



Addiko Bank

Annual Report 2020

This version of the report is a translation from the original, which was prepared in Serbian 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.

Key data based on the consolidated financial statements prepared in accordance with the accounting regulations applicable to banks in Republika Srpska (RS), which are based on the Law on Accounting and Auditing in RS, Law on Banks of RS, and bylaws of the Banking Agency of RS.

BAM. ths			
Selected items of the Profit or Loss statement	2020	2019	(%)
Net banking income	38,345	37,555	2.1%
Net interest income	25,699	25,035	2.7%
Net fee and commission income	12,646	12,520	1.0%
Net result on financial instruments	133	317	-58.0%
Other operating result	-4,175	-1,539	>100%
Operating expenses	-27,461	-28,355	-3.2%
Operating result	6,842	7,978	-14.2%
Other result	-2,532	-731	>100%
Credit loss expenses on financial assets	-14,916	-543	>100%
Tax on income	2,601	16	>100%
Result after tax	-8,005	6,720	>100%
Performance ratios	2020	2019	(pts)
Net interest income/total average assets	3.1%	3.0%	0.1%
Return on average tangible equity	-5.5%	4.4%	-9.9%
Cost/income ratio	71.6%	75.6%	-4.0%
Cost of risk ratio	1.8%	0.1%	1.7%
Selected items of the Statement of financial position	2020	2019	(%)
Loans and advances to customers	557,056	564,552	-1.3%
o/w gross performing loans	577,527	567,382	1.8%
Deposits of customers	574,760	577,629	-0.5%
Equity	148,867	161,201	-7.7%
Total assets	819,109	842,178	-2.7%
Risk-weighted assets	649,672	683,958	-5.0%
Balance sheet ratios	2020	2019	(pts)
Loan to deposit ratio	92.8%	94.9%	-2.1%
NPE ratio	6.1%	7.0%	-0.9%
NPE coverage ratio	89.1%	87.9%	1.2%
Liquidity coverage ratio	288.6%	324.3%	-35.7%
Common equity tier 1 ratio	21.4%	21.5%	-0.1%
Total capital ratio	22.5%	21.9%	0.6%

Letter from the CEO

Dear customers, partners and employees,

the year 2020 was more than challenging and, in many ways, incomparable with any previous business year. The results and transformations we have achieved in previous years have provided us with confidence to enter the year 2020 with a positive attitude, enthusiasm and optimism. We had clear plans and goals to continue our successful transformation. The Covid-19 pandemic and the strong turbulence the same caused globally, also affected both residents and businesses of Republic of Srpska. It's fair to say that the pandemic brought challenges to the private lives and businesses across the globe.

The situation in the region was the same or similar, as we all faced a completely unknown and uncertain situation, which strongly influenced the overall economic developments.

The pandemic has required to further strengthened the care companies take for their employees and clients, and we as Addiko have, in accordance with the prescribed epidemiological measures, taken all health & safety measures to ensure that both employees and clients are protected.

Our Consumer & SME clients felt the strong economic effects caused by the pandemic, and some used to possibility of accessing the loan moratorium and other measures prescribed by the Banking Agency of Republic of Srpska, to alleviate the negative impacts of significantly reduced social and economic activity.

Despite the challenges the whole industry had to face, we have achieved a solid operating result in 2020 of BAM 6.8 million of operating profit (2019: BAM 7,9 million). We consider this a significant success in a year marked by the Covid-19 pandemic. We have successfully recorded an increase in net banking income of 2% YoY and reduced costs by 3% YoY, because of our responsible attitude and strict cost management approach.

Due to our prudent risk approach, which remains a strong anchor of our specialist strategy, we decided to build up higher credit risk provisions (BAM 14,9 million) compared to the previous business year (BAM 0,5 million).

The increase in provisioning for credit was recorded partly due to loans that were under a moratorium during 2020, which we estimate may become problematic in repayment, but primarily due to negative developments in macroeconomic indicators, primarily GDP and employment rates, which in turn affect calculation of the credit risk provisions.

We see this as a one-off provisioning to precautionary reflect the current expectations on the potential negative impact of Covid-19, even though this caused us to end the business year, after recording the costs of provisions, with a loss of BAM 8 million.

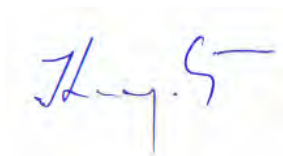
Our balance sheet remains solid, our funding and liquidity stable. The strong capital coverage (capital adequacy of Addiko Bank Banja Luka is 22.5%) allows us the chosen approach, where potential negative effects of the pandemic on the loan portfolio and thereby credit risk costs are to the extent possible frontloaded into the year 2020. This allows us to keep our focus on a continued execution of our strategy by serving Consumer & SME clients, and to generate healthy growth supporting the economy and population of the Republic of Srpska.

The good start of the year 2021, and the measures of economic recovery taken by the Government of Republic of Srpska, the beginning of immunisation in Republic of Srpska, give us confidence that the market will continue to stabilize and return to normal.

I would like to sincerely thank our employees, who have shown significant commitment and efforts in customer facing and other roles, to effectively keep our business up and running smoothly, while ensuring health & safety for clients and colleagues.

I would also like to express my gratitude to all our clients, partners and employees for their continued trust, and I am confident that we will overcome the challenges in business caused by the pandemic Covid-19 together in Republic of Srpska.

Respectfully yours,

A handwritten signature in blue ink, appearing to read 'Srđan Kondić', is written over a faint, light blue grid background.

Srđan Kondić,
President of the Management Board of the Addiko Bank a.d. Banja Luka

The Management Board of the Addiko Bank a.d. Banja Luka



From left to right: Srđan Kondić, CEO, Boštjan Pečenko, the Board Member and Slađan Stanić, the Board Member

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

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

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

The tables in this report may contain rounding differences.

Management Report

1. Overview of Addiko Bank

Addiko Bank Banja Luka is a member of the Addiko Group, a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates as two banks: Addiko Bank Banja Luka and Addiko Bank Sarajevo), Serbia and Montenegro. Addiko Bank services as of 31 December 2020 approximately 140 thousand customers, using a well-dispersed network of 28 branches and modern digital banking channels.

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

Addiko Bank Banja Luka 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.

2. General economic environment

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after Covid-19 pandemic started to spread in the first quarter of 2020. Lockdown measures brought European economies to a halt. While policy measures alleviated some of the pressures, and the summer rebound signaled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through

such heavy storm will prove to be quite a challenge, especially for SEE economies due to a rather distinct feature of the crisis that lies not in its intensity, although it is comparable in amplitude only to the last great depression of the 30’s, but in the fact that contraction is more severe in the service sector due to social distancing measures. This atypical cyclical pattern exposed vulnerabilities of tourism-dependent economies and heavily affected prospects of Addiko’s countries of operation.

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

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

In Bosnia and Herzegovina (BiH), the Covid-19 pandemic weighs severely on private consumption, which accounts for almost 75% of the country’s GDP. BiH banking agencies announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities in light of the economic downturn caused by the pandemic. As of 2021, it can be expected that investments will pick up again in light of postponed public projects such as the expansion of the country’s energy and transport infrastructure. This will help real GDP growth to reach around 3% next year, but will remain among the weakest in the region, reflecting among other things a more conservative policy stance and in particular less

scope for fiscal stimulus, simultaneously increasing the country's reliance on foreign aid and loans.

The Covid-19 pandemic deeply affected Montenegro's economic growth in 2020, since tourism is the most important pillar of the country's economy with a share of around 22% of GDP and income from tourism generating revenue in the amount of EUR 1,1 - 1,3 billion. Tourism directly and indirectly creates a total of around 36,000 jobs and thus a fifth of all employment. In addition to tourism, Montenegro is also counting on its growing role as a hub for electricity traffic between the Balkans and Italy, but this suffers from the temporary shutdown of large investment projects in the energy and construction sectors caused by Covid-19. The country's GDP is expected to contract by 9% in 2020, to be followed in 2021 with a solid recovery of 5%. In July the Central Bank announced that banks are obliged to grant a moratorium to borrowers from the country's tourism as well as agriculture, forestry, and fishing sectors. The announced moratorium was activated from September 2020 and will run until August 2021. The moratorium is available to borrowers who are not past due in loan repayments for more than 90 days and whose loans were not classified as non-performing assets as of 31 December 2019.

The most benign consequences of this extremely deep recessions caused by this pandemic have been felt in Serbia, which demonstrated satisfactory resilience already during the first wave in the first half of the 2020. The relatively good results are partly due to the supportive fiscal policy, including credit guarantee schemes and credit lines to corporates, direct cash support to population as well as a moratorium on loan repayment, which lasted 5 months in total, and was used by around two thirds of the clients. In addition, Serbia broadened economic interactions with outside-EU partners, primarily China. While some progress has been made in the reforms of the tax administration and the privatization of state-owned banks, other structural reforms of public administration and state-owned enterprises advanced slowly. Nevertheless, industrial sector and private consumptions seem to remain quite robust and will certainly prove to be important drivers of future growth.

3. Earnings performance in brief

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

Addiko Bank reported an operating result of BAM 6,842 thousand at the end of year 2020. This is by BAM 1,136 thousand lower compared to the year 2019 (YE19: BAM 7,978 thousand). The operating result reflects a stable business development despite the Covid-19 crisis, supported by non-recurring income (the sale of debt securities) and a successful cost containment. The result after tax of BAM -8,005 thsd (YE19: BAM 6,720) was impacted by a significant increase in risk provisioning predominantly associated with macroeconomic expectations due to Covid-19.

The Bank has successfully maintained its robust asset quality and has tightened underwriting criteria preferring sustainable portfolio quality over new business and volume growth. The loan book in the focus segments remained stable, whereby Consumer and SME amount to BAM 223,671 thousand of the gross performing loan book (YE20: 76%). The Bank has limited exposure to industry sectors considered as Covid-19 sensitive. The NPE ratio (CRB based) of 6.1% (YE19: 7.0%) and the NPE provision coverage at 89.1% (YE19: 87.9%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the strong receivables collection.

4. Response to the Covid-19 Pandemic

4.1. Supporting clients

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

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

do their banking transactions from home through digital services or use their contactless Addiko card.

In addition, 1,252 moratoria on payment obligations were granted in the fiscal year, of which 114 were still active as of December 31, 2020. Further details are provided in Note (58.9.3.) Credit risk (counterparty default risk), under the subitem Moratorium due to COVID-19.

4.2. Operational stability

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

5. Corporate Governance

5.1. Management Board

As of October 1, 2020, the Supervisory Board appointed Mr Srđan Kondić as the Addiko Bank Banja Luka's CEO, and Mr Slađan Stanić as CRO/CFO as of December 18, 2020.

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

6.1. Great customer experience with efficient distribution transformation

Addiko Bank approaches its retail customers primarily through branches and for the coming years expects an increase of contribution from alternative touchpoints (assisted sales, online account opening, teams of skilled sellers present at customers' workplace premises), particularly 12% in share of consumer loans sold via digital leads and 40% in Bank@Work contribution.

Addiko Bank is dedicated to delivering the straightforward banking promise and ensuring great customer experience.

An important part of this goal is further development and seamless integration of the Bank's digital channels across all customer touchpoints.

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

A target mix of channels has been introduced to the market in line with the convenience and simplicity promises that Addiko Bank makes to its customers. The 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 digital solutions for obtaining a loan.

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

6.2. Digital transformation

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

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

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

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

Digital transformation by creating new digital capabilities remains one of the strategic focus points of the Bank. Addiko continues to invest in digital solutions as an essential foundation to delivering on the business boosting, convenience and speed-based value proposition. For the Consumer segment the share of consumer loans sold via digital leads improved to 7.5% in 2020 and the contribution of Bank@Work to 32%.

6.3. IT Strategy

Whilst continuing the support for the roll out of the mobile initiatives, a strong focus for the Information Technology is the stabilisation and optimisation of the infrastructure and service providers utilised in the Addiko Bank. This will help to improve the customer experience and satisfaction and optimize the service costs as well.

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

Increased investments in Cybersecurity tools and processes in the IT landscape, starting from infrastructure activities to improve threat detection and mitigation tools and processes, will result in a higher level of security for the Bank and its clients.

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

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

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

6.4. Branches

At year end 2020 Addiko Bank Banja Luka operated a total of 28 branches. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

7. Financial development of the Bank

7.1. Detailed analysis of the reported result

	01.01. - 31.12.2020	01.01. - 31.12.2019	BAM ths (%)
Net banking income	38,345	37,555	2.1%
Net interest income	25,699	25,035	2.7%
Net fee and commission income	12,646	12,520	1.0%
Net result on financial instruments	133	317	-58.0%
Other operating result	-4,175	-1,539	>100%
Operating income	34,303	36,333	-5.6%
Operating expenses	-27,461	-28,355	-3.2%
Operating result	6,842	7,978	-14.2%
Other result	-2,532	-731	>100%
Credit loss expenses on financial assets	-14,916	-543	>100%
Result before tax	-10,606	6,704	>100%
Tax on income	2,601	16	>100%
Result after tax	-8,005	6,720	>100%

The **result after tax** amounts to BAM -8,005 thousand. Basic reasons for negative result are high credit loss expenses as well as booking of one-off effects in 2020.

Net interest income increased in 2020 from BAM 25,035 thousand at YE19, by BAM 664 thousand, or 2.7%, to BAM 25,699 thousand at YE20. This was primarily due to an increase in interest income in 2020 from BAM 31,753 thousand at YE19, to BAM 31,806 thousand. Covid-19 impacted on new loans disbursements in focus segments and the planned run down of non-focus portfolio but still not affected the regular interest income from existing customers as the same shows increase by BAM 53 thousand. This development is reflecting an increase of regular interest income within the focus areas Consumer and SME lending which over-compensated the decrease within the non-focus areas i.e. Mortgage and Public Finance. Interest expenses decreased from BAM -6,718 thousand at YE19, by BAM 611 thousand, to BAM -6,107 thousand at YE20, predominantly resulting from lower interest expenses for customer deposit due to continual pricing management on the side of term deposits and adjustment to market conditions. The net interest margin amounts to 311 bps at YE20, compared to 306 bps YE19. Average interest rate decreased for living loans of customers from 549 bps at YE19, by 22bps to 527 bps at YE20. Average interest rate for deposits of customers decreased from 94 bps at YE19, by 13 bps to 81 bps at YE20.

Net fee and commission income increased from BAM 12,520 thousand in 2019, by BAM 126 thousand, or 1%, to BAM 12,646 thousand in 2020. This was primarily due to

the increased of fee and commission income from BAM 15,773 thousand at YE19, by BAM 295 thousand, to BAM 16,068 thousand at YE20. Income from Maintenance of current account, fee related to loans and payments transaction show increase. The biggest increase of income showed in Consumer segment. On other side, commission income from Card business and FX/DCC decreased, it is primarily driven by Covid-19 crises and significantly reduction in customer card consumption.

Net result of financial instruments decreased for -184 thousand BAM or -58% compared to the previous year. This decrease is resulting from volatility on FX and bond market caused by Covid-19 pandemic.

Other operating result as the sum of other operating income and other operating expense increased from BAM -1,539 thousand at YE19, by BAM -2,636 thousand, to BAM -4,175 thousand at YE20. This is primarily caused by the impairment of repossessed assets in amount of BAM -1,049 thousand due to implementation of regulatory decision which prescribe that repossessed assets must be impaired if the Bank does not sell it in the period of three years and caused by the disposal of receivables from credit card settlement in amount of BAM -1,106 thousand

Operating expenses decreased from BAM -28,355 thousand at YE19, by BAM -894 thousand, to BAM -27,461 thousand at YE20. This reduction is the result of continuous responsible management of all cost categories. Personnel and other administrative expenses decreased by almost 5% compared to 2019, while depreciation costs

increased by 7.1% as a result of the bank's commitment to improve banking applications

Other result increased from BAM -731 thousand at YE19, by BAM -1,801 thousand, to BAM -2,532 thousand at YE20 primarily due to impairment of intangible assets and provisions for potential negative outcome of a legal dispute

Credit loss expenses on financial assets significantly increased compared to YE 2019 mostly due to the Covid-19 pandemic, as a result of updating the macroeconomic

scenarios used to calculate the expected credit loss (ECL), which was derived taking into account most recent macroeconomic forecast of Vienna's Institute for International Economic Studies.

Tax on income increased in 2020 in amount of BAM 2.601 thousand (YE 19: 6 thousand) and also include the expected impact of the Covid-19 pandemic on the future profitability of the Bank. A detailed explanation is given in the Note 39.

7.2. Detailed analysis of the statement of financial position

	31.12.2020	31.12.2019	BAM ths (%)
Cash reserves	157,596	162,536	-3.0%
Financial assets held for trading	0	1	-100.0%
Loans and receivables	560,323	574,424	-2.5%
Loans and advances to credit institutions	3,267	9,871	-66.9%
Loans and advances to customers	557,056	564,552	-1.3%
Investment securities	58,674	62,176	-5.6%
Tangible assets	27,869	28,174	-1.1%
Intangible assets	6,769	6,561	3.2%
Tax assets	3,533	1,424	>100%
Current tax assets	1,424	1,424	0.0%
Deferred tax assets	2,109	0	>100%
Other assets	3,946	6,290	-37.3%
Non-current assets and disposal groups classified as held for sale	399	592	-32.6%
Total assets	819,109	842,178	-2.7%

The statement of financial position of Addiko Bank shows solid interest-bearing asset structure: around 68% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of assets is represented by cash reserves and bonds. With regard to the statement of financial position, Addiko's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. Share gross performing loan book of these two segments of YE20 is 76%.

As of YE20 the **total assets** of the Bank in the amount of BAM 819,109 thousand decreased by BAM 23,069 thousand or -2.7% compared with the YE19 level (BAM 842,178 thousand).

Cash reserve decreased by BAM 4,940 thousand to BAM 157,596 thousand as of YE2020 (YE19: BAM 162,536 thousand).

Overall loans and receivables decreased to BAM 560,323 thousand from BAM 574,424 thousand at year end 2019:

- **Loans and receivables to credit institutions (net)** decreased by BAM -6,604 thousand to BAM 3,267 thousand (YE19: BAM 9,871 thousand).

- **Loans and receivables to customers (net)** decreased by BAM -7,496 thousand to BAM 557,056 thousand.

The change was mainly in the non-focus segments with Mortgage Business.

Despite the fact that the Bank achieved a significant growth in the last quarter of 2020, the increase in placements was not enough to compensate the decline that occurred in the second and third quarters caused by the Covid-19 pandemic.

Investment securities volume decreased BAM 3,502 thousand due to regular bond repayments in 2020.

Tangible assets decreased for 1.1% as result of regular depreciation.

Intangible assets increased for 3.2% as a result of the bank's commitment to improve banking applications

Tax assets increased more than twice as a result of the reassessment of deferred tax assets on temporary differences mostly based on credit risk provisions for stage 1. More information presented in the Note 39.

Other assets decreased from BAM 6,290 thousand at YE19,

by BAM -2,344 thousand, to BAM 3,946 thousand at YE20 mostly because of decrease of repossessed assets due to selling it and, on other hand, due to already mentioned impairment of repossessed assets according to regulatory decision.

	31.12.2020	31.12.2019	BAM ths (%)
Financial liabilities held for trading		3	-100%
Financial liabilities measured at amortised cost	663,201	672,644	-1.4%
Deposits of credit institutions	29,077	27,925	4.1%
Deposits of customers	574,760	577,629	-0.5%
Borrowings	47,174	56,196	-16.1%
Other financial liabilities	12,190	10,894	11.9%
Provisions	4,553	4,754	-4.2%
Tax liabilities		440	-100%
Other liabilities	2,488	3,136	-20.7%
Equity	148,867	161,201	-7.7%
Total equity and liabilities	819,109	842,178	-2.7%

On the liabilities' side, **financial liabilities measured at amortised cost** slightly decreased at BAM 663,201 thousand compared to BAM 672,644 thousand at year end 2019:

- **Deposits of credit institutions** increased in 2020 by 4.1% while loan liabilities decreased by 16.1% as a result of regular repayment
- **Deposits of customers** decreased by 0.5% compared to 2019. Deposits of the Retail segment increased by BAM 6,625 thousand or 1.6%. On the other side, the corporate segment decreased by BAM 9,494 thousand or 6.1%.
- **Other financial liabilities** increased from BAM 10,894 thousand at YE19 to BAM 12,190 thousand at YE20 the increase mainly relates to liabilities to suppliers and liabilities for prepaid loans that are aligned at the beginning of 2021.

Provisions decreased slightly in 2020 mostly because of change in provisions on legal cases.

Tax liabilities change caused by the reassessment of deferred tax assets. Namely, deferred tax are presented on a net basis.

Other liabilities decreased in amount of BAM 648 thousand or 20.7% compared to YE 2019 mainly due to accruals.

Equity decreased due to current YE result and BAM 4,511 thousand of initial effects of implementation of banking agency decision on credit risk management and determination of expected credit losses. Despite this, the capital position of the Bank remains strong. Total capital ratio is 22.5% which is significantly above the prescribed ratio (14.5%)

8. Analysis of non-financial key performance indicators

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

9. Internal Control System for accounting procedures

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

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

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

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

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

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

The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of daily activities of Addiko Bank as well as periodic evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

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

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

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

10. Research & Development

Addiko Bank does not conduct any research and development activities.

11. Mid-Term Targets and Outlook

11.1. Mid-Term Targets

Addiko Bank has updated its Mid-Term Targets to reflect Covid-19 related impacts, whereby it is expected that the Mid-Term Targets will be affected by the Covid-19 pandemic in terms of delays in timing rather than in substance.

Following the conclusion of the yearly cycle for a 5-year planning period and further clarity on Covid-19 related impacts, the Management Board and Supervisory Board of Addiko Bank have decided on the following updated Mid-Term Targets for 2025 starting with the business year 2021:

- Continuous shift of the loan book from the “non-focus” to the “focus areas” of ca. 85% (prev. > 72%),
- Net interest margin ca. 3.7% (prev. ca. 3.1%),
- Net fee and commission income growth ca. 8.7% CAGR 2021 to Mid-term (prev. ca. 1%),
- Cost income ratio ca. 46% (prev. 71%),
- Cost of risk (net loans) ca. 1.4% (prev. ca. 1.8%),
- Return on tangible equity 7.1% (prev. ca. -5.5%),
- Total capital ratio >17%,
- Loan/deposit ratio < 100% (prev. ca. 92%),

11.2. Outlook 2021

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

In general, a relatively firm and uniform bounce-back is expected by the second half of 2021, bringing annual rate of growth to average 4.5% (Croatia and Montenegro growing as fast as 5.0%, Slovenia and Serbia 4.7% and 4.5% respectively, and Bosnia and Herzegovina will most likely experience somewhat slower pace of recovery, around 3.1%). The medium-term outlook will bring marginal slowing of this pick-up in the rate of growth and convergence to a longer-run path, stabilizing labor market

indicators and consequently private consumption. These developments will mirror to some extent the cyclical pattern of the eurozone economies, and while on average there still will be some positive difference between the regional growth and growth in the eurozone, that gap will be narrowed in the recovery phase. This also means no demand pressures are to be expected and with continuously accommodative monetary framework, inflationary dynamics will stay modest.

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

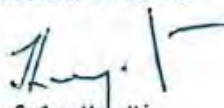
Additionally, the overall slowdown of the economy is expected to have a negative impact on the existing loan portfolio quality. While state aid packages and moratoria programs introduced on the markets support citizens and companies, to some extent mitigating the negative economic effects, they also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

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

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

Banja Luka, 22 March 2021
Addiko Bank a.d.

MANAGEMENT BOARD



Srđan Kohdić
Chairman



Slađan Stanić
Member of the Management Board



Boštjan Pečenko
Member of the Management Board

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I. Statement of comprehensive income

Statement of profit or loss

		(000) BAM	
	Note	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method		31,802	31,743
Other interest income		4	10
Interest expenses		-6,107	-6,718
Net interest income	(30)	25,699	25,035
Fee and commission income		16,068	15,773
Fee and commission expenses		-3,422	-3,253
Net fee and commission income	(31)	12,646	12,520
Net result on financial instruments	(32)	133	317
Other operating income	(33)	1,679	1,538
Other operating expenses	(33)	-5,854	-3,077
Operating income		34,303	36,333
Personnel expenses	(34)	-11,650	-12,288
Other administrative expenses	(35)	-11,942	-12,454
Depreciation and amortisation	(36)	-3,869	-3,613
Operating expenses		-27,461	-28,355
Operating result		6,842	7,978
Other result	(37)	-2,532	-731
Credit loss expenses on financial assets	(38)	-14,916	-543
Result before tax		-10,606	6,704
Tax on income	(39)	2,601	16
Result after tax		-8,005	6,720
thereof attributable to equity holders of parent		-8,005	6,720

	31.12.2020	31.12.2019
Result after tax attributable to ordinary shareholders (in TBAM)	-8,005	6,720
Number of ordinary shares (in units of shares)	153,094,205	153,094,205
Earnings per share (in BAM)	-0.05	0.04

Statement of other comprehensive income

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Result after tax	-8,005	6,720
Other comprehensive income	132	20
Items that will not be reclassified to profit or loss	63	-1,125
Tangible assets	0	-1,253
Actuarial gains or losses on defined benefit plans	31	2
Fair value reserve - equity instruments	32	0
Net change in fair value	32	0
Income Tax	0	126
Items that may be reclassified to profit or loss	69	1,145
Fair value reserve - debt instruments	69	1,145
Net change in fair value	504	1,509
Net amount transferred to profit or loss	-383	-364
Income Tax	-52	0
Total comprehensive income for the year	-7,873	6,740
thereof attributable to equity holders of parent	-7,873	6,740

II. Statement of financial position

		(000) BAM	
	Note	31.12.2020	31.12.2019
Assets			
Cash reserves	(40)	157,596	162,536
Financial assets held for trading	(41)	0	1
Loans and receivables	(42)	560,323	574,424
Loans and receivables to credit institutions		3,267	9,871
Loans and receivables to customers		557,056	564,552
Investment securities	(43)	58,674	62,176
Tangible assets	(44, 46)	27,869	28,174
Property, plant and equipment		22,346	25,673
Investment property		5,523	2,501
Intangible assets	(45, 46)	6,769	6,561
Tax assets		3,533	1,424
Current tax assets		1,424	1,424
Deferred tax assets		2,109	0
Other assets	(47)	3,946	6,290
Non-current assets and disposal groups classified as held for sale	(48)	399	592
Total assets		819,109	842,178
Liabilities			
Financial liabilities held for trading		0	3
Financial liabilities measured at amortised cost	(49)	663,201	672,644
Deposits of credit institutions		29,077	27,925
Deposits of customers		574,760	577,629
Borrowings		47,174	56,196
Other financial liabilities		12,190	10,894
Provisions	(50)	4,553	4,754
Tax liabilities		0	440
Deferred tax liabilities		0	440
Other liabilities	(51)	2,488	3,136
Total liabilities		670,242	680,977
Equity	(52)		
Share capital		153,094	153,094
Legal reserves		300	0
Regulatory reserves		0	0
Revaluation reserves		874	860
Fair value reserve		1,393	1,242
Retained earnings		-2,283	-55,346
Other reserves		-4,511	61,351
Total equity		148,867	161,201
Total liabilities and equity		819,109	842,178

III. Statement of changes in equity

(000) BAM

31.12.2020	Share capital	Legal reserves	Regulatory reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 01.01.2020	153,094	0	0	860	1,242	-55,346	61,351	161,201
Impact of adopting new regulatory regulation	0	0	0	0	50	0	-4,511	-4,461
Equity as at 01.01.2020	153,094	0	0	860	1,292	-55,346	56,840	156,740
Result after tax	0	0	0	0	0	-8,005	0	-8,005
Other comprehensive income	0	0	0	14	101	17	0	132
Actuarial gains or (-) losses on defined benefit pension plans	0	0	0	31	0	0	0	31
Fair value changes (equity instruments)	0	0	0	0	32	0	0	32
Fair value changes (debt instruments)	0	0	0	0	504	0	0	504
Transfer to profit or loss	0	0	0	0	-383	0	0	-383
Other	0	0	0	-17	-52	17	0	-52
Total comprehensive income	0	0	0	14	101	-7,988	0	-7,873
Other changes	0	300	0	0	0	61,051	-61,351	0
Equity as at 31.12.2020	153,094	300	0	874	1,393	-2,283	-4,511	148,867

(000) BAM

31.12.2019	Share capital	Legal reserves	Regulatory reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 01.01.2019	153,094	0	4,532	2,137	98	-62,219	56,819	154,461
Impact of adopting IFRS 16	0	0	0	0	0	0	0	0
Equity as at 01.01.2019	153,094	0	4,532	2,137	98	-62,219	56,819	154,461
Result after tax	0	0	0	0	0	6,720	0	6,720
Other comprehensive income	0	0	0	-1,277	1,144	153	0	20
Actuarial gains or (-) losses on defined benefit pension plans	0	0	0	2	0	0	0	2
Fair value changes (equity instruments)	0	0	0	0	0	0	0	0
Fair value changes (debt instruments)	0	0	0	0	1,508	0	0	1,508
Transfer to profit or loss	0	0	0	0	-364	0	0	-364
Other	0	0	0	-1,279	0	153	0	-1,126
Total comprehensive income	0	0	0	-1,277	1,144	6,873	0	6,740
Other changes	0	0	-4,532	0	0	0	4,532	0
Equity as at 31.12.2019	153,094	0	0	860	1,242	-55,346	61,351	161,201

IV. Statement of cash flows

	(000) BAM	
	2020	2019
Cash flows from operating activities		
Interest, fees and commissions received	46,375	45,481
Interest paid	-7,770	-8,712
Collection of loans previously written off	2,711	497
Cash paid to employees and suppliers	-27,100	-28,141
Loans to credit institutions	6,993	351
Receipts and payments on off balance items	-534	402
Disbursement of loans extended to customers	-12,841	-58,634
Customer deposits	-1,640	34,525
Income taxes paid	0	-28
Net cash from operating activities	6,194	-14,259
Cash flows from investing activities		
Interest received	1,221	1,990
Dividend received	4	10
Investments in securities at fair value through other comprehensive income	2,878	-6,892
Purchases of intangible assets	-3,646	-2,672
Purchases of tangible assets	-881	-310
Net cash from investing activities	-424	-7,874
Cash flows from financing activities		
Interest paid on borrowings	-732	-921
Increase in borrowings	1,133	11,567
Repayment of borrowings	-10,148	-7,906
Net cash generated by financing activities	-9,747	2,740
Net decrease in cash and cash equivalents	-3,977	-19,393
Cash and cash equivalents at the beginning of year	162,670	181,903
Foreign exchange gains	-219	160
Cash and cash equivalents at the end of year	158,474	162,670

V. Condensed notes

Company

Addiko Bank a.d. Banja Luka (hereinafter the "Bank") is a legal successor of Kristal Banka a.d., Banja Luka which was initially registered as a separate legal entity as at September 30, 1992, and subsequently transformed into a shareholders' company as at May 16, 1997. Prior to its establishment as an independent bank, the Bank operated as a main branch of Jugobanka Jubanka d.d., Sarajevo, a related party of Jugobanka d.d., Beograd.

Under Decision of the district Commercial court of Banja Luka (no. 057-0-Reg-16-002147) dated October 28, 2016, the Bank changed its name to the current legal name.

The Bank is licensed in the Republic of Srpska to perform banking operations related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Srpska banking legislation, it is obligated to operate based on the principles of liquidity, solvency and profitability.

The Bank's registered Head Office is located at no. 13, Aleja Svetog Save St., Banja Luka, Republic of Srpska. As of December 31, 2020, besides the Head Office located in Banja Luka, the Bank had 28 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2019: the Head Office located in Banja Luka and 31 branch offices).

The Bank's owner is Addiko Bank AG, a member of Addiko Group, holding a 99.86% equity interest therein.

Accounting policies

(1) Accounting principles and statement of compliance

The financial statements of the Bank have been prepared in accordance with the accounting regulations applicable to banks in Republika Srpska (RS), which are based on the Law on Accounting and Auditing in RS, Law on Banks of RS, and bylaws of the Banking Agency of RS, passed based on aforementioned laws.

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

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of BAM 6,720 thousand compared to the amount calculated by using the Bank's internal methodology in line with the requirements of IFRS 9. This difference as at 31 December 2020 arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk - difference in the amount of BAM 3,371 thousand,
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk - difference in the amount of BAM 821 thousand,
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) - difference in the amount of BAM 2,528 thousand, of which the amount of BAM 1,105 thousand refers to exposures not secured by acceptable collateral, the amount of BAM 1,423 thousand refers to exposures secured by acceptable collateral, and the amount of BAM 209 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets by amount of BAM 1,491 thousand compared to the value of those assets in accordance with IAS 2 (BAM 1,772 thousand); hence value of repossessed assets as at 31 December 2020 was BAM 281 thousand (see note 47). In accordance with the Decision, Bank recorded the acquired tangible assets at net carrying amount of receivables acquired in the process of collection of receivables, so that it does not recognize revenue from acquisition of assets before its actual sale / realisation.

The aforementioned difference arose based on the assets:

- acquired in the last three years in amount BAM 933 thousand,
- acquired in the period longer then three years in amount BAM 558 thousand.

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

	1 January 2020	31 December 2020
Assets	-4,776	-7,398
Liabilities	315	-504
Equity	-4,461	-7,902

	Year ended 31 December 2020
Financial result before taxation	-5,242

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

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. Generally, the statement of financial position is structured in order from a higher liquidity ratio to a lower one. Amounts expected or achievable within twelve or more months from the reporting date are set out in Note (67) Analysis of Remaining Maturities.

The financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate in the foreseeable future. For estimates and assumptions in accordance with IAS 1, please see Note (5) Use of estimates and assumptions / material uncertainties regarding estimates.

1.1. New regulatory framework

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

- Recognition of additional provisions up to 100% of exposure of non-performing interest receivables in the total amount of BAM 504 thousand at equity;
- Transfer of non-performing interest receivables from balance sheet into the off-balance record and utilization of its provisions in the same amount of BAM 6.637 thousand. These transactions was done with no impact on account of equity;
- Reversal of provisions calculated in accordance with IFRS 9 Bank's internal model in the total amount of BAM 82,764 thousand at account of equity;
- Booking of provisions calculated considering minimum impairment rates stipulated by the Decision in the total amount of BAM 86,771 thousand at account of equity;
- Accounting write-off of balance sheet receivables that meet the conditions in line with the Decision in the amount of BAM 24,813 thousand. The conditions for accounting write-off are described in note "16.2. Impairment".

Total effect on the Other reserves position is an additional loss in the amount of BAM 4,511 thousand, of which BAM 50 thousand refers to calculation of expected credit losses on securities, whose effect is recognized within the other comprehensive income item, so the total effect on equity amounts to BAM 4,461 thousand of additional loss.

Effects can be shown in table below:

	31.12.2019	effect on expo- sure	effect on provi- sions	total ef- fect
Assets				
Cash reserves	162,536	0	-181	-181
Financial assets held for trading	1	0	0	0
Loans and receivables	574,424	-31,451	26,856	-4,595
Loans and receivables to credit institutions	9,871	0	-35	-35
Loans and receivables to customers	564,553	-31,451	26,891	-4,560
Investment securities	62,176			0
Tangible assets	28,174	0	0	0
Property, plant and equipment	25,673	0	0	0
Investment property	2,501	0	0	0
Intangible assets	6,561	0	0	0
Tax assets	1,424	0	0	0
Current tax assets	1,424	0	0	0
Deferred tax assets	0	0	0	0
Other assets	6,290	0	0	0
Non-current assets and disposal groups classified as held for sale	592	0	0	0
Total assets	842,178	-31,451	26,675	-4,776
Liabilities				
Financial liabilities held for trading	3	0	0	0
Financial liabilities measured at amortised cost	672,644	0	0	0
Deposits of credit institutions	27,925	0	0	0
Deposits of customers	577,629	0	0	0
Borrowings	56,196	0	0	0
Other financial liabilities	10,894	0	0	0
Provisions	4,754	0	-315	-315
Tax liabilities	440	0	0	0
Deferred tax liabilities	440	0	0	0
Other liabilities	3,136	0	0	0
Total liabilities	680,977	0	-315	-315
Equity				
Share capital	153,094	0	0	0
Legal reserves	0	0	0	0
Regulatory reserves	0	0	0	0
Revaluation reserves	860	0	0	0
Fair value reserve	1,242	0	50	50
Retained earnings	-55,346	0	0	0
Other reserves	61,351	-31,451	26,940	-4,511
Total equity	161,201	-31,451	26,990	-4,461
Total liabilities and equity	842,178	-31,451	26,675	-4,776

1.2. Basis of presentation

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards, except where the Regulator requires alignment (see Note 1 and 1.1). They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

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

On 22 March 2021, the Management Board of the Bank approved the financial statements as at 31 December 2020 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2020.

(2) Changes in the presentation of the financial statements

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

The above changes are summarized in the below table:

(000 BAM)

1.1-31.12.2019		Reclassification		1.1-31.12.2019 reclassified	
Interest income calculated using the effective interest method	31,743		31,743	Interest income calculated using the effective interest method	
Other interest income	10		10	Other interest income	
Interest expenses	-6,718		-6,718	Interest expenses	
Net interest income	25,035		25,035	Net interest income	
Fee and commission income	15,773		15,773	Fee and commission income	
Fee and commission expenses	-3,253		-3,253	Fee and commission expenses	
Net fee and commission income	12,520		12,520	Net fee and commission income	
Net profit from financial instruments	317		317	Net result on financial instruments	
Other operating income	2,367	-829	1,538	Other operating income	
Other operating expenses	-4,637	1,560	-3,077	Other operating expenses	
Total operating income	35,602	-731	36,333	Operating income	
Personnel expense	-12,172	-116	-12,288	Personnel expenses	
Other administrative costs	-12,570	116	-12,454	Other administrative expenses	
Depreciation/amortization charge	-3,613		-3,613	Depreciation and amortisation	
Total operating expenses	-28,355	0	-28,355	Operating expenses	
OPERATING PROFIT BEFORE CREDIT RISK PROVISIONS	7,247	731	7,978	Operating result	
		-731	-731	Other result	
Credit loss expense on financial assets	-543		-543	Credit loss expenses on financial assets	
PROFIT BEFORE TAXES	6,704		6,704	Result before tax	
Tax on income	16		16	Tax on income	
NET PROFIT FOR THE YEAR	6,720		6,720	Result after tax	

The changes in presentation were made in order to increase the transparency on the development of the underlying operative result of the Bank and to provide more relevant information, enabling at the same time greater comparability. This change in presentation had no impact on the "Result after tax" as well as on the "Total comprehensive income for the year" of the Bank.

Changes in Statement of financial position is presented in table below

(000) BAM

31.12.2019	reclassifica- tion	31.12.2019 reclassified
ASSETS		Assets
Cash and balances held with the Central bank	126,008	36,528
Balances held with other banks	43,520	-43,520
Financial assets held for trading	1	1
Loans and receivables	567,432	6,992
		9,871
Loans and receivables due from customers	564,206	346
Other financial assets	3,226	-3,226
Investments in securities	62,176	62,176
Property and equipment	28,174	28,174
Land, buildings and equipment	25,673	25,673
Investment property	2,501	2,501
Intangible assets	6,561	6,561
Tax assets	1,424	1,424
Receivables for prepaid income taxes	1,424	1,424
Assets held for sale	592	592
Other assets	6,290	6,290
Total assets	842,178	842,178
LIABILITIES		Liabilities
Financial liabilities held for trading	3	3
Financial liabilities at amortized cost	672,644	0
Deposits due to banks and financial institutions	47,992	-20,067
Deposits due to customers	557,561	20,068
Borrowings	56,196	0
Other financial liabilities	10,895	-1
Other provisions	3,841	913
Tax liabilities	440	440
Deferred tax liabilities	440	440
Other liabilities	4,049	-913
Total liabilities	680,977	0
EQUITY		Equity
Issued (share) capital	153,094	153,094
Revaluation and fair value reserves	2,102	860
Accumulated losses	-55,346	-860
Other reserves from profit	61,351	1,242
Total equity	161,201	-55,346
Total liabilities and equity	842,178	842,178

(3) Application of new standards and amendments

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

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

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

3.1. Conceptual Framework

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

3.2. IAS 1 and IAS 8

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

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

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

3.4. Amendments to IFRS 16

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

3.5. Amendments to IFRS 3

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

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU were not yet effective:

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

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

The amendment applies to annual reporting periods beginning on or after 1 January 2021 and are to be applied retrospectively. Earlier application is permitted and restatement of prior period is not required.

The following new standards and interpretations issued by the IASB have not yet been adopted by the Republic of Srpska:

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

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

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

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

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

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

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

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

(4) Standards used for comparative periods

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

Implementation of Banking Agency Decision on Credit Risk Management and Determining Expected Credit Losses, which is in force as of 1 January 2020, resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision and valuation of repossessed assets. For further details regarding the new regulatory decision, see note (1) Accounting principles and statement of compliance and 1.1. New regulatory framework.

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

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

Credit risk provisions

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

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

Fair value of financial instruments

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

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

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

For further details regarding the measurement of financial instruments, see note (16) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (71) 71.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (42) Loans and receivables as well as note (43) Investment securities.

Deferred tax assets

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

Provisions

Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details on provisions are presented in note (50).

Lease contracts

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

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

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

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

(6) Accounting topics affected by Covid-19

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

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

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

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

(7) Foreign currency translation

Transactions in currencies other than 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 2020	1 EUR = 1.95583 KM	1 USD = 1.592566 KM
31 December 2019	1 EUR = 1.95583 KM	1 USD = 1.747994 KM

(8) Revenue from contract with customers

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

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

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

(9) Leases

9.1. Leases in which Addiko Bank is a lessee

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

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

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

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

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

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

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

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities.

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

The Bank also assesses the right of use asset for impairment when such indicators exist. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets.

IFRS 16 requires that a lessee 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.

9.2. Leases in which Addiko Bank is a lessor

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

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

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

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

9.3. Presentation in the financial statements

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

The Bank as a lessor, 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.

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

(10) Earnings per share

The Bank presents basic 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.

(11) Net interest income

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

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

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

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

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

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

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

(12) Net fee and commission income

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

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

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

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

(13) Net result on financial instruments

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

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

(14) Other operating income and other operating expenses

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

(15) Other result

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

(16) Financial instruments

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

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

16.1. Classification and measurement**Business models**

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

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

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

Contractual cash flow characteristics

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, 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 2019 and 2020, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

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

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

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

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

Financial assets at amortised costs

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

Financial assets at fair value through other comprehensive income

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

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

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

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

Financial assets at fair value through profit or loss

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

- *Financial assets designated at fair value through profit or loss*

At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.

- *Financial assets mandatorily at fair value through profit or loss*

Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

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

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

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

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

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

16.2. Impairment

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

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

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

Overview ECL calculation

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

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

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

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. In general, models are developed at the market segment level and wherever possible, an internal history of customer behavior is used in development. In exceptional cases, external data obtained from rating agencies were used. 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, for retail portfolio, quantitative model is in use, while for non-retail simplified approach is chosen. Values taken for non-retail portfolio are those from Decision on Credit Risk Management and Determination of Expected Credit Losses of Banking Agency of Republika Srpska.

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

As stated in Note (1) Accounting principles and statement of compliance, the new regulatory decision prescribes minimum rates for the calculation of provisions for credit losses, ie. if the Bank, in accordance with its internal methodology, determines higher amounts of provisions for credit losses in relation to the amounts calculated by applying the Decision, it will apply higher amounts of provisions for credit losses.

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

Stage 1

The Bank determines ECL for exposures in Stage 1 at least in the following amounts:

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

Stage 2

The Bank determines ECL for exposures in Stage 2 at least in amount equal 5% of exposure.

Stage 3

The Bank determines ECL for exposures in Stage 3 at least in amounts defined in Table 1 or Table 2 below.

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

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

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

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

Significant increase in credit risk

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

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

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

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortized cost carrying amount. (i.e. gross carrying amount adjusted for the loss allowance.) Regulatory default definition according to local regulation is followed:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

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

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

Qualitative staging criteria:

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

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

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

The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition.

Following quantitative PD thresholds were set 2% absolute increase and 300% relative increase.

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

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country and portfolio level whenever possible and plausible.

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

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

The tables below show the scenarios for the baseline case, the favorable (optimistic) case and the unfavorable (pessimistic) case with forecasts of selected variables related to future events that were used to estimate the expected credit losses at the end of 2020. The amounts presented represent the average value of macroeconomic variables during the first 12 months and the remaining two-year projection period for the baseline case, as well as the average values for the complete projection horizon (3 years) in the optimistic and pessimistic case.

Bosnia and Herzegovina	Baseline Scenario		Optimistic Scenario	Pessimistic Scenario
	First 12 months ¹	Remaining 2 year period ¹	3 year period ¹	3 year period ¹
Real GDP (constant price)	-5.0	3.1	1.4	-0.6
Export (change % YoY)	-9.6	8.3	4.2	0.3
CPI inflation (change % YoY)	-0.4	1.5	1.2	0.5

¹ Values represent average for the period

Baseline scenario: The European economy will record an unprecedented deep recession in 2020 due to the Covid-19 shock, and BiH will experience a bigger blow than the global financial crisis before. It is clear that the second wave brings new locking measures, which will turn into a relatively slow recovery. A relatively solid and even return is expected in the second half of 2021, subject to material negative risks. Cumulative growth in the critical first three years is expected to remain positive. However, due to the backward impact of the crisis on unemployment and household incomes, consumer spending could remain slow, contributing to reduced business confidence and lower investment, heightening uncertainty about the recovery phase. Global monetary conditions were already extremely volatile even before the coronavirus crisis, and now even more so, so ultra low interest rates and a large asset purchase program by most central banks can be expected to continue at least until mid-2021.

Optimistic scenario: This scenario reflects a combination of factors such as faster deployment of mass testing capacity, creation of a widely available vaccine, stronger growth in key Asian economies than currently projected, and consequently higher demand for European exports. Greater commitment of the European institutions to the common fund for recovery and mitigation of internal tensions between northern and southern Europe would of course further help to strengthen the recovery. It is difficult to change the cyclical pattern in the short term, but the mentioned positive outcomes could boost the growth rate by as much as 1% per year, which means returning on average about 2/3 of the loss from 2020 in the first year, and exceeding the pre-crisis level simulation horizon by more than 4%.

Pessimistic scenario: This scenario implies a longer waiting period for a mass vaccine, a potential mutation of the virus into a more dangerous version, which requires the re-establishment of serious locking measures across Europe that could take a longer period of time. Less efficient and not optimally coordinated monetary, fiscal and banking policies and measures will put pressure on the recovery, thus increasing existing vulnerabilities. The growth effect would be halved compared to the two optimistic scenarios, ie. only 1/3 of the production loss incurred in 2020 would have recovered in the first year of the simulation and barely reached pre-crisis levels by the end of the third year from now. Not only is it difficult to predict policy responses or their effectiveness, but also their feedback on uncertainty. In addition, there is a lack of similar events that could provide useful empirical guidance.

Validation

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

The Bank distinguishes between an initial and an ongoing validation:

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

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

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

Write-offs

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

An accounting write-off is a transfer of a balance sheet exposure to an off-balance sheet one, whereby the Bank reserves the right to take further measures to collect receivables from debtors.

If, during the debtor's recovery process, the Bank recognizes that financial assets measured at amortized cost will not be repaid, in part or in full, and the conditions for derecognition under IFRS are derecognised, it will re-serve 100% of special risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.

The Bank may write off the balance sheet exposure two years after it has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

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

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

16.3. Derecognition and contract modification

Contract modifications resulting from negotiations with customers can lead to two types of modifications to initially contracted cash flows: significant and insignificant modifications.

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.

Significant modifications leading to derecognition of financial assets

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

The following main criteria result in significant modifications:

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

Insignificant modifications not leading to derecognition of financial assets

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

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

(17) Repurchase agreements

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

(18) Fiduciary transactions

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

(19) Financial guarantees

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

(20) Cash reserves

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

(21) Tangible assets: Property, plant and equipment

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

Property, plant and equipment is measured at at their fair value, as periodically determined by certified appraisers, subsequently decreased by the accumulated depreciation and impairment, if any. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. Increases in the carrying amount arising on revaluation of buildings and equipment are credited to equity as revaluation reserve. The increase is recognized in the profit or loss statement only to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense in the profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense in the profit or loss statement. The decrease is debited directly to revaluation reserve within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

As of 31 December 2019 book value of assets was adjusted to fair value, based on the appraisal performed by certified appraiser.

Revaluation reserves included in equity in respect of property and equipment are transferred directly to retained earnings successively (annually) or when the asset is derecognized. This may involve transferring the entire revaluation reserves when the asset is retired or disposed of. The following depreciation rates and expected useful lives are used:

Depreciation rate	in percent	in years
for immovable assets (buildings)	up to 1.67%	up to 60 yrs
for movable assets (plant and equipment)	up to 11.1%	up to 9 yrs

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

Investment properties are initially carried at cost, subsequently investment property are measured at fair value according to the fair value method admissible under IAS 40.

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

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item "other operating income" only to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense or under the item "other operating expenses" only to the extent it exceeds existing credit balance in the revaluation reserve in equity. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed.

(22) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at fair value less amortisation. Revaluations of intangible assets are conducted regularly so that the carrying amounts do not differ significantly from the amounts that would be recognized by determining the fair values of assets at the statement of financial position date. If the carrying amount of an intangible asset is increased as a result of revaluation, the increase is directly recorded as an increase in the revaluation reserves within equity.

If the carrying amount of an intangible asset is reduced as a result of revaluation, the decrease should be recognized as an expense unless the revaluation reserve has not been previously formed or directly charged to the revaluation reserve.

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	up to 14.3%	up to 7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported as described under tangible assets.

(23) Tax assets and tax liabilities

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

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

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

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

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

(24) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.

Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

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

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if 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 (48) Non-current assets and disposal groups classified as held for sale.

(26) Employee benefits

26.1. Short-term benefits

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

26.2. Long-term employee benefits: retirement severance payments

In accordance with applicable laws and regulations, as well as the requirements of the Bank's Employment Handbook, severance payments are made depending on the type of employment contract termination and for cases in which a payment is determined.

In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 3 (three) average net individual salaries of employees.

In cases Bank's termination, after at least 2 (two) years employee continued work in Bank, employee which had concluded contract with Bank on undetermined time, the Bank pays severance payments depending on the length of employee work in Bank and amounts to 1/3 (one third) average net individual salaries of employee in last three months before termination, for each working year in Bank, except if otherwise determined by Bank's internal acts.

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

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

(27) Provisions

27.1. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending drawdowns on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.

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

27.2. Provisions for restructuring

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

27.3. Provisions for passive legal disputes

The Bank analyzes passive litigation, evaluates their performance and, in accordance with the above, recognizes provisions in accordance with IAS 37.

A provision for legal claims shall be recognize when all of the following criteria are met:

- A past event gives rise to a present obligation (legal or constructive).
- It is probable - i.e. more likely than not - that an outflow of resources (typically a payment) will be required to fulfil the obligation.
- The amount can be estimated reliably.

If any of these conditions is not met, no provision is recognized.

Applying these principles to a legal claim, the relevant past event is the event that gives rise to the litigation, rather than the claim itself. However, the mere existence of a present obligation as a result of a past event is not a sufficient basis on which to recognise a provision. In addition, the entity needs to consider whether it is probable that the obligating event will result in an outflow of resources. Such an assessment involves judgement by management on a case-by-case basis, taking into account past experience relating to the pattern of claims arising from any similar events and the circumstances surrounding the particular obligating event.

The assertion of a claim is not, determinative evidence that a present obligation exists. Instead, before determining whether a present obligation exists, any claim received will need to be assessed, taking account of all available evidence including, for example, the opinion of experts. [IAS 37.16]

If the Bank has been unsuccessful in defending a claim, but intends to appeal against the decision in a higher court, then any original assessment that a present obligation did not exist, and/or that an outflow of resources was not probable in respect of the claim, should be reassessed to see whether there is sufficient evidence to support continuing with such a position. Only in case strong evidence is existing indicating that the appeal will be successful with a probability higher than 50%, no recognition of a provision is necessary. In case such evidence is not existing, a provision should be recognised based on and at the time of the lower court's ruling (i.e. waiting until the outcome of the appeal is received is not appropriate).

IAS 37.36 requires that the amount recognized as a provision is the best estimate of the expenditure to be incurred. This is the amount that a company would rationally pay to settle the obligation, or to transfer it to a third party, at the end of the reporting period. Given the uncertainties inherent in determining an estimate, best estimates are based on management's judgment of all possible outcomes and their financial effect and should also factor in relevant past experience with similar transactions.

27.4. Other provisions

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

(28) Other liabilities

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

(29) Equity

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

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

Statutory reserves represent reserve fund formed in accordance with the Law on Companies.

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.

Revaluation reserves represent result of value increase of tangible assets according to IAS 16.

Other reserves includes transferred balance form account Formed reserves for credit losses according to regulatory rules based on Shareholder Assembly decisions.

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

Notes to the profit or loss statement

(30) Net interest income

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	31,802	31,743
Financial assets at fair value through other comprehensive income	444	564
Financial assets at amortised cost	31,358	31,179
Other interest income	4	10
Other assets	0	0
Total interest income	31,806	31,753
Financial liabilities measured at amortised cost	-5,863	-6,472
o/w lease liabilities	0	-25
Negative interest from financial assets	-244	-246
Total interest expense	-6,107	-6,718
Net interest income	25,699	25,035

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -6,107 thousand (YE19: BAM -6,718 thousand) includes expenses of BAM -4,780 thousand (YE19: BAM -5,682 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Debt securities	444	564
Governments	0	40
Credit institutions	444	524
Non-financial corporations	0	0
Loans and advances	31,358	31,179
Governments	712	1,203
Credit institutions	28	154
Other financial corporations	624	533
Non-financial corporations	7,328	6,634
Households	22,666	22,655
Other assets	0	0
Total	31,806	31,753

Interest expenses break down by instrument and sector as follows:

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	0	0
Debt securities	0	-12,0
Deposits	-5,847	-6,447
Central banks	0	0
Governments	-107	-63
Credit institutions	-1,067	-765
Other financial corporations	-700	-754
Non-financial corporations	-279	-335
Households	-3,694	-4,530
Loans and advances	-244	-234
Central banks	-124	-124
Credit institutions	-120	-110
Other financial liabilities	-16	-25
Negative interest from financial assets	0	0
Central banks	0	0
Total	-6,107	-6,718

(31) Net fee and commission income

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Maintenance	6,230	5,703
Transactions	3,184	3,002
Cards	2,157	2,061
Loans	995	731
Trade finance	585	634
Securities	0	0
Bancassurance	870	964
FX & DCC	2,014	2,645
Other	33	33
Fee and commission income	16,068	15,773
Maintenance	-372	-337
Transactions	-578	-624
Cards	-2,049	-1,628
Securities	-17	-21
Bancassurance	0	0
Client incentives	-26	-122
Trade finance	0	0
FX changes	-9	-18
Loans	-169	-174
Other	-202	-329
Fee and commission expenses	-3,422	-3,253
Net fee and commission income	12,646	12,520

(32) Net result on financial instruments

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Exchange difference	-250	-47
Financial assets at fair value through other comprehensive income	383	364
Total	133	317

The amount of BAM 383 thousand (YE19: BAM 364 thousand) is related to gain on sale of debt securities.

(33) Other operating income and other operating expenses

Other operating income and other operating expenses - net

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Deposit guarantee	-1,414	-1,399
Banking levies and other taxes	-394	-434
Restructuring expenses	-78	0
Net result from sale of non financial assets	424	126
Net result from sale of assets classified as held for sale and disposal groups	0	0
Result from operating lease	342	364
Result from other income and other expenses	-3,055	-196
Total	-4,175	-1,539

Other operating income and other operating expenses - gross

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Other operating income	1,679	1,538
Gains from sale of non financial assets	518	144
Income from operating lease assets	21	43
Income from Investment property	321	321
Other income in connection with other assets	198	386
Gain from the sale of assets classified as held for sale and disposal groups	0	0
Other income	621	644
Other operating expenses	-5,854	-3,077
Losses from sale of non financial assets	-94	-18
Restructuring expenses	-78	0
Deposit guarantee	-1,414	-1,399
Banking levies and other taxes	-394	-434
Other expenses in connection with other assets	-1,418	-10
Other expenses	-2,456	-1,216
Total	-4,175	-1,539

Other expenses in the amount of BAM -2,456 thousand (YE19:BAM -1,216 thousand) includes expenses of BAM -1,106 thousand (YE19: BAM 0 thousand) related to disposal of receivables from credit card settlement.

(34) Personnel expenses

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
Wages and salaries	-7,077	-7,331
Social security	-1,579	-1,677
Variable remuneration	-475	-922
Other personal tax expenses	-16	-16
Voluntary social expenses	-399	-510
Expenses for retirement benefits	-2,015	-2,114
Expenses for severance payments	-3	-3
Income from release of other employee provisions	0	367
Other personnel expenses	-86	-82
Total	-11,650	-12,288

	31.12.2020	31.12.2019
Employees at closing date (Full Time Equivalent - FTE)	322.50	334
Employees average (FTE)	329.79	350.38

(35) Other administrative expenses

	(000) BAM	
	01.01. - 31.12.2020	01.01. - 31.12.2019
IT expense	-7,472	-7,188
Premises expenses (rent and other building expenses)	-2,477	-2,538
Legal and advisory costs	-624	-620
Advertising costs	-869	-1,238
Other administrative expenses	-500	-870
Total	-11,942	-12,454

(36) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Property, plant and equipment	-1,457	-1,583
Intangible assets	-2,412	-2,030
Total	-3,869	-3,613

(37) Other result

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Net result from legal provision and legal income/expense	-1,124	-846
Release of provisions for legal cases and income from legal cases	338	525
Allocation of provisions for passive legal cases and legal costs	-1,462	-1,371
Impairment / reversal of impairment from non financial assets	-1,269	77
Reversal of impairment	0	100
Impairment	-1,269	-23
Net result from remeasurement of Non-current assets classified as held for sale	0	38
Reversal of impairment	0	38
Impairment	0	0
Modification gain or loss	-139	0
Total	-2,532	-731

The line item “Impairment on non-financial assets” in 2020 in amount of BAM 1,269 thousand includes impairment of intangible assets, which was driven by the decision to upgrade to the new version of the core banking system, which was triggering the impairment of capitalized change requests on the previous version of the software. In addition, this position includes also the outcome of project to assess future economic benefit of certain IT applications.

The COVID-19 debt payment moratorium imposed by BARS determined the recognition of BAM -139 thousand modification loss.

(38) Credit loss expenses on financial assets

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

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Change in CL on financial instruments at FVTOCI	-383	86
Change in CL on financial instruments at amortised cost	-13,572	-950
Net allocation to risk provision	-15,049	-992
Proceeds from loans and receivables previously impaired	2,711	497
Directly recognised impairment losses	-1,234	-455
Net allocation of provisions for commitments and guarantees given	-961	321
Total	-14,916	-543

(39) Taxes on income

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax	0	0
Deferred tax	2,601	16
Total	2,601	16

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

(000) BAM

	31.12.2020	31.12.2019
Result before tax	-10,606	6,704
Theoretical income tax expense based on corporate tax rate of 10 %	1,061	-670
Tax effects		
Effects of non-deductible expenses	-1,197	-723
Effects of non-deductible income	206	427
non-recognition of deferred tax assets on loss carry-forwards and temporary differences	0	691
Used tax losses from previous years	2,531	291
Effect of unused tax losses	-926	-228
Current income tax (effective tax rate: -24.5% (2019: 0.2%))	2,601	16
Recognised deferred tax assets	2,601	16
Unrecognised deferred tax assets	-926	-228

Unused tax losses can be seen in table below:

(000) BAM

Tax losses	31.12.2020	31.12.2019
applicable tax rate - current year	10.0%	10.0%
Total tax losses carried forward	926	228
1st following year	228	0
2nd following year	0	228
3rd following year	0	0
4th following year	0	0
5th following year	698	0

39.1. Deferred tax assets/liabilities

Deferred tax assets related to temporary difference are recognised since future tax profits that allow utilisation appear highly likely.

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

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

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

	Deferred tax (netted)	2020 Income state- ment	Other comprehensive income (OCI)
Provisions for loans and advances	969	969	0
Accelerated depreciation for tax purposes	850	1,191	0
Revaluation of tangible assets	-97	2	0
Revaluations of debt instruments at FVTOCI	-98	0	-98
Allowances for expected credit losses of investment securities at FVOCI	46	0	46
Other	439	439	0
Total deferred Tax	2,109	2,601	-52

The total change in deferred taxes in the financial statements is BAM 2,549 thousand. Of this, BAM 2,601 thousand is reflected in the current income statement as deferred tax income and an amount of BAM -52 thousand is shown in other comprehensive income in equity.

	Deferred tax (net- ted)	2019 Income state- ment	Other comprehensive income (OCI)
Provisions for loans and advances	0	0	0
Accelerated depreciation for tax purposes	-341	0	0
Revaluation of tangible assets	-99	16	126
Revaluations of debt instruments at FVTOCI	0	0	0
Allowances for expected credit losses of investment securities at FVOCI	0	0	0
Other	0	0	0
Total deferred Tax	-440	16	126

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

	(000) BAM	
	2020	2019
Balance at start of period (01.01.)	-440	-582
Impact of adopting IFRS 9	0	0
Tax income/expense recognised in profit or loss	2,601	16
Tax income/expense recognised in OCI	-52	126
Fx-difference	0	0
Balance at end of period (31.12.)	2,109	-440

	(000) BAM	
	2020	2019
Deferred tax assets	2,304	0
Deferred tax liabilities	-195	-440
Total	2,109	-440

Notes to the statement of financial position

(40) Cash reserves

			(000) BAM
31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves ¹⁾	30,426	0	30,426
Cash balances at central banks	90,406	-99	90,307
Other demand deposits	37,642	-779	36,863
Total	158,474	-878	157,596

¹⁾Cash on hand

			(000) BAM
31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves ¹⁾	48,098	0	48,098
Cash balances at central banks	77,935	-25	77,910
Other demand deposits	36,637	-109	36,528
Total	162,670	-134	162,536

¹⁾Cash on hand

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was BAM 61,950 thousand (YE19: BAM 62,583 thousand).

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

	(000) BAM
	Stage 1
Gross carrying amount at 31.12.2019	114,572
Impact of adopting new regulatory regulation	0
Gross carrying amount at 01.01.2020	114,572
Changes in the gross carrying amount	13,021
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	455
Gross carrying amount at 31.12.2020	128,048

	(000) BAM
	Stage 1
Gross carrying amount at 01.01.2019	207,640
Changes in the gross carrying amount	-53,695
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	-304
Gross carrying amount at 31.12.2019	153,641

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

	(000) BAM
	Stage 1
ECL allowance as at 31.12.2019	-134
Impact of adopting new regulatory regulation	-181
ECL allowance as at 01.01.2020	-315
Changes in the loss allowance	-560
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	-3
ECL allowance as at 31.12.2020	-878

(000) BAM

	Stage 1
ECL allowance as at 01.01.2019	-852
Changes in the loss allowance	718
Transfer between stages	0
Write-offs	0
Changes in models/risk parameters	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2019	-134

(41) Financial assets held for trading

Financial assets held for trading and measured according to fair value can be shown like in table below:

(000) BAM

	31.12.2020	31.12.2019
Derivatives	0	1
Total	0	1

(42) Loans and receivables

The Bank measures all loans and receivables at amortised cost.

42.1. Loans and advances to credit institutions

(000) BAM

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	3,267	0	3,267
Credit institutions	3,267	0	3,267
Total	3,267	0	3,267

(000) BAM

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	9,872	-1	9,871
Credit institutions	9,872	-1	9,871
Total	9,872	-1	9,871

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2019	-1	0	0	0	-1
Impact of adopting new regulatory regulation	-35	0	0	0	-35
ECL allowance as at 01.01.2020	-36	0	0	0	-36
Changes in the loss allowance	-55	90	0	0	35
Transfer between stages	90	-90	0	0	0
Write-offs	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2020	-1	0	0	0	-1

	(000) BAM				
	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	-4	0	0	0	-4
Changes in the loss allowance	3	0	0	0	3
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2019	-1	0	0	0	-1

42.2. Loans and advances to customers

		(000) BAM			
31.12.2020	Gross carrying amount	ECL			Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Loans and advances	625,535				557,056
Governments	13,601	-231	-631	-118	12,621
Other financial corporations	20,227	-460	-1,524	0	18,243
Non-financial corporations	231,198	-5,252	-3,250	-2,602	220,094
Households	360,509	-2,417	-11,927	-40,067	306,098
Total	625,535	-8,360	-17,332	-42,787	557,056

		(000) BAM			
31.12.2019	Gross carrying amount	ECL			Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Loans and advances	616,919				530,765
Governments	20,896	-102	0	-1,290	19,504
Other financial corporations	14,615	-150	0	-182	14,283
Non-financial corporations	223,393	-2,127	-51	-5,846	215,369
Households	393,526	-2,094	-9,711	-66,325	315,396
Total	652,430	-4,473	-9,762	-73,643	564,552

		(000) BAM				
		Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019		529,376	38,006	85,048	0	652,430
Impact of adopting new regulatory regulation		0	0	-31,451	0	-31,451
Gross carrying amount at 01.01.2020		529,376	38,006	53,597	0	620,979
Changes in the gross carrying amount		32,166	-9,559	-8,272	0	14,335
Transfer between stages		-96,834	87,080	9,754	0	0
Write-offs		-2,398	-77	-6,796	0	-9,271
Changes due to modifications that did not result in derecognition		-69	-45	-26	0	-140
Foreign exchange and other movements		-109	-10	-249	0	-368
Gross carrying amount at 31.12.2020		462,132	115,395	48,008	0	625,535

	Stage 1	Stage 2	Stage 3	POCI	(000) BAM Total
Gross carrying amount at 01.01.2019	466,580	41,327	89,926	0	597,833
Changes in the gross carrying amount	74,470	-8,604	-5,401	0	60,465
Transfer between stages	-11,891	5,298	6,593	0	0
Write-offs	-7	-6	-5,463	0	-5,476
Foreign exchange and other movements	224	-9	-607	0	-392
Gross carrying amount at 31.12.2019	529,376	38,006	85,048	0	652,430

	Stage 1	Stage 2	Stage 3	POCI	(000) BAM Total
ECL allowance as at 31.12.2019	-4,473	-9,762	-73,643	0	-87,878
Impact of adopting new regulatory regulation	-418	881	26,427	0	26,890
ECL allowance as at 01.01.2020	-4,891	-8,881	-47,216	0	-60,988
Changes in the loss allowance	-2,301	-12,084	-105	0	-14,490
Transfer between stages	-1,168	3,642	-2,474	0	0
Changes due to modifications that did not result in derecognition	-1	-10	-23	0	-34
Changes in models/risk parameters	0	0	0	0	0
Write-offs	1	2	6,796	0	6,799
Foreign exchange and other movements	0	-1	235	0	234
Unwinding	0	0	263	0	263
ECL allowance as at 31.12.2020	-8,360	-17,332	-42,787	0	-68,479

	Stage 1	Stage 2	Stage 3	POCI	(000) BAM Total
ECL allowance as at 01.01.2019	-4,564	-9,706	-76,107	0	-90,377
Changes in the loss allowance	6,734	-8,178	-269	0	-1,713
Transfer between stages	-6,650	8,118	-1,468	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0
Write-offs	7	6	5,404	0	5,417
Foreign exchange and other movements	0	-2	-1,203	0	-1,205
Unwinding	0	0	-998	0	-998
ECL allowance as at 31.12.2019	-4,473	-9,762	-73,643	0	-87,878

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

	31.12.2020	31.12.2019
Corporate	3.28%	3.52%
Retail	6.95%	6.94%

(43) Investment securities

(000) BAM

	31.12.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	58,674	62,176
Total	58,674	62,176

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

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2019	61,979
Impact of adopting new regulatory regulation	50
Gross carrying amount at 01.01.2020	62,029
Changes in the gross carrying amount	-3,151
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2020	58,878

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2019	55,017
Changes in the gross carrying amount	6,963
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	-1
Gross carrying amount at 31.12.2019	61,979

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 31.12.2019	-32
Impact of adopting new regulatory regulation	-50
ECL allowance as at 01.01.2020	-82
Changes in the loss allowance	-383
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2020	-465

(000) BAM

	Stage 1
ECL allowance as at 01.01.2019	-118
Changes in the loss allowance	86
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2019	-32

43.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

	31.12.2020	31.12.2019
Debt securities	58,413	61,947
Governments	33,977	31,885
Credit institutions	24,436	30,062
Non-financial corporations	0	0
Equity instruments	261	229
Other financial corporations	261	229
Non-financial corporations	0	0
Total	58,674	62,176

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

	(000) BAM	
	31.12.2020	31.12.2019
Banja Luka Stock Exchange	175	175
S.W.I.F.T	56	24
Central Register of Securities, Banja Luka	30	30
Total	261	229

(44) Tangible assets

	(000) BAM	
	31.12.2020	31.12.2019
Owned property, plant and equipment	21,777	24,733
Land and buildings	20,528	23,353
Plant and equipment	1,249	1,380
Property, Plant and Equipment under construction and paid advances/prepayments		
Right of use assets	569	940
Land and buildings	407	629
Plant and equipment	162	311
Total	27,869	28,174

(45) Intangible assets

	(000) BAM	
	31.12.2020	31.12.2019
Goodwill	0	0
Purchased software	3,600	5,057
Other intangible assets	3,169	1,504
Total	6,769	6,561

(46) Development of tangible and intangible assets

46.1. Development of cost and carrying amounts

	(000) BAM					
31.12.2020	Owned property, plant and equipment		Right of use assets		Intangible assets	TOTAL FIXED ASSETS
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment		
Acquisition cost 01.01.2020	38,362	8,069	1,015	451	25,434	73,331
Changes due to IFRS 5	0	0	0	0	0	0
Additions	746	296	120	13	3,888	5,063
Disposals	-25	-397	0	0	0	-422
Other changes	-6,413	0	0	0	0	-6,413
Acquisition cost 31.12.2020	32,670	7,968	1,135	464	29,322	71,559
Cumulative depreciation 31.12.2020	-12,142	-6,719	-728	-302	-22,553	-42,444
Carrying amount 31.12.2020	20,528	1,249	407	162	6,769	29,115

(000) BAM

31.12.2019	Owned property, plant and equipment		Right of use assets			TOTAL FIXED ASSETS
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Intangible assets	
Acquisition cost 01.01.2019	38,444	8,215	0	0	23,112	69,771
Initial IFRS 16	0	0	791	448	0	1,239
Changes due to IFRS 5	0	0	0	0	0	0
Additions	476	318	224	3	2,717	3,738
Disposals	-558	-464	0	0	-395	-1,417
Other changes	0	0	0	0	0	0
Acquisition cost 31.12.2019	38,362	8,069	1,015	451	25,434	73,331
Cumulative depreciation 31.12.2019	-15,009	-6,689	-386	-140	-18,873	-41,097
Carrying amount 31.12.2019	23,353	1,380	629	311	6,561	32,234

46.2. Development of depreciation and amortisation

(000) BAM

31.12.2020	Owned property, plant and equipment		Right of use assets			TOTAL FIXED ASSETS
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Intangible assets	
Cumulative depreciation 01.01.2020	-15,009	-6,689	-386	-140	-18,873	-41,097
Changes due to IFRS 5	0	0	0	0	0	0
Disposals	10	389	0	0	0	399
Scheduled depreciation	-535	-418	-346	-158	-2,412	-3,869
Impairment	0	-1	0	0	-1,268	-1,269
Other changes	3,392	0	4	-4	0	3,392
Write-ups	0	0	0	0	0	0
Cumulative depreciation 31.12.2020	-12,142	-6,719	-728	-302	-22,553	-42,444

(000) BAM

31.12.2019	Owned property, plant and equipment		Right of use assets			TOTAL FIXED ASSETS
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Intangible assets	
Cumulative depreciation 01.01.2019	-13,300	-6,681	0	0	-17,238	-37,219
Changes due to IFRS 5	0	0	0	0	0	0
Disposals	239	446	0	0	395	1,080
Scheduled depreciation	-603	-454	-386	-140	-2,030	-3,613
Impairment	-23	0	0	0	0	-23
Other changes	-1,322	0	0	0	0	-1,322
Write-ups	0	0	0	0	0	0
Cumulative depreciation 31.12.2019	-15,009	-6,689	-386	-140	-18,873	-41,097

(47) Other assets

(000) BAM

	31.12.2020	31.12.2019
Prepayments and accrued income	1,285	555
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	402	2,294
Other remaining assets	2,259	3,441
Total	3,946	6,290

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

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

	(000) BAM	
	31.12.2020	31.12.2019
Property plant and equipment	399	592
Total	399	592

(49) Financial liabilities measured at amortised cost

	(000) BAM	
	31.12.2020	31.12.2019
Deposits	651,010	661,749
Deposits of credit institutions	29,077	27,925
Deposits of customers	574,760	577,629
Borrowings	47,174	56,196
Other financial liabilities	12,191	10,895
o/w lease liabilities	547	888
Total	663,201	672,644

49.1. Deposits of credit institutions

	(000) BAM	
	31.12.2020	31.12.2019
Current accounts / overnight deposits	183	263
Deposits with agreed terms	28,894	27,662
Total	29,077	27,925

49.2. Deposits of customers

	(000) BAM	
	31.12.2020	31.12.2019
Current accounts / overnight deposits	271,308	280,621
Governments	18,378	20,437
Other financial corporations	8,881	4,559
Non-financial corporations	64,167	86,866
Households	179,882	168,759
Deposits with agreed terms	303,452	297,008
Governments	10,012	4,004
Other financial corporations	303,452	297,008
Non-financial corporations	27,322	24,572
Households	248,426	252,924
Total	574,760	577,629

Average interest rates on deposits can be summarized as follow:

	31.12.2020	31.12.2019
Corporate	-0.71%	-0.64%
Retail	-0.85%	-1.06%

49.3. Borrowings

	(000) BAM	
	31.12.2020	31.12.2019
Credit institutions	12,970	15,767
Other financial institutions	34,204	40,429
Total	47,174	56,196

In the current year assets in the amount of BAM 18.756 thousand (YE19: BAM 20.492 thousand) were pledged in favor to funds of Republic of Srpska Investment-Development Bank, with which the Bank concluded individual loan agreements. Pledged assets of the Bank consists of loans given to customers.

(50) Provisions

	(000) BAM	
	31.12.2020	31.12.2019
Pending legal disputes and tax litigation	2,047	2,568
Commitments and guarantees granted	1,498	852
Provisions for variable payments	625	913
Pensions and other post employment defined benefit obligations	257	288
Restructuring measures	110	117
Total	4,553	4,754

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

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

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

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

	(000) BAM				
	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2020	119,061	289	123	0	119,473
Changes in the nominal value	3,274	18,472	-139	0	21,607
Transfer between stages	8	-48	40	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	-1	0	-1
Gross carrying amount at 31.12.2020	122,343	18,713	23	0	141,079

	(000) BAM				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	111,177	3,031	221	0	114,429
Changes in the nominal value	2,723	2,521	-200	0	5,044
Transfer between stages	5,161	-5,263	102	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2019	119,061	289	123	0	119,473

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2019	-741	-29	-82	0	-852
Impact of adopting new regulatory regulation	274	11	30	0	315
ECL allowance as at 01.01.2020	-467	-18	-52	0	-537
Changes in the loss allowance	1,321	-2,322	40	0	-961
Transfer between stages	-1,915	1,912	3	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2020	-1,061	-428	-9	0	-1,498

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	-687	-337	-149	0	-1,173
Changes in the loss allowance	528	-293	86	0	321
Transfer between stages	-582	601	-19	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	-741	-29	-82	0	-852

50.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2020	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2020
Pensions and other post employment defined benefit obligations	288	-28	-3	0	0	257
Other long term employee benefits	0	0	0	0	0	0
Restructuring measures	117	78	-85	0	0	110
Pending legal disputes and tax litigation	2,568	1,342	-1,525	-338	0	2,047
Other	16	0	0	0	0	16
Provision for variable payments	913	475	-763	0	0	625
Total	3,902	1,867	-2,376	-338	0	3,055

(000) BAM

	Carrying amount 01.01.2019	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2019
Pensions and other post employment defined benefit obligations	290	0	0	-2	0	288
Restructuring measures	507	0	-390	0	0	117
Pending legal disputes and tax litigation	1,861	1,292	-546	-525	486	2,568
Other	16	0	0	0	0	16
Provision for variable payments	988	922	-997	0	0	913
Total	3,662	2,214	-1,933	-527	486	3,902

(51) Other liabilities

	(000) BAM	
	31.12.2020	31.12.2019
Deferred income	184	181
Accruals	2,130	2,360
Other liabilities	175	594
Total	2,489	3,135

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

(52) Equity

	(000) BAM	
	31.12.2020	31.12.2019
Equity	148,867	161,201
Share capital	153,094	153,094
Legal reserves	300	0
Revaluation reserves	874	860
Fair value reserve	1,393	1,242
Retained earnings	-2,283	-55,346
Other reserves	-4,511	61,351
Non-controlling interest	0	0

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 153,094 thousand (2019: BAM 153.094 thousand) corresponds to the fully paid in share capital, which is divided into 153,094,205 common stock (ordinary) shares with a par value of BAM 1 per share, which was registered with the District Commercial Court of Banja Luka on January 25, 2017 under Decision no. 057-0-Reg-17-001851.

The revaluation reserves includes the measurement results - after taking deferred taxes into account - for the tangible and intangible assets measured at fair value model.

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 loss brought forward.

The Bank recorded a loss in the amount of BAM 8,005 thousand in the financial year 2020.

(53) Statement of cash flows

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

The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, 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 re-distributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment.

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank's Retail Segment serves more than a hundred thousand customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than BAM 978 thousand, through a network of 28 branches and digital channels.

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

SME Business: Addiko Bank offers the full product suite to circa 2.9 thousand SME clients (companies with annual turnover between BAM 977 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. Addiko 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 country as ministries of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Bank as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation.

(000) BAM

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	27,406	6,282	2,087	2,705	763	-898	38,345
Net interest income	16,662	4,955	2,087	2,224	653	-881	25,699
o/w regular interest income	20,365	5,139	2,087	2,632	1,117	464	31,802
Net fee and commission income	10,744	1,327	0	481	110	-17	12,646
Net result from financial instruments	0	0	0	0	0	133	133
Other operating result	0	0	0	0	0	-4,175	-4,175
Operating income	27,406	6,282	2,087	2,705	763	-4,940	34,303
Operating expenses	-19,103	-3,506	-52	-654	-518	-3,629	-27,461
Operating result	8,303	2,775	2,035	2,051	246	-8,569	6,842
Other result	0	0	0	0	0	-2,532	-2,532
Credit loss expenses on financial assets	-4,437	-7,258	-544	-1,881	432	-1,229	-14,916
Operating result before tax	3,867	-4,483	1,491	170	678	-12,329	-10,606
Business volume							
Net loans and receivables	274,354	157,438	23,396	75,654	26,213	3,268	560,323
o/w gross performing loans customers	270,727	166,736	36,666	77,471	24,533	0	576,132
Financial liabilities at AC	443,795	44,393	0	50,283	61,750	62,980	663,201

(000) BAM

31.12.2019	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	25,327	5,935	3,047	2,389	1,227	-369	37,555
Net interest income	15,052	4,229	3,047	1,963	1,112	-369	25,035
o/w regular interest income	19,599	4,420	3,047	2,329	1,625	733	31,753
Net fee and commission income	10,274	1,706	0	426	115	0	12,520
Net result from financial instruments	0	0	0	0	0	317	317
Other operating result	0	0	0	0	0	-1,539	-1,539
Operating income	25,327	5,935	3,047	2,389	1,227	-1,592	36,333
Operating expenses	-20,497	-3,222	-58	-643	-477	-3,459	-28,355
Operating result	4,830	2,713	2,989	1,746	750	-5,051	7,978
Other result	0	0	0	0	0	-731	-731
Credit loss expenses on financial assets	-4,211	715	623	-22	1,425	927	-543
Operating result before tax	619	3,428	3,612	1,724	2,176	-4,855	6,704
Business volume							
Net loans and receivables	257,911	164,180	48,683	67,420	26,360	9,872	574,424
o/w gross performing loans customers	266,471	163,745	45,306	68,166	23,034	0	566,723
Financial liabilities at AC	434,340	75,027	0	25,155	61,336	76,787	672,644

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

(000) BAM

	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
31.12.2020						
Transactions	2,440	457	195	93	0	3,184
Accounts and Packages	5,705	395	102	28	0	6,230
Cards	2,147	9	1	0	0	2,157
FX & DCC	1,695	290	29	0	0	2,014
Securities	0	0	0	0	0	0
Bancassurance	871	0	0	0	0	871
Loans	941	29	25	0	0	995
Trade finance	2	409	168	6	0	585
Other	27	4	1	1	0	32
Fee and commission income	13,828	1,592	522	127	0	16,068
Cards	-2,039	-9	-1	0	0	-2,049
Transactions	-443	-83	-35	-17	0	-578
Client incentives	-26	0	0	0	0	-26
Securities	0	0	0	0	-17	-17
Accounts and Packages	-372	0	0	0	0	-372
Bancassurance	0	0	0	0	0	0
Other	-204	-173	-4	0	0	-381
Fee and commission expenses	-3,083	-265	-41	-17	-17	-3,422
Net fee and commission income	10,744	1,327	481	110	-17	12,646

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

(000) BAM

	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
31.12.2019						
Transactions	2,154	516	225	107	0	3,002
Accounts and Packages	5,238	377	61	27	0	5,703
Cards	2,052	8	2	0	0	2,061
FX & DCC	2,037	543	64	0	0	2,645
Securities	0	0	0	0	0	0
Bancassurance	964	0	0	0	0	964
Loans	660	41	30	0	0	731
Trade finance	3	510	115	6	0	634
Other	29	3	0	1	0	34
Fee and commission income	13,137	1,998	497	141	0	15,773
Cards	-1,424	-158	-35	-11	0	-1,628
Transactions	-504	-85	-26	-10	0	-624
Client incentives	-122	0	0	0	0	-122
Securities	-19	-1	0	0	0	-21
Accounts and Packages	-337	0	0	0	0	-337
Bancassurance	0	0	0	0	0	0
Other	-457	-48	-10	-5	0	-520
Fee and commission expenses	-2,863	-292	-72	-26	0	-3,253
Net fee and commission income	10,274	1,706	426	115	0	12,520

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

Risk Report

(54) Risk control and monitoring

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

The following central principles apply in the Bank to the bank's overall controlling:

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

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

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

The Bank's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities.

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

(56) Risk organisation

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

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

In 2020, the following organisational units were operative:

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

The Risk Management department - Team for Restructuring and Corporate Monitoring is responsible for the portfolio of the segment Small and Medium Enterprises, Large Enterprises, Public Finance. This includes monitoring all clients within its jurisdiction and taking preventive measures to prevent the deterioration of credit risk as well as proposing measures to reduce it as well as complete monitoring of problematic NPL loans until collection in full. Strategically defines policies, procedures, manuals, guidelines and other documents for the above segments of monitoring management and restructured risk exposures.

The Risk Management department - Team for retail underwriting and portfolio management - aims to support the profitable growth of the retail portfolio and the Micro segment, while ensuring that credit risk is aligned with the bank's budget. It covers portfolio reporting and collection analysis in the retail and Micro segment. Monthly meetings on portfolio quality ensure monitoring of portfolio development, identification of problems in the early stages and taking corrective action. The Risk Management Department for the Retail and Micro segment is also a key participant in product approval and the audit process. It ensures that the willingness to take risks of credit products is in line with the Bank's willingness to take risks.

The Risk Management department - Collection team - goal is implementation and continuously optimize collection processes, preventing migration of the portfolio in high categories delays, as well as the reduction of non-performing exposure in line with the strategy and the planned budget. The management of non-performing exposures for retail segment (retail and micro clients) means the process of debt collection from the first day of delay until the final recovery of clients.

The Risk Management department - Risk controlling team - 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.

The Risk Management department - Risk Controlling team 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 team** includes also a **Function for Operational Risk, control management and anti fraud** which provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The respective country CROs ensure compliance with the risk principles.

(57) Internal risk management guidelines

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

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

(58) Credit risk

58.1. Definition

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

58.2. General requirements

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

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

The Credit Committee is a permanent institution of the Bank and the highest body for making decisions.

58.3. Risk measurement

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

58.4. Risk limitation

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

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

58.5. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown inclusive of the portfolio that is classified as held for sale according to IFRS 5.

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 2020:

31.12.2020	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL ²⁾ S1&2	Net	Exposure	ECL ²⁾ S3&POCI	Net	Exposure	Net
Cash reserves ¹⁾	128,048	-878	127,170	0	0	0	128,048	127,170
Loans and receivables	468,666	-25,692	442,974	160,136	-42,787	117,349	628,802	560,323
Investment securities	58,878	-465	58,413	0	0	0	58,878	58,413
of which debt securities	58,878	-465	58,413	0	0	0	58,878	58,413
On balance total	655,592	-27,035	628,557	160,136	-42,787	117,349	815,728	745,906
Off balance total	141,056	-1,489	139,567	23	-9	14	141,079	139,581
Total credit risk exposure	796,648	-28,524	768,124	160,159	-42,796	117,363	956,807	885,487

¹⁾ Cash reserves does not include Cash on hand

²⁾ Expected credit losses

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

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL ²⁾ S1&2	Net	Exposure	ECL ²⁾ S3&POCI	Net	Exposure	Net
Cash reserves ¹⁾	114,572	-134	114,438	0	0	0	114,572	114,438
Loans and receivables	549,120	-14,235	534,885	113,182	-73,643	39,539	662,302	574,424
Investment securities	61,979	-32	61,947	0	0	0	61,979	61,947
of which debt securities	61,979	-32	61,947	0	0	0	61,979	61,947
On balance total	725,671	-14,401	711,270	113,182	-73,643	39,539	838,853	750,809
Off balance total	119,350	-770	118,580	123	-82	41	119,473	118,621
Total credit risk exposure	845,021	-15,171	829,850	113,305	-73,725	39,580	958,326	869,430

¹⁾ Cash reserves does not include Cash on hand

²⁾ Expected credit losses

58.6. Credit risk exposure by rating class

At 31 December 2020 roughly 23.7% (YE19: 23.8%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2020 is mainly influenced by accounting write-off repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2020 by BAM 36,779 thousand.

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

(000) BAM

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	114,244	102,497	32,289	35,369	26,912	2,682	313,992
SME	17,256	70,849	89,207	71,533	1,476	5	250,326
Non-Focus	37,087	97,738	52,926	13,638	19,041	64	220,494
o/w Large Corporate	2,000	62,219	36,434	4,548	0	0	105,203
o/w Mortgage	1,083	28,420	2,130	5,219	18,056	58	54,964
o/w Public Finance	34,004	7,099	14,362	3,871	985	6	60,327
Corporate Center ¹⁾	49,259	16,585	106,152	0	0	0	171,995
Total	217,846	287,669	280,573	120,539	47,428	2,752	956,807

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

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

(000) BAM

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	98,034	112,412	35,512	35,207	49,795	1,392	332,353
SME	20,393	102,256	120,049	1,644	3,619	3	247,964
Non-Focus	47,595	82,814	44,915	4,868	30,881	71	211,145
o/w Large Corporate	14,193	45,647	19,072	0	0	0	78,913
o/w Mortgage	1,523	37,143	2,514	4,372	26,046	68	71,665
o/w Public Finance	31,880	24	23,328	497	4,834	3	60,567
Corporate Center ¹⁾	55,865	20,803	90,196	0	0	0	166,864
Total	221,887	318,285	290,672	41,720	84,295	1,466	958,326

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

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

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

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

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

Loans and advances to customers at amortised cost:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	109,785	140	0	0	109,925
2A-2E	206,118	8,636	9	0	214,763
3A-3E	107,594	31,976	103	0	139,673
Watch	36,087	74,351	663	0	111,101
NPE	0	171	47,234	0	47,405
No rating	2,548	120	0	0	2,668
Total gross carrying amount	462,132	115,394	48,009	0	625,535
Loss allowance	-8,360	-17,332	-42,787	0	-68,479
Carrying amount	453,772	98,062	5,222	0	557,056

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	112,091	84	0	0	112,175
2A-2E	242,761	738	38	0	243,537
3A-3E	166,788	3,399	120	0	170,307
Watch	6,275	33,740	784	0	40,799
NPE	67	28	84,089	0	84,184
No rating	1,394	17	17	0	1,428
Total gross carrying amount	529,376	38,006	85,048	0	652,430
Loss allowance	-4,473	-9,762	-73,643	0	-87,878
Carrying amount	524,903	28,244	11,405	0	564,552

Loans and advances to banks at amortised cost:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	0	0	0	0	0
2A-2E	3,266	1	0	0	3,267
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	3,266	1	0	0	3,267
Loss allowance	0	0	0	0	0
Carrying amount	3,266	1	0	0	3,267

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	6,993	0	0	0	6,993
2A-2E	2,879	0	0	0	2,879
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	9,872	0	0	0	9,872
Loss allowance	-1	0	0	0	-1
Carrying amount	9,871	0	0	0	9,871

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	58,874	0	0	0	58,874
2A-2E	0	0	0	0	0
3A-3E	4	0	0	0	4
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	58,878	0	0	0	58,878
Loss allowance	-465	0	0	0	-465
Carrying amount	58,413	0	0	0	58,413

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	61,974	0	0	0	61,974
2A-2E	0	0	0	0	0
3A-3E	5	0	0	0	5
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	61,979	0	0	0	61,979
Loss allowance	-32	0	0	0	-32
Carrying amount	61,947	0	0	0	61,947

Commitments and financial guarantees given:

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	(000) BAM Total
Rating class					
1A-1E	24,653	5	0	0	24,658
2A-2E	54,972	1,414	0	0	56,386
3A-3E	38,280	12,211	0	0	50,491
Watch	4,355	5,082	1	0	9,438
NPE	0	1	22	0	23
No rating	83	0	0	0	83
Total gross carrying amount	122,343	18,713	23	0	141,079
Loss allowance	-973	-516	-9	0	-1,498
Carrying amount	121,370	18,197	14	0	139,581

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	(000) BAM Total
Rating class					
1A-1E	21,965	4	0	0	21,969
2A-2E	54,000	7	3	0	54,010
3A-3E	42,391	32	3	0	42,426
Watch	668	247	6	0	921
NPE	0	0	111	0	111
No rating	36	0	0	0	36
Total gross carrying amount	119,060	290	123	0	119,473
Loss allowance	-741	-29	-82	0	-852
Carrying amount	118,319	261	41	0	118,621

58.7. Exposure by business sector

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

31.12.2020	Non-financial corporations Gross carrying amount	(000) BAM ECL
A Agriculture, forestry and fishing	1,927	-180
B Mining and quarrying	7,100	-161
C Manufacturing	64,925	-3,552
D Electricity, gas, steam and air conditioning supply	41,675	-1,337
E Water supply	99	-4
F Construction	24,565	-1,381
G Wholesale and retail trade	49,757	-2,349
H Transport and storage	4,936	-260
I Accommodation and food service activities	9,959	-988
J Information and communication	18,083	-376
K Financial and insurance activities	0	0
L Real estate activities	316	-65
M Professional, scientific and technical activities	955	-87
N Administrative and support service activities	333	-31
O Public administration and defence, compulsory social security	0	0
P Education	6	-5
Q Human health services and social work activities	2,010	-16
R Arts, entertainment and recreation	1	0
S Other services	4,551	-312
Loans and advances	231,198	-11,104

(000) BAM

31.12.2019	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	3,817	-281
B Mining and quarrying	5,261	-72
C Manufacturing	72,486	-3,478
D Electricity, gas, steam and air conditioning supply	34,924	-483
E Water supply	456	-4
F Construction	28,550	-485
G Wholesale and retail trade	47,865	-2,035
H Transport and storage	5,034	-205
I Accommodation and food service activities	9,521	-99
J Information and communication	6,287	-37
K Financial and insurance activities	0	0
L Real estate activities	409	-69
M Professional, scientific and technical activities	1,915	-476
N Administrative and support service activities	345	-13
O Public administration and defence, compulsory social security	0	0
P Education	6	-5
Q Human health services and social work activities	10	0
R Arts, entertainment and recreation	1	0
S Other services	6,506	-282
Loans and advances	223,393	-8,024

58.8. Presentation of exposure by overdue days

(000) BAM

31.12.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	278,320	10,371	1,608	907	22,787	313,992
SME	249,225	100	0	0	1,000	250,326
Non-Focus	201,541	1,716	354	96	16,787	220,494
o/w Large Corporate	105,203	0	0	0	0	105,203
o/w Mortgage	36,012	1,716	354	96	16,787	54,964
o/w Public Finance	60,327	0	0	0	0	60,327
Corporate Center	171,995	0	0	0	0	171,995
Total	901,082	12,187	1,962	1,002	40,575	956,807

(000) BAM

31.12.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	270,755	11,137	1,188	1,137	48,136	332,353
SME	245,658	0	0	0	2,306	247,964
Non-Focus	184	2	0	0	25	211
o/w Large Corporate	78,913	0	0	0	0	78,913
o/w Mortgage	44,623	1,527	314	78	25,123	71,665
o/w Public Finance	60,567	0	0	0	0	60,567
Corporate Center	166,864	0	0	0	0	166,864
Total	867,379	12,663	1,502	1,215	75,566	958,326

58.9. Breakdown of financial assets by degree of impairment

58.9.1. FORBEARANCE

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

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

	OPENING balance 1.1.2020	Additions of as- sets to which for- bearance measures have been extended (+)	Assets which are no longer consid- ered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	(000) BAM CLOSING balance 31.12.2020
General govern- ments	3,588	0	-239	0	0	0	3,349
Non-finan- cial corpo- rations	1,728	0	-882	0	0	0	846
Households	3,089	2,739	-1,204	0	0	0	4,624
Loans and advances	8,405	2,739	-2,325	0	0	0	8,819

The following table shows the forbearance status in the course of the year 2019:

	OPENING balance 1.1.2019	Additions of as- sets to which for- bearance measures have been extended (+)	Assets which are no longer consid- ered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	(000) BAM CLOSING balance 31.12.2019
General govern- ments	3,998	0	-410	0	0	0	3,588
Non-finan- cial corpo- rations	3,127	0	-1,399	0	0	0	1,728
Households	2,821	931	-663	0	0	0	3,089
Loans and advances	9,946	931	-2,472	0	0	0	8,405

The forbearance exposure was as follows in 2020:

	Closing Balance 31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest in- come recog- nised in respect of for- borne assets (+)
General governments	3,349	0	3,349	0	14
Non-financial corporations	846	0	0	846	33
Households	4,624	378	2,300	1,946	182
Loans and advances	8,819	378	5,649	2,792	229

The forbearance exposure was as follows in 2019:

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	(000) BAM interest in- come recog- nised in respect of for- borne assets (+)
General governments	3,588	0	0	3,588	85
Non-financial corporations	1,728	170	0	1,558	81
Households	3,089	1,434	0	1,655	111
Loans and advances	8,405	1,604	0	6,801	277

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

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2,096	2,096	0	0	0	0
Financial Institutions	0		0	0	0	0
Large Corporate	0		0	0	0	0
Medium and Small Corporate	1,687	1,687	0	0	0	0
Retail	1,796	150	1,646	0	0	0
Total	5,580	3,933	1,646	0	0	0

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

	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	2,096	2,096	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporates	0	0	0	0	0	0
Medium and Small Corporate	2,599	1,917	0	0	0	0
Retail	1,685	150	1,536	0	0	682
Total	6,381	4,163	1,536	0	0	682

58.9.2. CARRYING AMOUNTS OF INVENTORIES (INCL. REPOSSESSED COLLATERALS)

In the financial year 2020, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 281 thousand (2019: BAM 2,191 thousand). Inventories (incl. rescue acquisitions) mainly consist of collateral acquired by the bank due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

58.9.3. MORATORIA DUE TO COVID-19

The Bank offered relief to all individuals and legal entities that use credit-guarantee products, and whose creditworthiness was worsened by the negative impact of the crisis caused by the COVID-19 viral disease pandemic. Deterioration of creditworthiness means that the client's income is reduced, liquidity is reduced and that future regular repayment of liabilities is prevented. The degree and type of vulnerability of the client had to be documented in the form of a certificate of reduction of salary / income, dismissal, etc. Reliefs are offered to clients who have not been late in paying their obligations to the Bank for more than 90 days.

For individuals, the Bank offered 2 modalities of relief: Interim measure - Moratorium with maximum duration until the state of emergency is lifted and then Special measure - where clients are offered an adequate modality consisting of one or a combination of several special measures.

Relief in 2 phases was also defined for legal entities. The first phase consisted of Provisional Measures, which included a moratorium and a grace period. The second phase, Special Measures, involved several modalities, depending on the condition and needs of each client individually.

By the decision of the regulator on the extension of the period for submitting a request for a moratorium until 31 December 2020. It is also defined that the special measure is the only acceptable one, temporary measures are not approved any more.

To all beneficiaries who proved financial vulnerability due to the Covid19 pandemic, the Bank approved the use of reliefs. In the period 1 April 2020 to 31 December 2020, in total 2,010 requests for relief were submitted by private individuals, 1,204 requests were approved with a total client exposure of BAM 26,077 thousand. On 31 December 2020 Moratoriums for 102 clients were active, with a total exposure of BAM 2,875 thousand.

Since the beginning of the pandemic in 2020, a total of 48 corporate clients have used some of the debt service facilities. After 31 December 2020, there are 13 clients left with some of the measures in use.

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

31.12.2020	(000 BAM)					
	Exposure	Performing ECL	Exposure	Non Performing ECL	Exposure	Total ECL
Consumer	1,970	302	199	150	2,169	452
SME	10	0	0	0	10	0
Non Focus	19,851	1,830	411	333	20,262	2,163
o/w Large Corporate	19,434	1,755	0	0	19,434	1,755
o/w Mortgage	417	75	411	3323	828	408
o/w Public Finance	0	0	0	0	0	0
Corporate Center	0	0	0	0	0	0
Total	21,831	2,132	610	483	22,441	2,615

(59) Development of risk provisions

59.1. Method of calculating risk provisions

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

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

Individual assessment, or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from potential repossession of available collaterals (primarily real estates), the Bank bases its assumptions on the collateral's market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

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

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

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

31.12.2020	Baseline case		Optimistic case	Pessimistic case
	First 12 months ¹	Remaining 2-year period ¹⁾	3-year period ¹⁾	3-year period ¹⁾
Real GDP (constant prices)	-5.0	3.1	1.4	-0.6
Unemployment Rate (ILO, average %)	-9.6	8.3	4.2	0.3
CPI Inflation (average % YoY)	-0.4	1.5	1.2	0.5

¹ The values represent average value for the period

The above scenarios are based on 30 September 2020 data and differentiated by the severity and duration of the associated economic impact of COVID-19, with a greater number of infections coinciding with longer periods of restrictions in activity and greater economic impact. They represent only modest update in contrast to H12020 dataset and assumptions used. The three scenarios are:

- **Baseline:** European economies will record unprecedented deep recessions in 2020 due to Covid-19 shock and bank's portfolio will experience larger hit since global financial crisis and earlier. It is clear that second wave is bringing about new lock-down measures, which will translate into relatively sluggish recovery. What will explain the difference in the patterns of recovery in the BiH market are the structural weaknesses and financial constraints specific to our country. A relatively firm and uniform bounce-back is expected by the second half of 2021, subject to material downside risks. Cumulative growth in the critical first three years is expected to remain positive. However, due to the lag effects on unemployment and second-round wage bargaining, consumer spending could remain sluggish, contributing to dampened business confidence and lower investment expectations, amplifying uncertainty surrounding the recovery phase. Global monetary conditions were already extraordinary loose before the coronavirus crisis, and this is now even more the case so one can expect ultra-low interest rates and large asset purchase program by the major central banks to continue until at least mid-2021.
- **Optimistic:** This scenario reflects a combination of the factors such as quicker-than-expected rollout of mass testing capacities, creation of a widely available vaccine, more robust upturn in the key Asian economies than currently projected, and consequently higher demand for European exports. Larger commitment of European institutions to the common recovery fund and ameliorating internal tensions between north and south Europe would of course additionally help to boost the recovery. The cyclical pattern can hardly be altered in short-run, but the positive outcomes mentioned could push the level of growth by as much as 1% annually, which implies regaining on average about 2/3 of the loss from 2020 already in the first year, and surpassing the pre-crisis level by the end of simulation horizon by more than 4%.
- **Pessimistic:** This scenario implies longer-than-expected waiting period for a mass vaccine, potentially with virus mutating into more dangerous one, requiring the reinstatement of severe lockdown measures across Europe with that could last longer period of time. Less effective and not optimally coordinated monetary, fiscal and banking policies and measures will put a pressure on the recovery, thus increasing existing vulnerabilities. It would slash the growth performance by half in comparison two the optimistic scenario, i.e. rather only 1/3 of the loss of output incurred in the 2020 would be regained in the first year of simulation, and barely would reach pre-crisis level by the end of three years from now. However, moving to more restrictive conditions that forecasters have to envisage in designing scenarios this time entails great uncertainty. It is not only difficult to anticipate policy reactions or their effectiveness, but also their feedback on the uncertainty. On top of all that, there is scarcity of similar events that could provide useful empirical guidance.

The following table shows the macro-economic scenarios used for calculation of ECL in the previous reporting period (30. juni 2020.):

Bosnia and Herzegovina	Baseline Scenario		Optimistic Scenario	Pessimistic Scenario
	First 12 months ¹	Remaining 2 year period ¹	3 year period ¹	3 year period ¹
Real GDP (constant price)	-5.0	3.3	1.4	-0.3
Export (change % YoY)	-9.6	7.0	2.8	0.2
CPI inflation (change % YoY)	-0.5	1.5	1.5	0.1

¹ The values represent average value for the period

The following table shows how the ECL allowance for stage 1 and stage 2 is taking into account the forward looking information from the weighted multiple economic scenarios. The Bank's probability-weighted ECL allowance continues to reflect a 60 per cent weighting of base case, optimistic a 10 per cent weighting and pessimistic case a 30 per cent weighting. Final ECL is further adjusted according to minimal coverage prescribed by Decision on Credit Risk Management and Determination of Expected Credit Losses of Banking Agency of Republika Srpska.

31.12.2020 (000 BAM)	(000) BAM			
	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	1,218	1,151	1,206	1,265
Pi Other	12,480	12,185	12,425	12,689
Financial Institutions Model	961	387	741	1,594
Countries	97	64	88	126
Municipalities	645	577	631	696
Corporate Model	9,093	8,207	8,908	9,759
SCPI	60	55	59	63
Total (Stage 1 and 2)	24,555	22,626	24,057	26,193

59.2. Development of risk provisions

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

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

59.3. Changes in the calculation of portfolio risk provisions

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

(60) Measurement of real estate collateral and other collateral

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

The valuation of all commercial and residential real estate is performed on an individual level if the market value is above BAM 1,956 thousand for CRE, above BAM 1,369 thousand for RRE located in Banjaluca and above BAM 782 thousand for other RRE. The market value of the ones with smaller value is re-assessed using certain statistical methods and tools.

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

(000) BAM

Collateral Distribution	31.12.2020	31.12.2019
Exposure	944,330	941,410
Internal Collateral Value (ICV)	542,113	613,986
thereof CRE	380,122	414,638
thereof RRE	139,863	175,835
thereof financial collateral	9,591	8,489
thereof guarantees	0	0
thereof other	12,537	15,024
ICV coverage rate	57.41%	65.22%

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

Dependent on the value of collateral, some stage 3 exposures may not have individual ECLs assigned, if the expected discounted cash flows from realisation of collateral is greater than the outstanding amount, even if the expected discounted cash flows from realisation of collateral is forecasted using multiple economic scenarios.

However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

(000) BAM

	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securiti es	Guarantees	Property	Other	Off- setting	Surplus collateral	Total collateral		
Loans and advances	48,010	0	0	422	0	0	0	422	47,588	-42,788
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	3,142	0	0	0	0	0	0	0	3,142	-2,602
Households	44,260	0	0	422	0	0	0	422	47,588	-40,067
Commitments and financial guarantees	23	0	0	0	0	0	0	0	23	-9
Loan commitments given	23	0	0	0	0	0	0	0	23	-9

(61) Market risk

61.1. Definition

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

61.2. Risk measurement

The Bank calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.7% 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 2020 and 2019 amounts to:

2020	Minimum	Maximum	Average	31 December
Interest rate risk	103	1,007	309	319
Foreign currency risk	11	24	16	12
Price risk	-	-	-	-
Credit spread risk	50	380	129	59
Total	164	1,411	454	309

2019	Minimum	Maximum	Average	31 December
Interest rate risk	62	141	103	141
Foreign currency risk	2	16	10	10
Price risk	-	-	-	-
Credit spread risk	18	122	60	18
Total	82	279	173	169

61.3. Overview - market price risk

61.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31 December 2020 is BAM 319 thousand (comparable VaR figure as at 31 December 2019: BAM 141 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.

(000) BAM					
	Sensitivity interest rate changes	Sensitivity interest rate changes	Sensitivity interest rate changes	Sensitivity interest rate changes	Sensitivity interest rate changes
31 December 2020	Parallel up/down 200bp	Parallel shock up/down	Steepener	shock/Flattener shock	Short rates shock up/Short rates shock down
BAM	5,378/12,453	5,378/12,453		1,305/879	1,232/2,551
EUR	10,613/5,955	10,613/5,955		997/763	4,145/2,146
CHF	10/5	5/3		2/5	6/3
USD	4/8	4/8		4/2	4/8
OTHER					
Total	5,242/6,501	5,237/6,504		540/1,878	2,915/410
31 December 2019	Parallel up/down 200bp	Parallel shock up/down	Steepener	shock/Flattener shock	Short rates shock up/Short rates shock down
BAM	6,123/7,258	6,123/7,258		2,397/1,430	535/575
EUR	6,833/7,702	6,833/7,702		633/481	2,519/2,604
CHF	19/20	10/10		5/8	11/11
USD	1/2	1/2		1/1	0/0
OTHER					
Total	727/463	718/453		1,770/1,919	1,996/2,041

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

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

The change in present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2020 amounts to BAM 28 thousand (entire aggregated effect of this interest rate simulation) - the aggregated effect in 2019 was BAM 41 thousand.

61.3.2. FOREIGN EXCHANGE RISK

The main foreign exchange risk drivers are the currencies. The total volume of open currency positions as at 31 December 2020 is roughly BAM 12,913 thousand (volume per 31 December 2019 of approx. BAM 29,389 thousand), with the majority attributed to the currencies. The value at risk for foreign exchange risk was approximately BAM 12 thousand per day as at 31 December 2020 (value at risk as at 31 December 2019: BAM 10 thousand), at a confidence interval of 99%. The limit of BAM 31,293 thousand was adhered to as at 31 December 2020.

Sensitivity analysis

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2020 and 31 December 2019, considering that the Bank represents the main segment of the consolidated financial statement. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

Currency	FX Open position 31 December 2020	10% increase	10% decrease	FX Open position 31 December 2019	10% increase	10% decrease
USD	1,280	128	128	1,301	130	130
CHF	-370	-37	37	612	61	61

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

61.3.3. EQUITY RISK

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

61.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 59 thousand at 31 December 2020 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2019: BAM 18 thousand). The limit of BAM 332 thousand was adhered to as at 31 December 2020. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio - within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

(62) Liquidity risk

62.1. Definition

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

62.2. General requirements

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

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

62.3. Risk control

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

In 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 189% in March 2020 and its peak of 460% in August 2020.

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

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	0
Securities eligible for Repo	57,957
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	57,957

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

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	0
Securities eligible for Repo	61,429
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	61,429

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

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

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

62.4. Overview - liquidity situation

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

During the financial year, the Bank recorded a stable level of deposits around BAM 191,174 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 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.

31.12.2020	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	663,200	669,606	341,904	93,098	122,476	104,318	7,810
Derivatives	0	0	0	0	0	0	0
Loan commitments	92,557	92,557	92,557	0	0	0	0
Financial guarantees	9,119	9,119	9,119	0	0	0	0
Other commitments	39,403	39,403	39,403	0	0	0	0
Total	804,279	810,685	482,983	93,098	122,476	104,318	7,810

(000)
BAM

(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	672,644	680,169	348,889	43,468	118,369	157,833	11,610
Derivatives	3	3	3	0	0	0	0
Loan commitments	72,471	72,471	72,471	0	0	0	0
Financial guarantees	10,139	10,139	10,139	0	0	0	0
Other commitments	36,863	36,863	36,863	0	0	0	0
Total	792,120	799,645	468,365	43,468	118,369	157,833	11,610

(63) Operational risk

63.1. Definition

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

63.2. General requirements - Operational risk management framework

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

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

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

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

63.3. Risk monitoring

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

63.4. Exposure & capital overview

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

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

(64) Object risk

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

The capital requirements for object risk are calculated according to the methodology of the Standardised Approach and included in the ICAAP evaluation. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(65) Other risks

The following risk types are backed up with capital under “Other risks”:

- Reputational risk
- Macro-economic risks
- Systemic risks
- Business risk/Strategic risk

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

(66) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 3,742 active legal disputes with a total value of BAM 69,572 thousand led by Credit Risk Management Department.

Passive legal disputes

As at 31 December 2020, there were 87 open court proceedings against the Bank, with total nominal value of BAM 56,373 thousand, excluding contingent penalty interest. This amount includes 4 claims with nominal value of BAM 1,041 thousand 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 12 claims with nominal value of BAM 16,469 thousand, which are, in accordance with contracts on ced-ing receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk trans-ferred to transferee) are not recorded in accounting records. The overall number of passive legal disputes decreased in 2020.

The largest number of proceedings is related to claims connected to CHF currency clause and increase of interest margin - total of 17 claims with nominal value of BAM 3,410 thousand.

Of the lawsuits received during 2020, the one with the highest value of the dispute in the amount of BAM 21,151 thousand is the lawsuit from the plaintiff Župa Komerc doo Laktaši in bankruptcy, where ABBL and Heta are defendants, and which claim is for annulment of the Agreement on transfer of receivables with transfer pledge rights concluded between ABBL and Heta, establishing that Heta does not have the status of a separate creditor in the bankruptcy proceedings and ordering the deletion of the registration of the transfer of the mortgage from ABBL to Heta as a mortgage creditor.

Of the most significant court decisions made in favour of the Bank in 2020, we have listed:

- LINEA PROJEKT d.o.o. Mrkonjić Grad (57 0 Ps 107104 13 Ps); value of the dispute BAM 1,097 thousand; claim for damages due to the impossibility of building the facility; case closed;
- DI "Trgokomerc" d.o.o. Čađavica-Ribnik (71 0 P 278460 18 P); value of the dispute BAM 1,484 thousand; claim for annulment of the assignment agreement from 2004; case closed;
- MITAR PERIĆ i MIROSLAV PERIĆ (80 0 P 100742 18 P); value of the dispute BAM 5,200 thousand; claim for damages regarding lost of profits due to unrealized sale of real estate over which there was a mortgage in favor of the Bank; first degree Court decision in favor of Bank;
- Plants Global INC doo Zvornik (62 0 Ps 010633 15 Ps); Bora liability; value of the dispute BAM 2,500 thousand; proposal for retrial (in connection with a claim for annulment of a mortgage); first degree Court decision in favor of Bank;
- NEIMARSTVO a.d. Trebinje (in bankruptcy) (62 0 Ps 012139 19 Ps); Bora liability; value of the dispute BAM 1,500 thousand; claim for establishing that the separate right that the Bank/Bora acquired by registering the mortgage by force of law has ceased; first degree Court decision in favor of Bank;

Outstanding court decisions not made in favour of the Bank in 2020 include:

- VUČKO d.o.o. PALE (57 0 Ps 125587 18 Ps); value of the dispute BAM 1,025 thousand; claim connected to increase of interest margin; claim have been already paid in previous periods, hence they the same do not represent an additional risk of losses but are in the state of open court proceedings based on legal remedy;

In 2020 the Bank had no significant unplanned costs related to the passive litigations which confirms the quality of managing this kind of risk.

The Bank assesses the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned BAM 2,046 thousand for litigations and claims as of 31 December 2020, which the Management believes to be sufficient amount.

During 2020, the Bank continued with intensified activities for resolving claims and litigations, and management of associated legal risk. The strategies for court proceedings are regularly, the adequate legal representation and coordination of Bank's defence is established, as well as the process of out-of-court settlement of disputes, recording and reporting on litigations and claims. This resulted in the aforementioned and other court decisions in favour of the Bank, and completion of certain proceedings.

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively being delivered to the Group Legal department.

Supplementary information required to be disclosed

(67) Analysis of remaining maturities

(000) BAM

Analysis of re- maining maturity as at 31.12.2020	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	95,646	61,950	0	0	0	157,596	0	157,596
Financial assets held for trading	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	58,409	0	2	263	0	58,411	263	58,674
Financial assets at amortised cost	11,385	41,325	135,208	245,129	127,276	187,918	372,405	560,323
Tangible assets	27,869	0	0	0	0	27,869	0	27,869
Intangible assets	6,769	0	0	0	0	6,769	0	6,769
Tax assets	3,533	0	0	0	0	3,533	0	3,533
Current tax as- sets	1,424	0	0	0	0	1,424	0	1,424
Deferred tax assets	2,109	0	0	0	0	2,109	0	2,109
Other assets	3,946	0	0	0	0	3,946	0	3,946
Non-current as- sets and disposal groups classified as held for sale, financial instru- ments	0	0	399	0	0	399	0	399
Total	207,557	103,275	135,609	245,392	127,276	446,441	372,668	819,109
Financial liabili- ties held for trading	0	0	0	0	0	0	0	0
Financial liabili- ties measured at amortised cost	339,906	91,979	121,438	102,294	7,584	553,323	109,878	663,201
Provisions	672	194	1,755	1,699	233	2,621	1,932	4,553
Tax liabilities	0	0	0	0	0	0	0	0
Current tax lia- bilities	0	0	0	0	0	0	0	0
Deferred tax li- abilities	0	0	0	0	0	0	0	0
Other liabilities	2,407	0	0	81	0	2,407	81	2,488
Total	342,985	92,173	123,193	104,074	7,817	558,351	111,891	670,242

(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	99,953	62,583	0	0	0	162,536	0	162,536
Financial assets held for trading	1	0	0	0	0	1	0	1
Financial assets at fair value through other comprehensive income	62,171	0	0	5	0	62,171	5	62,176
Financial assets at amortised cost	10,772	50,564	121,731	251,340	140,017	183,067	391,357	574,424
Tangible assets	28,174	0	0	0	0	28,174	0	28,174
Intangible assets	6,561	0	0	0	0	6,561	0	6,561
Tax assets	0	0	1,424	0	0	1,424	0	1,424
Current tax assets	0	0	1,424	0	0	1,424	0	1,424
Deferred tax assets	0	0	0	0	0	0	0	0
Other assets	4,099	0	0	2,191	0	4,099	2,191	6,290
Non-current assets and disposal groups classified as held for sale, financial instruments	0	0	592	0	0	592	0	592
Total	211,731	113,147	123,747	253,536	140,017	448,625	393,553	842,178
Financial liabilities held for trading	3	0	0	0	0	3	0	3
Financial liabilities measured at amortised cost	263,539	46,986	197,133	153,736	11,250	507,658	164,986	672,644
Provisions	2,476	154	265	1,562	297	2,895	1,859	4,754
Tax liabilities	0	0	0	440	0	0	440	440
Current tax liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	440	0	0	440	440
Other liabilities	3,055	0	0	81	0	3,055	81	3,136
Total	269,073	47,140	197,398	155,819	11,547	513,611	167,366	680,977

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

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

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

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

The Bank had total cash outflows for leases of BAM 499 thousand in 2020.

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

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2020
up to 1 year	386
from 1 year to 5 years	177
more than 5 years	0
Total undiscounted lease liabilities	563

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

(000) BAM

	31.12.2020
Short-term leases	101
Leases of low value assets	466
Total	567

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	503
from 1 year to 5 years	423
more than 5 years	0
Total undiscounted lease liabilities	926

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	108
Leases of low value assets	471
Total	579

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

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

(000) BAM

	31.12.2020
up to 1 year	325
from 1 year to 5 years	429
more than 5 years	0
Total	754

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	322
from 1 year to 5 years	750
more than 5 years	0
Total	1,072

Lease income in business year 2020 for the Bank amounts to BAM 360 thousand (YE19: BAM 385 thousand).

(70) Assets/liabilities denominated in foreign currencies

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

(000) BAM

	31.12.2020	31.12.2019
Assets	819,109	842,178
of which: EUR	488,815	512,450
of which: USD	8,606	11,321
of which: CHF	7,334	10,291
of which: BAM	311,380	303,928
of which: RSD	25	20
of which: HRK	436	822
of which: other currencies	2,513	3,346
Liabilities	670,242	680,977
of which: EUR	348,330	356,497
of which: USD	7,327	10,020
of which: CHF	7,739	6,908
of which: BAM	305,051	305,258
of which: RSD	0	0
of which: HRK	81	124
of which: other currencies	1,714	2,170

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

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

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

	31.12.2020	(000) BAM 31.12.2019
Loan commitments, given	92,557	72,471
Financial guarantees, given	9,119	10,139
Other commitments, given	39,403	36,863
Total	141,079	119,473

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

Fair value disclosures

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

Quoted prices in active markets (level I)

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

Value determined using observable parameters (level II)

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

Value determined using non-observable parameters (level III)

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

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

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

Equity instruments

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

Derivatives

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

Debt financial assets and liabilities

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

71.1. Fair value of financial instruments carried at fair value

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

(000) BAM

31.12.2020	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	0	0	0
Derivatives	0	0	0	0
Investment securities at FVTOCI	58,413	56	205	58,674
Equity instruments	0	56	205	261
Debt securities	58,413	0	0	58,413
Total	58,413	56	205	58,674
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	0	0	0	0

(000) BAM

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	1	0	0	1
Derivatives	1	0	0	1
Investment securities at FVTOCI	61,942	5	229	62,176
Equity instruments	0	0	229	229
Debt securities	61,942	5	0	61,947
Total	61,943	5	229	62,177
Liabilities				
Financial liabilities held for trading	3	0	0	3
Derivatives	3	0	0	3
Total	3	0	0	3

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

(000) BAM

31.12.2020	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities at FVTOCI	229	0	32	0	0	0	-56	0	205
Equity instruments	229	0	32	0	0	0	-56	0	205
Total	229	0	32	0	0	0	-56	0	205

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

(000) BAM

31.12.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities at FVTOCI	229	0	0	0	0	0	0	0	229
Equity instruments	229	0	0	0	0	0	0	0	229
Total	229	0	0	0	0	0	0	0	229

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.

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

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

(000) BAM						
31.12.2020	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	157,596	157,596	0	0	0	157,596
Financial assets at amortised cost	560,323	617,070	56,747	0	0	617,070
Loans and receivables	560,323	617,070	56,747	0	0	617,070
Total	717,919	774,666	56,747	0	0	774,666
Liabilities						
Financial liabilities measured at amortised cost	663,201	669,717	6,516	0	0	669,717
Total	663,201	669,717	6,516	0	0	669,717

(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	162,536	162,536	0	0	0	162,536
Financial assets at amortised cost	574,424	588,408	13,984	0	0	588,408
Loans and receivables	574,424	588,408	13,984	0	0	588,408
Total	736,960	750,944	13,984	0	0	750,944
Liabilities						
Financial liabilities measured at amortised cost	673,940	685,457	11,517	0	0	685,457
Total	673,940	685,457	11,517	0	0	685,457

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

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

(72) Derivative financial instruments

72.1. Derivatives held for trading

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

	(000) BAM	
	Nominal amount	
	31.12.2020	31.12.2019
Foreign exchange and gold		
OTC other	136,908	136,908

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
31.12.2020	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel of the institution
Financial assets							
Loan and advances	0	0	0	0	0	1	255
Placements	9,102	378	1,360	58	0	164	0
Derivatives	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0
Financial liabilities							
Deposits	5,968	0	412	20	9	13,009	249
Other financial liabilities	1,109	0	0	114	0	3	0
Other liabilities	0	0	0	0	0	115	0
Loan commitments given	0	0	0	0	0	0	49
Commitments and guarantees given	0	0	489	0	40	0	0

(000) BAM

31.12.2019	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel of the institution
Financial assets							
Loan and advances	0	362	0	2	4	19	447
Placements	11,563	1,311	3,300	68		524	0
Derivatives	1	0	0	0	0	0	0
Other assets		0	0	0	0	0	0
Financial liabilities							
Derivatives	3	0	0	0	0	0	0
Deposits	12,814	0	1	62	40	11,944	417
Other financial liabilities	808	0	112	276	6	277	0
Other liabilities	0	0	0	0	0	0	0
Loan commitments given	0	0	0	0	0	0	80
Commitments and guarantees given	0	0	0	0	0	0	0

(000) BAM

31.12.2020	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel of the institution
Interest and similar income	0	0	0	0	0	0	11
Interest expenses	-126	0	-8	0	0	-127	-3
Fee and commission income	0	0	0	0	0	14	6
Fee and commission expenses	0	-1	-27	-2	0	0	0
Other administrative expenses	-166	0	-396	-114	0	-7	0
Gains on derecognition of financial assets FVOCI	383	0	0	0	0	0	0
Other operating income	127	0	0	0	0	16	0
Credit loss expenses on financial assets	-704	-6	-45	-3	0	1	-4
Total	-486	-7	-476	-119	0	-103	10

(000) BAM

31.12.2019	ABH	ABS	ABC	ABSE	ABM	ABSA	EBRD	Key personnel of the institution
Interest and similar income	0	0	0	0	0	4	0	21
Interest expenses	-11	0	-6	0	0	-32	-151	-8
Fee and commission income	0	0	1	0	0	15	0	10
Fee and commission expenses	0	-44	-30	-4	0	0	0	0
Other administrative expenses	-808	0	-468	-198	0	-5	0	0
Gains on derecognition of financial assets FVOCI	364	0	0	0	0	0	0	0
Other operating income	135	0	0	0	0	17	0	0
Credit loss expenses on financial assets	-33	-3	-9	0	0	1	0	0
Total	-353	-47	-512	-202	0	0	-151	23

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

(000) BAM

	31.12.2020	31.12.2019
Management and Supervisory Board remunerations	644	631
Taxes and contributions on remunerations	424	412
Total	1,068	1,043

(73) Capital management

73.1. Own funds and capital management

In accordance with the Law on Banks (Official Gazette of RS no. 04/17, 19/18, 54/19) 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 153,094 thousand is in line with these provisions.

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

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

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

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

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

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

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

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

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

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

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

73.2. Implementation of new regulatory decision

In June 2019, the Banking Agency published the final version of new regulatory Decision about credit risk management and determining expected credit losses, which is mandatory for reporting periods beginning on 1 January 2020 (see Note 1 and 1.1). The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum thresholds are prescribed. The effects of implementation of new regulatory decision are recognized in initial equity as at 1 January 2020. The Bank does not present the changed comparative data, and it presents the one-off effect as decrease of retained earnings in the amount of BAM 4,511 thousand.

73.3. Own funds and capital requirements

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

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

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

The Bank is under obligation to maintain capital adequacy at the minimum of 14%, i.e. to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on calculation of bank capital and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Repulica Srpka.

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.

Ref1		31.12.2020	31.12.2019
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	153,094	153,094
2	Retained earnings	-6,812	-62,220
3	Statutory reserves	300	61,352
4	Accumulated other comprehensive income (and other reserves)	1,392	1,209
5	CET1 capital before regulatory adjustments	147,974	153,435
	CET1 capital: regulatory adjustments		
8	Intangible assets	-6,769	-6,561
9	Other deductions from common equity	-2,305	0
10	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,074	-6,561
11	Common Equity Tier 1 (CET1) capital	138,900	146,874
	Tier 2 (T2) capital: instruments and provisions		
12	General credit risk allowances	7,160	7,109
13	Deductions from supplementary capital	0	-4,237
14	Tier 2 (T2) capital	7,160	2,872
15	Total capital (TC = T1 + T2)	146,060	149,746
16	Amount of exposure weighted for credit risk / Total risk-weighted assets	572,817	568,710
17	Total amount of exposure for position, currency and merchandise risk	9,065	38,432
18	Weighted operating risk	67,790	76,816
19	Total risk weighted assets	649,672	683,958
	Capital ratios and buffers %		
15	CET1 ratio	21.38%	21.47%
16	TC ratio	22.48%	21.89%

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

Total capital is less for 3.7 million BAM comparing to last year. Changes can be seen both in Tier 1 and Tier 2 Capital:

- Loss for 2020 in the amount of BAM 8.0 million BAM as direct consequence of estimated expenses for credit risk provisions caused by COVID 19 pandemic;
- Total regulatory adjustments to Common Equity Tier 1 (CET1) are greater for 2.5 mil. BAM than in 2019 (most because of deductible deferred tax assets -DTA in amount of 2.3 mil. BAM)
- Tier 2 Capital is greater than in 2019 for 4.2 mil. BAM, because in 2019 Bank had insufficient reserves for loan losses according to the regulatory requirement in amount -4,237 thousand BAM.

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

Capital requirements (risk-weighted assets)

Credit risk, operational risk, and market risk are in the scope of regulatory risks for RWA calculation. RWAs decreased by BAM 34 million during the reporting period. The increase of RWAs for credit risk by 4,107 thousand BAM

RWAs for market risk decreased by 29,367 thousand BAM. The RWA for operating risks decreased by 9,026 thousand BAM.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the BARS Decision on Minimum Standards for Bank Capital Management, was 16.6% at 31 December 2020, down from 16.0% at 31 December 2019. The fall was driven by increase in the total leverage exposure.

(000) BAM

	31.12.2020	31.12.2019
1 Tier 1 capital	138,900	146,874
2 Total leverage ratio exposure	86,782	884,833
22 Leverage ratio %	16.0%	16.6%

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

(74) Boards and Officers of the Company

1 January to 31 December 2020

Supervisory Board

Chairman of the Supervisory Board:

Hans-Hermann Lotter (from 31.12.2019 to 16.09.2020)

Biljana Rabitsch (16.09.2020-today)

Deputy Chairman of the

Supervisory Board:

Biljana Rabitsch (from 31.12.2019 to 16.09.2020)

Petra Hildegard Zirhan-Wagner (from 16.09.2020-today)

Members of the Supervisory Board:

Razvan Munteanu (from 31.12.2019 to 23.12.2020)

Meliha Povlakić (from 31.12.2019 to 23.12.2020)

Damir Karamehmedović (from 31.12.2019 to 23.12.2020)

Mark Potočnik (from 23.12.2020- today)

Stevo Pucar (from 23.12.2020- today)

Radomir Savić (from 23.12.2020- today)

Management Board

Mario Ivanković, Chairman of the Management Board (from 16.09.2016 to 01.10.2020)

Boštjan Pečenko, Member of the Management Board (from 16.09.2016 - today)

Žaklina Dimitrijević, Member of the Management Board from 23.10.2017 to 18.12.2020)

Srđan Kondić, Chairman of the Management Board (from 01.10.2020 - today)

Slađan Stanić, Member of the Management Board (from 18.12.2020 - today)

Audit Committee

Đorđe Lazivić, Chairman of the Audit Committee (from 16.05.2019 - today)

Jelena Mažuranić, Member of the Audit Committee from 16.05.2019 - today)

Siniša Radonjić, Member of the Audit Committee from 16.05.2019 - today)

Banja Luka, 22 March 2021
Addiko Bank a.d.

MANAGEMENT BOARD



Srđan Kondić
Chairman


Slađan Stanić

Member of the Management Board



Boštjan Pečenko
Member of the Management Board

Statement of all legal representatives

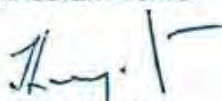
The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records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

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

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

Banja Luka, 22 March 2021
Addiko Bank a.d.

MANAGEMENT BOARD


Srđan Kondić
Chairman




Slađan Stanić

Member of the Management Board



Boštjan Pečenko

Member of the Management Board



Independent Auditor's Report

Deloitte d.o.o. Banja Luka
Braće Mažar i majke Marije 58 i 60
78000 Banja Luka
Republic of Srpska
Bosnia and Herzegovina

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to the shareholders of Addiko Bank a.d. Banja Luka:

Opinion

We have audited the accompanying financial statements of Addiko Bank a.d. Banja Luka (the "Bank"), which comprise of the statement of financial position as at 31 December 2020, and the 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 2020, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations applicable to banks in Republika Srpska.

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.

Audit and Consulting company Deloitte d.o.o. Banja Luka - a single member company, Braće Mažar i majke Marije 58 i 60, 78000 Banja Luka, Republic of Srpska, Bosnia and Herzegovina; District Commercial Court Banja Luka, Registry File 1-10826-00; Inscribed and paid capital: BAM 5,000; Identification No: 01913239; Tax No: 4400883000008; VAT No: 400883000008; Business accounts: 562-099-00001310-56; 572-000-00002180-13.

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Key audit matters (continued)

In its financial statements for the year ended 31 December 2020 the Bank presented loans to customers in the amount of BAM 628,802 thousand and total expected credit loss in the amount of BAM 68,479 thousand.

Key Audit matter

Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management.

In determining both the timing and the amount of loss allowance for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas:

- Use of historic data in the process of determining risk parameters
- Estimation of the credit risk related to the exposure
- Assessment of stage allocation
- Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses
- Assessment of the forward-looking information, including the impact of the COVID-19 pandemic
- Expected future cash flows from operations
- Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.

How the Matter Was Addressed in Our Audit

In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

We performed the following audit procedures with respect to area of loans:

- Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 and relevant regulations of Republic of Srpska
- 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
- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on:
 - i. models applied in stage allocation and transitions between stages

Key audit matters (continued)

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

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

- ii. assumptions used by the Management in the expected credit loss measurement models
 - iii. criteria used for determination of significant increase in credit risk, including the impact of COVID-19
 - iv. assumptions applied to calculate lifetime probability of default
 - v. methods applied to calculate loss given default
 - vi. methods applied to incorporate forward-looking information, including the impact of COVID-19.
 - vii. re-performing calculation of expected credit losses on a selected sample.
 - viii. analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance
 - ix. assessment of appropriateness of staging transition and allocation of exposures with granted moratoria
- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:
 - i. Assessment of borrower's financial position and performance following latest credit reports and available information
 - ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19

Key audit matters (continued)

Key Audit matter

How the Matter Was Addressed in Our Audit

- iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period
- iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance
- v. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Deloitte d.o.o. Banja Luka

Ranko Travar, director



Braće Mažar i majke Marije 58 i 60

Banja Luka, Bosnia and Herzegovina

22 March 2021



Sabina Softić, partner and licensed auditor



Glossary

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

Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra - bank transactions
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households ("NPISH") and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan

	portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund, presented in % of the total risk according to Decision about capital management

Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2).
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

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