12,289 | 0 | 0 | 0 | 12,289 |
| **Total** | **752,911** | **757,237** | **4,326** | **0** | **0** | **757,237** |

(000) BAM

| 31.12.2018 | 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 | 152,974 | 152,974 | 0 | 0 | 0 | 152,974 |
| Financial assets at amortised cost | 495,294 | 511,242 | 15,948 | 0 | 0 | 511,242 |
| Loans and receivables | 495,294 | 511,242 | 15,948 | 0 | 0 | 511,242 |
| **Total** | **648,268** | **664,216** | **15,948** | **0** | **0** | **664,216** |
| **Liabilities** | | | | | | |
| Financial liabilities measured at amortised cost | 765,723 | 774,023 | 8,300 | 0 | 0 | 774,023 |
| Deposits | 740,622 | 748,922 | 8,300 | 0 | 0 | 748,22 |
| Other financial liabilities | 25,101 | 25,101 | 0 | 0 | 0 | 25,101 |
| **Total** | **765,723** | **774,023** | **8,300** | **0** | **0** | **774,023** |

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

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

## (69) Derivative financial instruments

### 69.1. Derivatives held for trading

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

(000) BAM

| | Nominal amount/ Carrying amount | |
|---|---|---|
| | 31.12.2019 | 31.12.2018 |
| **Foreign exchange and gold** | | |
| OTC other | 6 | 44 |

## (70) 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:

(000) BAM

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

(000) BAM

| 31.12.2018 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **184** | **58** | **568** | **42** | **20** | **313** | **10** |
| Loan and receivables | 136 | 0 | 102 | 0 | 20 | 313 | 10 |
| Other avista deposits | 48 | 58 | 466 | 42 | 0 | 0 | 0 |
| **Financial liabilities** | **529** | **0** | **9** | **280** | **31** | **549** | **4** |
| Deposits | 9 | 0 | 2 | 18 | 31 | 544 | 4 |
| Other financial liabilities | 476 | 0 | 7 | 262 | 0 | 5 | 0 |
| Derivatives | 44 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other liabilities** | **0** | **0** | **48** | **0** | **0** | **0** | **0** |
| **Loan commitments given** | **0** | **0** | **0** | **0** | **0** | **0** | **16** |

(000) BAM

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

(000) BAM

| 31.12.2018 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| Interest and similar income | 0 | 0 | 5 | 0 | 0 | 59 | 0 |
| Interest expenses | -64 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fee and commission income | 0 | 0 | 2 | 0 | 0 | 320 | 1 |
| Fee and commission expenses | 0 | 0 | -46 | 0 | 0 | -20 | 0 |
| Other administrative expenses | -471 | 0 | -502 | -179 | 0 | -21 | 0 |
| Other operating income | 136 | 0 | 0 | 0 | 0 | 7 | 0 |
| Impairment allowance | 2 | 0 | 3 | 0 | 0 | 58 | 0 |
| **Total** | **-397** | **0** | **-538** | **-179** | **0** | **403** | **1** |

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

(000) BAM

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Management and Supervisory Board remunerations | 862 | 852 |
| Taxes and contributions on remunerations | 676 | 659 |
| **Total** | **1,538** | **1,511** |

## (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 of 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. Supplementary capital items consist of equity instruments and subordinated debts, premiums written on equity instruments and general write-downs for credit losses up to 1.25% of risk-weighted exposure amounts.

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. Implementation of new regulatory decision

In June 2019, the Banking Agency published the final version of new regulatory Decision on credit risk management and determining expected credit losses, whose application is mandatory for reporting periods beginning on 1 January 2020. The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum tresholds for allowance for credit losses are prescribed. The effects of implementation of new regulatory decision are recognised in equity as at 1 January 2020, i.e. the carrying amount of financial assets was reduced, and retained earnings in equity were reduced for the amount of BAM 6,613 thousand. The Bank did not change comparative data in the balance sheet for the one-off effect of application of the new regulatory decision.

### 71.3. Own funds and regulatory capital

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 2019 and 31 December 2018 amount to:

| | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | 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 Minimum Standards for Bank Capital Management 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 | | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| | **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 | 79,754 | 70,994 |
| 3 | Statutory reserves | 25,101 | 25,101 |
| 4 | Accumulated other comprehensive income (and other reserves) | 2,502 | -1,035 |
| **5** | **CET1 capital before regulatory adjustments** | **207,760** | **195,463** |
| | **CET1 capital: regulatory adjustments** | | |
| 8 | Intangible assets | -5,781 | -4,671 |
| 9 | Other deductions from common equity | -16,021 | -17,957 |
| **10** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-21,802** | **-22,628** |
| **11** | **Common Equity Tier 1 (CET1) capital** | **185,958** | **172,835** |
| | **Tier 2 (T2) capital: instruments and provisions** | | |
| 12 | General credit risk allowances | 7,980 | 7,039 |
| 13 | Deductions from supplementary capital | -7,980 | -7,039 |
| **14** | **Tier 2 (T2) capital** | **0.0** | **0.0** |
| **15** | **Total capital (TC = T1 + T2)** | **185,958** | **172,835** |
| 16 | Amount of exposure weighted for credit risk / Total risk-weighted assets | 638,368 | 563,089 |
| 17 | Total amount of exposure for position, currency and merchandise risk | 7,838 | 3,163 |
| 18 | Weighted operating risk | 67,223 | 67,178 |
| **19** | **Total risk weighted assets (unaudited)** | **713,429** | **633,430** |
| | **Capital ratios and buffers %** | | |
| 15 | CET1 ratio | 26.07% | 27.29% |
| 16 | TC ratio | 26.07% | 27.29% |

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

Total capital increased by BAM 13.1 million during the reporting period, reflecting the net impact of the following components:

- an increase by BAM 3.5 million of the other comprehensive income as net impact of the positive development of market values of debt instruments;
- the inclusion of the audited result of BAM 8.8 million;
- a decrease in regulatory deduction items in the amount of BAM -0.8 million due to the increase of the carrying amount of intangible assets (BAM 1.1 million), the decrease in other deductions related to insufficient regulatory reserves (BAM -1.9 million);

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 increased by BAM 80 million during the reporting period. The increase of RWAs for credit risk by BAM 75,279 thousand is due to new volumes.

The increase of RWAs for market risk by BAM 4.7 thousand is mainly the result of more open positions in foreigncurrencies. The RWA for operating risks remained stable in line with previous year.

**Leverage ratio**

The leverage ratio for the Bank, calculated in accordance with the Banking Agency requirements, i.e. Decision on Calculating Bank Capital, was 17.9% at 31 December 2019, which is a decrease from 18.6% at 31 December 2018. The decrease was driven by increase in the total leverage exposure.

EUR m

| Ref1 | | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| 1 | Tier 1 capital | 185,958 | 172,835 |
| 2 | Total leverage ratio exposure | 1,037,605 | 927,913 |
| **22** | **Leverage ratio %** | **17.9%** | **18,6%** |

*The amounts of capital and other statement of financial position in the above table are calculated in accordance with FBiH regulations.

## (72) Boards and Management Board of the Bank

1 January to 31 December 2019

### Supervisory Board

**Chairman of the Supervisory Board:**
Hans-Hermann Lotter

**Deputy Chairman of the Supervisory Board:**
Biljana Rabitsch

**Members of the Supervisory Board:**
Razvan Munteanu
Meliha Povlakić
Damir Karamehmedović

### Management Board

Sanela Pašić, Chairman of the Management Board
Belma Sekavić-Bandić, Member of the Management Board
Selma Omić, Member of the Management Board

### Audit Committee

Mark Potočnik, Chairman of the Audit Committee
Jelena Mažuranić, Member of the Audit Committee
Siniša Radonjić, Member of the Audit Committee

## (73) Events after the reporting date

The rapid development of the Covid-19 virus and its social and economic impact in Federation of Bosnia and Herzegovina and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

In addition, on March 23, 2020, the Banking Agency of FBiH enacted the Decision on Provisional Measures to be Taken by Banks for Mitigation of Adverse Economic Consequences Caused by Viral Disease, COVID-19. In accordance with this Decision, the banks may prescribe special measures to clients such as: debt moratorium or postponed repayment of loan principal and payment of interest on loans, which may last as a minimum until cessation of the state of emergency, introduction of grace period for principal repayment of no more than 6 months, approval of additional exposure amount for overcoming a client's current liquidity difficulties and maintenance of a client's business, and other measures in order to facilitate liability settlement on the part of clients and support maintenance and preservation of their business. The Bank's Management is currently unable to estimate the effects of the Decision on the Bank's financial statements considering that implemetation plan is still pending.

The longer term impact of COVID-19 crisis may also affect lending and trading volumes, cash flows and profitability. Nevertheless at the date of these financial statements the Bank continues to meet its obligations, and therefore continues to apply the going concern basis of preparation.

Except for the foregoing, there have been no significant events after the reporting date that that would require adjustment to or disclosure in the notes to the Bank's financial statements for 2019.

30 March 2020
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

Belma Sekavić

Selma Omić

# Responsibility for the financial statements

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.

The financial statements set out on pages 3 to 96 were authorised by the Management Board on 30 March 2019 for issue to the Supervisory Board, and are signed below to signify this:

Sarajevo, 30 March 2020
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

Belma Sekavić

Selma Omić

Deloitte d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
Bosnia and Herzegovina

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Fax: +387 (0) 33 277 561
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# Independent auditor’s report

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

## Opinion

We have audited the accompanying financial statements of Addiko Bank d.d. Sarajevo (the “Bank”), which comprise of the statement of financial position as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

## Basis for opinion

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

## Key audit matters

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

## Key audit matters (continued)

### Key Audit matter

Measurement of impairment allowances for expected credit losses on Loans and receivables is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models.

Management exercise significant judgements in the following areas:

- Use of historic data in the process of determining risk parameters;
- Estimation of the credit risk related to the exposure;
- Assessment of stage allocation;
- Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses;
- Expected future cash flows from operations;
- Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.

Management has provided further information about the impairment allowance on loans and receivables from clients in Note 13 “Financial instruments”, Note 38 “Loans and receivables”, Note 24 “Provisions”, Note 34 “Credit loss expenses on financial assets”, Note 55 “Credit risk” and Note 56 “Development of risk provisions”.

### How the Matter Was Addressed in Our Audit

We performed following audit procedures with respect to area of loans and receivables from clients:

- Reviewing the Bank’s methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9;
- Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses;
- Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses;
- Testing identified relevant controls for operating effectiveness;
- Disaggregating loans account balance based on stage allocation for the purposes of sample selection;
- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on:
  - i. models applied in stage allocation,
  - ii. assumptions used by the Management in the expected credit loss measurement models,
  - iii. criteria used for determination of significant increase in credit risk,
  - iv. assumptions applied to calculate lifetime probability of default,
  - v. methods applied to calculate loss given default,
  - vi. methods applied to incorporate forward-looking information,

## Key audit matters (continued)

| Key Audit matter | How the Matter Was Addressed in Our Audit |
|---|---|
| | • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables from clients allocated to Stage 3, which included:<br>i. Assessment of borrower's financial position and performance following latest credit reports and available information,<br>ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance,<br>iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period,<br>iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral,<br>v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.<br>*We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard.*<br>• Refer to the accounting policies, use of estimates and assumptions / material uncertainties in realtion to estimates, disclosures of loans and receivables and credit risk management in Notes 5, 13, 24, 34, 38, 55 and 56 to the financial statements. |

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

The Management Board is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the International Financial Reporting Standards, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

**Deloitte d.o.o.**

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

Zmaja od Bosne 12c

Sarajevo, Bosnia and Herzegovina

30 March 2020

# 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 | Change in CL / 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 according to the Law on Banks |
| 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 Decision on capital calculation in Banks |
| 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 |
| 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 |
| Repossessed assets | Assets acquired during the forced collection process of NPE portfolio |
| 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 BAM 0.5 million |
| Risk-weighted assets (RWA) | On-balance and off balance positions calculated in accordance with Decision on capital calculation in Banks |
| Return on tangible equity | Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners adjusted for intangible assets of the parent for the respective period |
| SME | Within this corporate segment small & medium corporate businesses are in-cluded 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 | Tier 2 capital – T 2 consist of the sum of Tier 2 capital after regulatory adjustment according to Decision on capital calculation in Banks |
| 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:**
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71 000 Sarajevo
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www.addiko-fbih.ba

This version of the 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 financial reports and the accompanying audit report takes precedence over this translation.