Addiko Bank

Annual Report 2021

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.

Addiko Bank

Key Data based on the separate financial statements prepared in accordance with the accounting regulations applicable to banks in the Republic of Srpska („RS“), pursuant to the RS Law on Accounting and Audit, RS Law on Banks and bylaws of the RS Banking Agency.

BAM ths

Selected items of the Profit and Loss Statement	2021	2020	(%)
Net banking income	41.819	38.341	9,1%
Net interest income	27.079	25.695	5,4%
Net fee and commission income	14.740	12.646	16,6%
Net result on financial instruments	508	137	>100%
Other operating result	-475	-2.965	-84,0%
Operating expenses	-29.582	-27.443	-7,8%
Operating result before impairments and provisions	12.270	8.070	52,0%
Other result	-529	-3.760	-85,9%
Credit loss expenses on financial assets	-596	-14.916	-96,0%
Tax on income	-1.642	2.601	>100%
Result after tax	9.503	-8.005	>100%

Performance ratios	2021	2020	(pts)
Net interest income/total average assets	3.0%	3,1%	-0,1
Return on average tangible equity	6,5%	-5,4%	11,9
Cost/income ratio	70,7%	71,6%	0,8
Cost of risk ratio	0,1%	1,8%	-1,7
Cost of risk ratio (net loans)	0,2%	2,5%	-2,3
Earnings/loss per share (in BAM)	0,06	-0,05	11,0

Selected items of the Statement of Financial Position	2021	2020	(%)
Loans and advances to customers	559.182	557.056	0,4%
o/w gross performing loans	574.908	576.133	-0,2%
Deposits and loans of customers	729.119	574.760	26,9%
Equity	158.020	148.867	6,1%
Total assets	944.920	819.109	15,4%
Risk-weighted assets	644.494	649.672	-0,80%

Balance sheet ratios	2021	2020	(pts)
Loan to deposit ratio	76,7%	96,9%	-20,2
NPE ratio	5,4%	6,1%	-0,7
NPE ratio (NPE balance sheet loans)	5,2%	6,5%	-1,3
NPE coverage ratio	89,1%	87,9%	1,2
Liquidity coverage ratio	288,6%	324,3%	-35,7
Common equity tier 1 ratio	21,76%	21,40%	0,36
Total capital ratio	21,76%	22,50%	-0,74

Letter from the CEO

Dear customers, shareholders and employees,

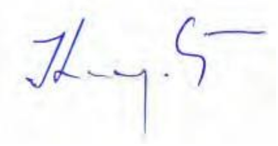
Addiko Bank Banja Luka started the past year, 2021, with complete prudence, focus and optimism, recognizing in 2020 the existing and potential global consequences for the economy and population imposed by the Covid-19 pandemic, which is unfortunately still present. Aware that turbulence in all spheres of private and business life is still uncertain, our determination and perseverance to maintain stability, and in such challenging conditions to adapt and provide fast and quality service to customers, gave extremely good business results.

As part of the financial sector of the Republic of Srpska, in 2021, we have persistently provided customers - the population and the business community with a safe service and full commitment, complying to all measures and recommendations of institutions in order to preserve the health of employees and customers, and at the same time the stability of the economy. Operating in conditions that led us to prudent banking in 2020, we remained committed to the needs of customers and we continued to constantly improve our fast, straightforward and simple banking services.

We are proud of the Addiko team, which in 2021 achieved an operating result of BAM 12.3 million, which is by 52% more than in 2020, which we concluded with an operating result of BAM 8 million. Net interest income increased by 5.4%, while gross fee income increased by as much as 15.5% compared to 2020. The net effect of credit risk provisions in 2021 amounts to BAM -0.6 million (2020: BAM - 14.9 million), which is an indicator that the Bank has not deviated from the conservative approach to credit risk provisioning.
A well-planned lending strategy in the focus Consumer and SME segments resulted in an 84% share of these two segments in total interest-bearing loans at the end of 2021. Gross consumer loans show an increase of 9.4% (or by BAM 34 million), which also means that citizens have recognized the dedicated service of Addiko Bank Banja Luka.
Deposits of customers increased by BAM 154 million (26.9%), which is also a reflection of the trust of the business community and citizens in the strategy of Addiko Bank Banja Luka. The bank's assets increased by 15.4% compared to 2020, more precisely by BAM 126 million.
With dedicated work of employees and effects achieved during a well-planned strategy, in order to achieve an even better effect, we decided to further strengthen the staffing structure in 2021, so the personnel expenses in 2021 increased by 13%, which affected the overall operating expenditures by 7.8% compared to 2020.
The capital adequacy of Addiko Bank Banja Luka is 21.8%, which is significantly above the prescribed legal minimum and indicates an extremely stable position of the Bank. We also maintained our balance sheet structure and liquidity at an extremely stable level.
In the future, we will continue to monitor the needs of our customers, because that is the basis of our strategic action. The result that we have achieved motivates us to continue to improve and digitize the products and services of Addiko Bank Banja Luka, as there is a growing need for fast service delivery to customers and the business community, while the key factor in that speed is quality, safety and simplicity, based on which customers trust us. An indispensable part of our work also continues to be social responsibility, more precisely helping and investing in social values, and the community in which we operate can always count on our support.

I thank the employees for their dedication and team spirit, customers and shareholders for their trust. I am convinced that 2022 will bring health for all citizens, security and stability for the business community, and in any case, our motivation and action to contribute to the financial stability and satisfaction of end users of our services remains completely clear and undeniable.

Sincerely,



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

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

From left to right: Srđan Kondić – Chairman of the Management Board, Mile Todorović – Board Member, Slađan Stanić – Board Member.

Godišnji izvještaj 2021. godine

Management Report

1. Overview of Addiko Bank Banja Luka

Addiko Bank Banja Luka is a member of the Addiko Group, a consumer and small and medium-sized enter-prises (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 coun-tries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates as two banks: Addiko Bank Banja Luka and Addiko Bank Sarajevo), Serbia and Montenegro. As of 31 December 2021, Addiko Bank serviced approximately 147 thousand customers, using a well-dispersed network of 28 branches and modern digital banking channels.

Based on its focused 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 prod-ucts 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 Con-sumer 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, espe-cially in the Consumer segment and the SME segment, to improve efficiency, reduce risks and maintain asset quality.

2. General Economic Environment

The Covid-19 pandemic continues to affect the economy around the globe, including BH and the region, with periodic waves that occur every few months. Despite the large number of infected people and the rather low vaccination rate, it seems that this does not have a significant impact on the economy. Life and business have adapted to the new situation and continue as before the pandemic, while governments in BH and the region impose only slight restrictions and avoid complete lockdowns.

As a result, BH and countries in the region have had better economic results than previously expected. In particular, household consumption was dominant, as a result of increased savings and deferred consumption, while investment had a similar trend. In addition to the recovery of tourism in the neighbouring countries and BH itself, inflows of foreign direct investment have been very good, which could be due to trends in secur-ing suppliers at nearby production sites.

Partly due to the strong recovery of the economy, but primarily due to higher food and energy prices, infla-tion has gained momentum everywhere, even in the region. The latest data show that the growth of prices at the end of the year in many countries exceeded 5%, so in general in the international market, the Govern-ment and the Central Bank do not hesitate to take measures to mitigate the whopping jump in inflation.

The estimated growth of the economy of Bosnia and Herzegovina in 2021 was 4.8%, which exceeded the level before the 2019 pandemic. Industrial production, personal consumption, exports and the inflow of foreign direct investment increased significantly, while the Covid-related restrictions were quite mild. Inflation rose sharply in late 2021 due to a sharp rise in food and energy prices. Political tensions have been rising since the second half of 2021, threatening to jeopardize the country's stability, economic progress and EU support, while high levels of corruption and unemployment rates further slow this down.
Bosnia and Herzegovina relies heavily on foreign in-flows, primarily from the diaspora, while continuing to receive EU and IMF macroeconomic financial assistance packages, support of which is expected also in the future.

Croatia's economy grew faster than most EU-CEE coun-tries in 2021 and faster than expected, and real GDP recovered by an estimated 8.7%. Tourism was the main driver of good results, with the total number of over-night stays (domestic and foreign) increased by 55% compared to 2020. Inflation reached 5.5% in December 2021, bringing the full-year average to 2.6%.

Slovenia's economic growth exceeded the expectations in 2021, recording a 6.6% jump in GDP, primarily due to private consumption growth of 8.8%. While GDP and exports exceeded pre-crisis levels a few months before the end of 2021, two important economic sectors - tourism and the automotive industry - are still operating below pre-crisis levels: the first because of the pan-demic and the second because of supply problems. Inflation averaged 1.9% in 2021, but reached 4.9% in December 2021. Rising energy prices are worrying en-ergy-intensive sectors, which play a prominent role in the economy in the region and Europe.

The Serbian economy continued to perform well in 2021 - according to current estimates, GDP grew by 7.5 per-cent, which is among the highest figures in Europe. Supportive fiscal policy was one of the main drivers - government capital expenditures rose by over 50% in 2021. Foreign direct investment was also strong, reach-ing 7.4% of GDP. Strong economic growth, along with high global energy and food prices, led to inflation reaching 7.9% in December, bringing the full-year aver-age to 4%. The Central Bank has not yet raised the reference interest rate, but the Government has de-cided to freeze the prices of certain basic products, which should prevent further escalation of inflation.

With 11.4%, Montenegro recorded one of the highest GDP growth rates in Europe in 2021 after a sharp de-cline in 2020, as the tourism sector flourished, increas-ing consumption as well. A solid economy has also helped stabilize the fiscal sector, with both deficits and public debt significantly reduced. On the negative side, in December 2021 inflation reached 4.6% on an annual basis, bringing the full-year average to 2.4%. Solid eco-nomic results, however, are overshadowed by political instability, which intensified in January 2022.

3. Transformation Program

In August 2021, the Management Board of Addiko Bank Banja Luka launched the Transformation Program, with the aim of having Addiko Bank perceived as the leading specialized bank in the region, and also as a universal bank with the best digital service and full online bank-ing, accompanied by the best customer service.

The Transformation Program is planned to last until the end of 2022 and is based on three principles:

First, to strengthen growth in focus areas through new initiatives for consumers and small and medium enter-prises, expanding digital and hybrid offerings and speeding up the transformation of the loan portfolio according to the defined focus segments

Second, aligning the Group's organizational setup and cost base with its specialized complexity and cost re-duction strategy, on the one hand, and simplifying the operational model, on the other hand, using digital platforms.

Third, to proactively address specific topics, which includes an ambitious reduction in the non-performing portfolio rate, as well as exploring structural options.

While new business initiatives will need more time to be implemented, and the accelerated reduction of non-focusing will have a negative short-term impact on the growth of net banking income, the Transformation Program has already given the first results during 2021:

Transformation of the credit portfolio has been speeded up:

- The focus has been shifted to smaller loan volumes in the SME segment;
- Reduced concentration in the segment of medium-sized enterprises with low yields and higher amounts within the SME segments (-6.2%);
- Loan growth in focus segments of 14.4% excluding the medium SME segment - total focus growth of 10.9% in 2021;
- Reduction of the non-focus loan portfolio of 35.3% in line with the strategy of accelerated repayment of the given segments;

Compared to the previous year, the volume of non-performing portfolio decreased by BAM 5.528 thousand (yoy -11.5%), primarily due to accounting write-offs. The non-performing portfolio rate was also lower in 2021 (-2.2 pp), not only due to the lower volume of the non-performing portfolio, but also due to the growth of lending activity, and changes in the methodology for calculating ratios, according to which the exposure to the Central Bank was also included in 2021. If we normalized the non-performing portfolio rate in 2021 (excluding the exposure to the Central Bank), the achievement of ratios would be 6.5%, or -86bp lower than in 2020.

3.1. Repositioning of the Addiko Brand

The Addiko Group is currently in the midst of a brand repositioning process. The future brand character of the company will best reflect the business strategy to make Addiko the leading specialized bank for consumers and small and medium-sized enterprises in our region. Furthermore, a new advertising concept has been agreed and is planned for implementation during the second quarter of 2022.

As an expert in consumer and SME lending, Addiko is committed to speed and flexibility and promises to be there in all situations, whenever and wherever customers need this additional support.

The repositioning process encompasses:

- Brand narrative;
- Implications of customer travel (implications of repositioning at different points of contact of customers, along the total sales flow as predefined in marketing areas);
- Segmentation and hierarchy of messages (development of segmentation of the target group and appropriate cascading of messages for the external communication structure);
- Brand measurement (setting up a brand measurement system and defining the KPIs).

4. Corporate Governance

Mr Srđan Kondić is the President of the Management Board of the Bank (CEO), who was appointed to this position by the Supervisory Board of the Bank on 1 October 2020. Mr Kondić is responsible for the CEO area, and starting from 28 September 2021, the Supervisory Board appointed him to the Corporate Market Area (CCMO). Mr Kondić is an experienced banker who stands out with his excellent knowledge of the business envi-ronment, which he gained while working many years in banking and financial institutions, and his enviable ability to make optimal decisions in crisis situations.

Mr Slađan Stanić is the Member of the Management Board in charge of risk and financial management (CFO and CRO). He was appointed to this position by the Supervisory Board of the Bank on 18 December 2020. Mr Stanić is an excellent banker with unique experience in risk management in the banking sector of Bosnia and Herzegovina and beyond, and has extensive experience in financial management.

As of 1 September 2021, Mile Todorović, as the Member of the Management Board of the Bank, is in charge of the business segment related to retail sales (CRMO) and information technology management (IT) at the Bank. Prior to his appointment to the Management Board of the Bank, Mr Todorović was the Head of the Bank's Retail Department.

Until 31 August 2021, when he was dismissed by the decision of the Supervisory Board of the Bank, Boštjan Pečenko was the Member of the Management Board in charge of Corporate banking and information technology management (IT).

5. Branches

At year end 2021, the network of Addiko Bank a.d. Banja Luka consisted of 28 branches, spread throughout the Republic of Srpska. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, as Addiko has built a strong, clear and recognizable corporate identity, accepted by customers, which allows greater use of digital sales channels.

6. Financial Development of the Bank

6.1. Detail Analysis of the Reported Result

BAM ths

	01.01. - 31.12.2021	01.01. - 31.12.2020	(aps)	(%)
Net banking income	41.819	38.341	3.478	9,1%
Net interest income	27.079	25.695	1.384	5,4%
Net fee and commission income	14.740	12.646	2.094	16,6%
Net result on financial instruments	508	137	371	>100%
Other operating result	-475	-2.965	2.490	-84,0%
Operating income	**41.852**	**35.513**	**6.339**	**17,8%**
Operating expenses	**-29.582**	**-27.443**	**-2.139**	**7,8%**
Operating result before impairments and provisions	**12.270**	**8.070**	**4.200**	**52,0%**
Other result	-529	-3.760	3.231	-85,9%
Credit loss expenses on financial assets	-596	-14.916	14.320	-96,0%
Result before tax	**11.145**	**-10.606**	**21.751**	**>100%**
Tax on income	-1.642	2.601	-4.243	>100%
Result after tax	**9.503**	**-8.005**	**17.508**	**>100%**

Net banking income increased by BAM 3.478 thousand to BAM 41.819 thousand (2020: BAM 38.341 thousand), primarily due to higher net interest income and strong growth of net fee and commission income in focus segments (consumers and small and medium enterprises), which was partially neutralized by the accelerated reduction in non-focus business, followed by a decrease in net interest income in certain segments (mortgage loans, large and public companies).

Net interest income increased in 2021 from BAM 25.695 thousand at YE20 by BAM 1.384 thousand, or 5.4%, to BAM 27.079 thousand at YE21. This development was positively influenced by business in the Consumer segment, with a growth of net interest income by BAM 2.230 thousand and in the SME segment with a growth of BAM 360 thousand. Business in the Consumer segment was mainly driven by a higher loan volume of BAM 46.223 thousand, which was partially compensated by a slightly lower interest rate, which fell by -8 bp. On the other hand, the increase in the SME segment was mainly driven by the growth of interest rates +18 bp, with stable volume development (growth of BAM 1.480 thousand), which was mainly related to the growing focus of business with micro and small enterprises within the SME segment. The positive development in focus segments was partially reduced by the rapid decline in operations with non-focus segments, within which net interest income decreased by BAM -1.454 thousand as a result of the planned volume reduction of BAM -48.928 thousand. Covid-19 also influenced the fact that all liquidity generated by the given reduction of the non-focus portfolio was not completely reinvest in new loan disbursements in focus segments. Excess liquidity also caused a higher amount of funds with the Central Bank with a negative interest rate, which further reduced the growth of interest income of market segments. On the deposit side, net interest income was positively affected by the reduction of the interest rate (-18 bp), caused by a further shift from term deposits with higher yields to a-vista deposits with lower yields, (the share of a-vista deposits increased from 55% to 63%) and with further deposits repricing.

Net fee and commission income increased from BAM 12.646 thousand in 2020, by BAM 2.094 thousand, or 16.6%, to BAM 14.740 thousand in 2021. This is primarily the result of an increase in fee and commission income from BAM 16.068 thousand at YE20, by BAM 2.499 thousand, to BAM 18.567 thousand at YE21, mainly in the positions of Card Business, Bankassurance and FX&DCC, in the Consumer segment, with higher fees from transaction banking and documentary business for legal entities. The increase in net fee and commission income is a reflection of the gradual normalization of economic activity in the second quarter, while the previous year was negatively affected by the Covid-19 pandemic.

Net result on financial instruments amounted to BAM 508 thousand at YE21 (2020: BAM 137 thousand) and mainly reflects the income achieved from the sale of bonds.

Other operating result, as the sum of other operating income and other operating expenses increased from BAM -2.965 thousand at YE20, by BAM 2.490 thousand, to BAM -475 thousand at YE21, which is mainly due to the sale of tangible assets repossessed in the process of forced collection of receivables (BAM 1.322 thousand), as well as the reduction of other expenses (litigation costs from previous years) in the amount of BAM 1.389 thousand. The most important items within this position are:

- profit from the sale of non-financial assets of BAM 1.885 thousand (2020: BAM 518 thousand);
- income from investment real estate of BAM 321 thousand (the same amount was in 2020);
- deposit insurance costs of BAM -1.482 thousand (2020: BAM -1.414 thousand);
- Bank charges and other fees of BAM -355 thousand (2020: BAM -394 thousand);
- Supervisor fees of BAM -678 thousand (2020: BAM -630 thousand);
- Litigation costs from the previous year of BAM 11 thousand (2020: BAM 1.395 thousand).

Operating costs increased from BAM -27.443 thousand at YE20 to BAM -29.582 thousand at YE21:
Personnel expenses increased in 2021 by BAM -1.546 thousand due to:

- the increase in the number of FTEs
- severance costs caused by organizational changes and employee fluctuations
- introduction of additional categories of variable payments in 2021.

In addition to personnel expenses, an increase was also recorded in the position Other administrative expenses amounting to BAM -12.797 thousand (2020: BAM -11.924 thousand). This increase is the result of the increase in marketing costs (BAM -252 thousand) and increase of costs in the position Business Cards (BAM -533 thousand), due to the transition to a new card processor.

Other result increased from BAM -3.760 thousand at YE20, by BAM 3.231 thousand, to BAM -529 thousand at YE21, primarily due to reducing the litigation provisioning cost (BAM 1.044 thousand) and growth of income from the sale of assets repossessed in the process of forced collection of receivables (BAM 1.304 thousand).

Credit loss expenses on the financial assets normalized in 2021 and they amount to BAM -596 thousand. Compared to the previous year, when the Bank, in order to prevent potential negative effects due to the COVID-19 pandemic, which were reflected in negative projections of macroeconomic indicators, and consequently the anticipated deterioration of the loan portfolio, due to which the Bank recorded a significant expense upon the expected credit losses (ECL), in 2021 this expense was significantly lower, generated primarily by income from the release of provisions on the performing portfolio due to updating the macroeconomic component, and as a result of better client performance and generally better Corporate portfolio development than initially expected.

Tax on income includes:

- current tax - BAM 988 thousand (2020: 0 as a consequence of the tax loss made);
- deferred tax in the amount of BAM - 654 thousand (2020: BAM 2.601 thousand).

The main reason for the increase in deferred taxes are the reduction of the balance of provisions for expected tax losses for customers classified in Stage 1 (BAM -236 thousand), the sale of assets repossessed in the process of forced collection of receivables (BAM -157 thousand) and the reduction of deferred tax assets upon tangible and intangible assets (BAM -300 thousand).

6.2. Detailed Analysis of the Statement of Financial Position

BAM ths

	31.12.2021	31.12.2020	(aps)	(%)
Cash reserves	250.090	157.596	92.494	58,7%
Financial assets held for trading	31	0	31	>100%
Loans and receivables	567.678	560.323	7.355	1,3%
Loans and advances to credit institutions	8.496	3.267	5.229	>100%
Loans and advances to customers	559.182	557.056	2.126	0,4%
Investment securities	88.353	58.674	29.679	50,6%
Tangible assets	26.430	27.869	-1.439	-5,2%
Intangible assets	5.740	6.769	-1.029	-15,2%
Tax assets	1.971	3.533	-1.562	-44,2%
Current tax assets	439	1.424	-985	-69,2%
Deferred tax assets	1.532	2109	-577	-27,4%
Other assets	4.228	3.946	282	7,1%
Non-current assets held for sale	399	399	0	0,0%
Total assets	944.920	819.109	125.811	15,4%

The Statement of Financial Position of Addiko Bank shows solid interest-bearing asset structure: around 60% 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 Large Corporate lending, Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is also visible in the qrowth of the share of these two segments of 84% gross performing loan book at YE21 (2020: 76%).

As of 31 December 2021, the **total assets of the Bank** in the amount of BAM 944.920 thousand increased by BAM 125.811 thousand or 15.4% compared to the amount as of 31 December 2020 (2020: BAM 819.109 thousand). In addition to the stable development of loans, this increase was primarily caused by the growth in the position "Cash reserves" as a direct consequence of repayments in non-focus segments and the growth of customer deposits. An additional increase was recorded in the position of securities as a result of investing in high-quality government bonds with a maturity of up to 5 years.

As of 31 December 2021, **cash reserves** amounted to BAM 250.090 thousand and increased by BAM 92.494 thousand, or by 58.7%, compared to the previous year (2020: BAM 157.596 thousand). This reflects the Bank's strong liquidity position.

Loans and advances to credit institutions (net) increased by BAM 5.229 thousand to BAM 8.496 thousand (2020: BAM 3.267 thousand).

Loans and advances to customers (net) increased by BAM 2.126 thousand to BAM 559.182 thousand (2020: BAM 557.056 thousand). The increase in net loans was recorded in the focus Customer and SME segments, while the decrease was mainly in the non-focus segments, which directly reflects the Bank's strategic orientation.

Investment securities increased from BAM 58.674 thousand at YE20 to BAM 88.353 thousand at the end of 2021. Investments are mainly in government bonds, with a high rating and a maturity of up to 5 years.

Tax assets decreased due to the decrease in overpaid income tax in the amount of BAM 985 thousand as a direct consequence of the increase in the result achieved. The change in deferred tax assets is explained in detail in section 6.1.

Other assets increased to BAM 4.228 thousand (2020: BAM 3.946 thousand). The largest amount of this position relates to prepaid expenses in the amount of BAM 976 thousand (2020: BAM 1.285 thousand) and to receivables related to card business.

BAM ths

	31.12.2021	31.12.2020	(aps)	(%)
Financial liabilities held for trading	13	0	13	>100%
Financial liabilities measured at amortised cost	780.629	663.201	117.428	17,7%
Deposits of credit institutions	313	29.077	-28.764	-98,9%
Deposits of customers	729.119	574.760	154.359	26,9%
Loan liabilities	35.370	47.174	-11.804	-25,0%
Issued bonds, subordinated and supplementary capital	0	0	0	0,0%
Other financial liabilities	15.827	12.190	3.637	29,8%
Provisions	3.917	4.553	-636	-14,0%
Tax liabilities	0	0	0	0,0%
Other liabilities	2.341	2.488	-147	-5,9%
Equity	158.020	148.867	9.153	6,1%
Total equity and liabilities	944.920	819.109	125.811	15,4%

On the liabilities' side, **financial liabilities measured at amortised cost** increased at BAM 780.629 thousand compared to BAM 663.201 thousand at YE20:

- **Deposits of credit institutions** decreased in 2021 by 98.9% from BAM 29.077 thousand at YE20 to BAM 313 thousand at YE21, reflecting the current efforts of the Bank to operate on the principle of self-financing, i.e., financing from own sources, which means the repayment of funds borrowed from the Group, by encouraging the collection of deposits from customers and credit lines from supranational institutions (EBRD, EFSE).
- **Deposits of customers** increased to BAM 729.119 thousand (2020: BAM 574.760 thousand). The relevant liquidity profile is one of the advantages of both the Bank and the Group itself, which results in the Bank's low dependence on market financing conditions.
- **Other financial liabilities** increased from BAM 12.190 thousand at YE20 to BAM 15.827 thousand at YE21 mainly due to increase of advances received.

Provisions decreased in 2021, mainly due to a change in the litigation provisions. This is a consequence of the reduction in the number of passive litigation in 2021, and case law that confirms the legality of contracting currency clause and loan processing fees, as well as the Bank's strategy in relation to managing passive litigation (out-of-court settlements).

Other liabilities slightly decreased in the amount of BAM 147 thousand compared to YE20.

Equity increased as a result of current year results. The capital position of the Bank remains strong. Total capital adequacy ratio is 21.8%, which is significantly above the prescribed minimum ratio (14.5%).

7. Internal Control System for Accounting Procedures

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

The aim of Addiko Bank's internal control system is to ensure efficient and effective operations, appropriate identification, measurement and mitigation of risks, prudent conduct of business, reliability of d financial and non-financial information reported, both internally and externally, and compliance with laws, regulations, regulatory requirements and 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 Addiko Bank's daily activities 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 of problems to relevant stakeholders (e.g. committees) have been established. Internal control deficiencies, whether identified by the business line, internal audit, or other control functions, are reported in a timely manner to the relevant management level for further decision-making and addressed immediately.

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 behaviour 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 the importance of internal controls to employees at all levels.

8. Research & Development

Addiko Banka does not conduct any research and development activities.

9. Mid-Term Targets and Outlook for 2022

9.1. Mid-Term Targets

The Management Board and the Supervisory Board of the Bank have decided to define mid-term targets based on the business plan and transformation program, starting from the business year 2022, with the aim of increasing income and growth in focus areas and reducing costs by process rationalization:
- Share of loans in the focus area of around 94%;
- Net interest margin of approximately 3.9%;
- Average annual growth (CAGR 2022-2026) of focus loans of around 11%;
- Average annual growth (CAGR 2022-2026) of the cost of risk ration of 10%;
- Loan/deposit ratio <100%;
- Cost/income ratio below 50%;
- Return on tangible equity >10%;
- Capital adequacy ratio >17%;
- Annual dividend payout of 60% net profit.

9.2. Outlook for 2022

Strong economic growth is expected to continue over the next three years, despite some obstacles that economies could face in the near future. The rapidly rising rate of coronavirus infection is still affecting the region, with periodic waves occurring every few months. The emergence of the Omicron variant has contributed to this uncertainty, while supply disruptions are more frequent and are expected to last until 2023. Life and business have adapted to the new situation and continue as before the pandemic, while govern-ments in BH and the region impose only slight re-strictions and avoid complete lockdowns.
As global supply and service constraints dwindle and pandemic-induced constraints and consequent uncertainty go down, global growth is expected to be stable in 2022, despite lower fiscal support and higher market interest rates expectations. Household consumption will continue to be a key driver of economic growth, as it will benefit from a recovery in real disposable income, some relaxation of accumulated savings and a strong labour market.
Inflation has gained momentum globally, even in the region, where it is expected that 2022 will be close to or higher than the already high values from 2021 by around 2-3%. Inflationary pressures are much stronger than previously expected, but they are still assessed as temporary, reflected by the increase in energy prices and international supply and demand mismatches due to the gradual opening of countries' economies. High inflation will reduce real incomes to some extent and in turn could slow down consumption and economic growth, which is why many central banks are already reacting by raising interest rates or announcing the same in the forthcoming period.
Higher energy prices can also have a negative impact on businesses and households, especially small and medium-sized enterprises. Some of the neighbouring countries have taken measures to address these issues, through price freezes and government transfers, but these measures are only short-term in nature.

Political tensions are re-emerging in the region, as Bosnia and Herzegovina goes through the biggest political crisis since the war. At this point, it is unlikely that these events will escalate into anything more, but they will still probably have some negative effects on economic developments during 2022.

Bosnia and Herzegovina expects economic growth of 3.1% in 2022, which is among the lowest growth rates in the entire region. This is largely a reflection of increased political risks, which are likely to cause the suspension of public infrastructure projects and private sector investment, while consumption and exports are expected to grow gradually. With further increases in energy prices, inflation is expected to rise to 2.6% in 2022.

Along with improved expectations, the region offers higher growth compared to large markets and for this reason, the Addiko Group intends to further speed up the implementation of its competitive specialist strategy in 2022, focusing on sustainable business growth in the Consumer and SME segments, with the overall ambition to become the leading specialized bank in the region for these segments.

Addiko Bank's risk approach will remain a key anchor of its lending strategy. Addiko intends to rebalance its risk appetite to enable growth and at the same time use its advanced risk management tools among consumers and SMEs as part of its modern digital platform.

A clear focus on business with consumers and small and medium-sized enterprises will speed up the transformation of Addiko Bank's balance sheet. In this context, the Addiko Group will consider the possibility of creating capital through faster reduction of the non-focus portfolio, which should generate value in the long run by increasing focus in key segments and freeing capital from non-focus loans with a higher risk weight.

As one of its short-term ambitions, Addiko Bank intends to further improve its efficiency by reducing costs and complexity, as well as rationalizing its operating model.

The above outlook for 2022 does not take into account any potential impacts of the evolving situation between Russia and Ukraine. The ongoing conflict does not directly affect Addiko Bank, as it has no operational presence in those countries; direct exposures to both countries are negligible and no significant additional risk provisions are currently expected in this context. However, indirect effects such as financial market volatility, negative sanctions effects on some of our clients or similar negative effects on banks in the surroundings and client deposits cannot be excluded.

In short, the Bank expects the following for 2022:

- Gross performing loans at around BAM 618 million with a growth of around 14% in focus segments;
- Growth in Net banking income of 9%;
- Operating expenses at the level of around BAM 30 million;
- CET 1 ratio at 22.0.

Banja Luka, March 21, 2022

Addiko bank a.d. Banja Luka

MANAGEMENT BOARD

Srđan Kondić

Chairmen of the Management Board

ADDIKO BANK AD

1

BANJA LUKA

Slađan Stanić - Member of the Management Board

Mile Todorović - Member of the Management Board

Financial statements

I. Statement of comprehensive income

Statement of profit or loss

(000) BAM

	Note	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method		32.898	31.802
Interest expenses		-5.819	-6.107
Net interest income	(28)	27.079	25.695
Fee and commission income		18.567	16.068
Fee and commission expenses		-3.827	-3.422
Net fee and commission income	(29)	14.740	12.646
Net result on financial instruments	(30)	508	137
Other operating income	(31)	2.482	1.498
Other operating expenses	(31)	-2.957	-4.463
Operating income		**41.852**	**35.513**
Personnel expenses	(32)	-13.196	-11.650
Other administrative expenses	(33)	-12.797	-11.924
Depreciation and amortisation	(34)	-3.589	-3.869
Operating expenses		**-29.582**	**-27.443**
Operating result before impairments and provisions		**12.270**	**8.070**
Other result	(35)	-529	-3.760
Credit loss expenses on financial assets	(36)	-596	-14.916
Result before tax		**11.145**	**-10.606**
Tax on income	(37)	-1.642	2.601
Result after tax		**9.503**	**-8.005**
thereof attributable to equity holders of parent		9.503	-8.005

	31.12.2021	31.12.2020
Result after tax attributable to ordinary shareholders (in TBAM)	9.503	-8.005
Number of ordinary shares (in units of shares)	153.094.205	153.094.205
Earnings per share (in BAM)	**0,06**	**-0,05**

The following notes (1) - (76) are an integral part of these financial statements.

Statement of other comprehensive income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Result after tax	**9.503**	**-8.005**
Other comprehensive income	**-350**	**132**
Items that will not be reclassified to profit or loss	**-51**	**63**
Actuarial gains or losses on defined benefit plans	-63	31
Fair value reserve - equity instruments	4	32
Net change in fair value	4	32
Income Tax	8	0
Items that may be reclassified to profit or loss	**-299**	**69**
Fair value reserve - debt instruments	-299	69
Net change in fair value	82	504
Net amount transferred to profit or loss	-450	-383
Income Tax	69	-52
Total comprehensive income for the year	**9.153**	**-7.873**
thereof attributable to equity holders of parent	9.153	-7.873

The following notes (1) - (76) are an integral part of these financial statements.

II. Statement of financial position

(000) BAM

	Note	31.12.2021	31.12.2020
Assets			
Cash reserves	(38)	250.090	157.596
Financial assets held for trading	(39)	31	0
Loans and receivables	(40)	567.678	560.323
Loans and advances to credit institutions		8.496	3.267
Loans and advances to customers		559.182	557.056
Investment securities	(41)	88.353	58.674
Tangible assets	(42,44)	26.430	27.869
Property, plant and equipment		22.587	22.346
Investment property		3.843	5.523
Intangible assets	(43,44)	5.740	6.769
Tax assets	(37)	1.971	3.533
Current tax assets		439	1.424
Deferred tax assets		1.532	2.109
Other assets	(45)	4.228	3.946
Non-current held for sale	(46)	399	399
Total assets		**944.920**	**819.109**
Liabilities			
Financial liabilities held for trading	(47)	13	0
Financial liabilities measured at amortised cost	(48)	780.629	663.201
Deposits of credit institutions		313	29.077
Deposits of customers		729.119	574.760
Borrowings		35.370	47.174
Other financial liabilities		15.827	12.190
Provisions	(49)	3.917	4.553
Tax liabilities	(37)	0	0
Deferred tax liabilities		0	0
Other liabilities	(50)	2.341	2.488
Total liabilities		**786.900**	**670.242**
Equity	(51)		
Share capital		153.094	153.094
Legal reserves		0	300
Revaluation reserves		802	874
Fair value reserve		1.098	1.393
Retained earnings		7.537	-2.283
Other reserves		-4.511	-4.511
Total equity		**158.020**	**148.867**
Total liabilities and equity		**944.920**	**819.109**

The following notes (1) - (76) are an integral part of these financial statements.

III. Statement of changes in equity

(000) BAM

31.12.2021	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 31.12.2020	**153.094**	**300**	**874**	**1.393**	**-2.283**	**-4.511**	**148.867**
Adjustements	0	0	0	0	0	0	0
Equity as at 01.01.2021	**153.094**	**300**	**874**	**1.393**	**-2.283**	**-4.511**	**148.867**
Result after tax	0	0		0	9.503		9.503
Other comprehensive income	0	0	-72	-295	17	0	-350
Actuarial gains or (-) losses on defined benefit pension plans	0	0	-63	0	0	0	-63
Fair value changes (equity instruments)	0	0	0	4	0	0	4
Fair value changes (debt instruments)	0	0	0	82	0	0	82
Transfer to profit or loss	0	0	0	-450	0	0	-450
Other	0	0	-9	69	17	0	77
Total comprehensive income	0	0	-72	-295	9.520	0	9.153
Other changes	0	-300	0	0	300	0	0
Equity as at 31.12.2021	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**

(000) BAM

31.12.2020	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 01.01.2020	**153.094**	**0**	**860**	**1.242**	**-55.346**	**61.351**	**161.201**
Impact of adopting new regulatory regulation	0	0	0	50	0	-4.511	-4.461
Equity as at 01.01.2020	**153.094**	**0**	**860**	**1.292**	**-55.346**	**56.840**	**156.740**
Result after tax	0	0		0	-8.005		-8.005
Other comprehensive income	0	0	14	101	17	0	132
Actuarial gains or (-) losses on defined benefit pension plans	0	0	31	0	0	0	31
Fair value changes (equity instruments)	0	0	0	32	0	0	32
Fair value changes (debt instruments)	0	0	0	504	0	0	504
Transfer to profit or loss	0	0	0	-383	0	0	-383
Other	0	0	-17	-52	17	0	-52
Total comprehensive income	0	0	14	101	-7.988	0	-7.873
Other changes	0	300	0	0	61.051	-61.351	0
Equity as at 31.12.2020	**153.094**	**300**	**874**	**1.393**	**-2.283**	**-4.511**	**148.867**

The following notes (1) - (76) are an integral part of these financial statements.

IV. Statement of cash flows

(000) BAM

	2021	2020
Cash flows from operating activities		
Interest, fees and commissions received	47.584	46.375
Interest paid	-8.207	-7.770
Collection of loans previously written off	1.301	2.711
Cash paid to employees and suppliers	-30.305	-27.100
Loans to credit institutions	-6.903	6.993
Receipts and payments on extraordinary items	4.039	-534
Disbursement of loans extended to customers	-2.806	-12.841
Customer deposits	125.188	-1.640
Income taxes paid	-3	0
Net cash from operating activities	**129.888**	**6.194**
Cash flows from investing activities		
Interest received	1.016	1.221
Dividend received	42	4
Investments in securities at fair value through other comprehensive income	-29.646	2.878
Purchases of intangible assets	-1.247	-3.646
Sale and purchases of tangible assets	4.339	-881
Net cash from investing activities	**-25.496**	**-424**
Cash flows from financing activities		
Interest paid on borrowings	-808	-732
Increase in borrowings	0	1.133
Repayment of borrowings	-11.757	-10.148
Net cash generated by financing activities	**-12.565**	**-9.747**
Net increase in cash and cash equivalents	**91.827**	**-3.977**
Cash and cash equivalents at the beginning of year	**158.474**	**162.670**
Foreign exchange gains	222	-219
Cash and cash equivalents at the end of year	**250.523**	**158.474**

The following notes (1) - (76) are an integral part of these financial statements.

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, 2021, besides the Head Office located in Banja Luka, the Bank had 28 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2020: the Head Office located in Banja Luka and 28 branch offices).
The Bank's owner is Addiko Bank AG, a member of Addiko Group, holding a 99.87% 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 6.093 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 2021 (2020: BAM 6.720 thousand) arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 1.759 thousand (2020: 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 2.946 thousand (2020: 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 1.387 thousand (2020: BAM 2,528 thousand), of which the amount of BAM 1.260 thousand (2020: BAM 1.105 thousand) refers to exposures not secured by acceptable collateral, the amount of BAM 127 thousand (2020: BAM 1.423 thousand) refers to exposures secured by acceptable collateral, and the amount of BAM 148 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding) (2020: BAM 209 thousand).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets by amount of BAM 678 thousand (2020: BAM 1.491 thousand) compared to the value of those assets in accordance with IAS 2 (BAM 799 thousand); hence value of repossessed assets as at 31 December 2021 was BAM 121 thousand (see note 45). 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 0 (2020: BAM 933 thousand),
- acquired in the period longer then three years in amount of BAM 678 thousand (2020: 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:

(000) BAM

	31.December 2021.	31.December 2020.
Total Assets (carrying amount)	944.920	819.109
Diffrence in provisions for loans and advances	5.189	5.908
Diffrence in repossessed assets	678	1.491
Total Assets	**950.787**	**826.508**
Total Liabilities (carrying amount)	786.900	670.242
Diffrence in provisions for off-balance	-416	-504
Total Liabilities	**786.484**	**669.738**
Equity (carrying amount)	158.020	148.867
Diffrence in provisions for debt secuirites	-488	-309
Diffrence in retained earnings	6.771	8.212
Total Equity	**164.303**	**156.770**
Liabilities and Equity	**950.787**	**826.508**

	Year ended	
	31. December 2021.	31. December 2020.
Result before tax (carrying amount)	11.145	-10.606
Repossessed assets	-813	1.381
Diffrence in provisions	-627	1.381
Result before tax	**9.704**	**-7.843**

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. 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). They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

The figures in the financial statements are generally stated in thousands of convertible marks (ths BAM); the convertible mark (BAM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1,95583). The tables shown may contain rounding differences.

On 22 February 2022, the Management Board of the Bank approved the financial statements as at 31 December 2021 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2021.

(2) 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)

1.1-31.12.2020		Reclassification		1.1-31.12.2020 reclassified
Interest income calculated using the effective interest method	31.802	0	31.802	Interest income calculated using the effective interest method
Other interest income	4	-4	0	Other interest income
Interest expenses	-6.107	0	-6.107	Interest expenses
Net interest income	**25.699**	**-4**	**25.695**	Net interest income
Fee and commission income	16.068	0	16.068	Fee and commission income
Fee and commission expenses	-3.422	0	-3.422	Fee and commission expenses
Net fee and commission income	**12.646**	**0**	**12.646**	Net fee and commission income
Net result on financial instruments	133	4	137	Net result on financial instruments
Other operating income	1.679	-181	1.498	Other operating income
Other operating expenses	-5.854	1.391	-4.463	Other operating expenses
Operating income	**34.303**	**1.210**	**35.513**	**Operating income**
Personnel expenses	-11.650	0	-11.650	Personnel expenses
Other administrative expenses	-11.942	18	-11.924	Other administrative expenses
Depreciation and amortisation	-3.869	0	-3.869	Depreciation and amortisation
Operating expenses	**-27.461**	**18**	**-27.443**	**Operating expenses**
Operating result	**6.842**	**1.228**	**8.070**	**Operating result before impairment nad provisions**
Other result	**-2.532**	**-1.228**	**-3.760**	Other result
Credit loss expenses on financial assets	-14.916	0	-14.916	Credit loss expenses on financial assets
Result before tax	**-10.606**	**0**	**-10.606**	**Result before tax**
Tax on income	2.601	0	2.601	Tax on income
Result after tax	**-8.005**	**0**	**-8.005**	**Result after tax**

The changes in presentation were made in order to increase the transparency on the development of the underly-ing operative result of the Bank and to provide more relevant information, enabling at the same time greater comparability:
- dividend income is reclassified from Other interest income to Net result of financial instruments
- income from write-up of repossessed assets is reclassified from Other operating income to Other result
- expense from impairment repossessed assets is reclassified from Other operating expenses to Other result
- administrative expenses of repossessed assets is reclassified from Other administrative expenses to Other operating expense

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.

(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 2021:

Standard	Name	Description	Effective for financial year
IFRS 16	Amendments to IFRS 16 Leases	Covid-19 Related Rent Concessions	from June 2020
IFRS 9, IAS 37, IFRS 7, IFRS 4 and IFRS 16	Amendments to IFRS 9 Financial Instruments; IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases	Interest rate benchmark reform - Phase 2	2021
IFRS 4	Amendments to IFRS 4 Insurance contracts	Deferral of IFRS 9	2021

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

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

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

The amendments to **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** deal with replacement issues affecting financial reporting when an existing interest rate benchmark depending on submissions based on interbank offered rates (IBORs) which the Bank uses during loan approval (nad other products) are actually replaced by alternative nearly risk free rates (RFR) based on liquid underlying market transactions.

The Bank didn´t have any transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2021, therefore there is no impact on opening equity as a result of retrospective application.

IThe amendments introduce practical expedients in relation to **a**ccounting for modifications of financial assets and financial liabilities required by the reform of referent interest rate.

The Bank has exposure to IBORs on its financial instruments that will be reformed (EURIBOR and LIBOR for CHF). Although some of the IBORs were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. As at 31 December 2021, it is known that the remaining USD LIBOR tenors will be ceased as at 30 June 2023 and it is still unclear when the announcement that will set a date for the termination of the publication of EURIBOR will take place. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates. It is expected that the local reference rates used in the Bank will not be significantly affected by IBOR reform

The Bank is in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rates, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform. Regarding the LIBOR interest rate, the Bank has exclusively 12-month LIBOR in its portfolio, which was last published on 31 December 2021. year and will be valid for the entire year 2022. The Bank will adjust the interest rate on this type of loan starting from January 1, 2023. year, with the fact that according to the agreed duration of the loan on the specified date (31.12.2022), there will be 11 active loans whose current exposure is 343 thousand BAM. The Bank has no obligations to creditors related to LIBOR. Financial risk is predominantly limited to interest rate risk.

The Bank's IBOR exposures to non-derivative financial assets as at 31 December 2021 were Loans and advances indexed to EURIBOR and LIBOR. The Bank's IBOR exposures to non-derivative financial liabilities as at 31 December 2021 were deposits indexed to EURIBOR. The Bank holds swaps (FX swaps) and forward exchange transactions that are indexed to EURIBOR and LIBOR.

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

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

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

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

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

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

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

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

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 to be highly likely. These estimates are based on the respective 5 years tax plans prepared by the management. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. The Bank regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. For further details regarding tax loss carried forward please refer to note (39) Taxes on income.

The Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities.

Bank currently has no tax losses carryied forward.

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

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details regarding provisions for legal cases and uncertainty of estimates are described in note (49) Provisions for pending legal disputes.

(5) Foreign currency translation

Foreign currency translation within the Bank follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss. Open forward transactions are translated at forward rates at the reporting date.

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 2021	1 EUR = 1,95583 BAM	1 USD = 1,592566 BAM
31 December 2020	1 EUR = 1,95583 BAM	1 USD = 1,725631 BAM

(6) Lease

6.1. Leases in which the Bank is a lessee

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

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets 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"), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. 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.

6.2. Leases in which the Bank is a lessor

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

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

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

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

6.3. 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 direct operating expenses, are reported under the line item “Other operating income” or "Other operating expense" ,scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

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

(7) 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.

(8) 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.

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

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. 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. Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognised upon completion of the underlying transaction. Taking into consideration the Bank product classes the following services are accrued over the period:
- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).
- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bancassurance*, representing commission income and expense from insurance brokerage

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

Trade finance, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities

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

In the Note 29 Net fee and commission income in the Notes to the statement of profit or loss, the product view is used as a base for presentation.

(10) 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.

(11) 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 as restructuring expenses or 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).

(12) 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 insignificant modification gains and losses are presented in this position.

(13) Financial instruments

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

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

13.1. Classification and measurement

Business models

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

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

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

Contractual cash flow characteristics

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

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

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

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

Classification and measurement of financial assets and financial liabilities

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

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

Financial assets 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.
Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a "held to collect" business model.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13.2. Impairment

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

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

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

Overview ECL calculation

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

In determining the cash flows that the bank expects to receive, 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 Bank's staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net 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 2021. 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)	3,70	3,30	5,93	0,94
Export (change % YoY)	7,00	3,75	7,33	2,34
CPI inflation (change % YoY)	1,30	1,10	1,31	1,03

[1] Values rerresent average for the period

Baseline scenario: Strong fiscal stimuli and loose monetary policy in major advanced economies continue supporting positive economic outlook despite bottlenecks in international supply chains and uncertainty about effectiveness of vaccines. The main driver of growth during the first half of 2021 has been delayed consumption, although with the re-opening of the economies and fiscal stimuli gradually being repelled amid economic recovery, greater employment levels and consumer credit will become main channels supporting consumption. Euro-area GDP is expected to exceed pre-crisis levels already in 2022, slowly converging to long-term path in subsequent years. On average, real growth will come close to 3% over three-year horizon. Although inflation has spiked due to described imbalances between supply and demand, which was anticipated in previous forecasting cycle, most of signals point to transitory nature of these developments. Thus, inflation rate should be more moderate in 2022, around 1,6% and dampened in years to follow. Bosnia experienced much stronger recovery dynamics than expected, with overall stable labor market conditions. Supported by foreign demand recovery, these trends should continue. Pre-crisis levels of GDP are expected to be exceeded by 2022. On average, 2022-2024 will be growing 3,5% annually. The recovery pace and mid-term developments will depend mostly on the structural reforms that the countries will undertake, on investment in infrastructure and on FDI inflows.

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

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

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 must perform accounting 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.

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.

13.3. 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.

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

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

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

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

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

(14) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.
The Bank did not have repurchase agreement in year 2021. and 2020.

(15) Fiduciary transactions

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

(16) Financial guarantees

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

(17) Cash reserves

Cash and cash equivalents comprise cash, cash balances at Central bank that are daily due, placements to banks 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.

The Minimum Reserve requirement is one of the indirect instruments of monetary policy of Central Bank BiH and the basis for its calculation consists of deposits and borrowed funds. Minimum Reserve requirement is 10% from average deposits and it is calculated every ten-days (3 times a month), also represents minimum amount the Bank is obliged to have with Central Bank, at least in average during mentioned period.

(18) Tangible assets: Property, plant and equipment and Investment properties

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (7) 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 Depreciation and amortisation in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under "other operating income" or "other operating expenses".

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

(19) 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.

(20) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “Tax assets” and “Tax liabilities”. Income tax expense based on income tax represents the sum of the current tax payable and deferred taxes.
The tax expense is based on taxable income for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

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

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

(21) Other assets

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

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

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale and disposal groups are presented in “Other operating income and other operating expense”. For detailed information, please refer to note (46) Non-current assets and disposal groups classified as held for sale.

(23) Provisions

23.1. Short-term employee benefits

The Bank performs payment of liabilities in terms of taxes, contributions, and benefits from employment in accordance with positive regulations 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.

23.2. Long-term employee benefits: retirement severance payments

In accordance with positive regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the way of employment contract termination and for cases in whichthere is obligation for Bank to pay termination.

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 decision.

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.

23.3. Provisions for risks arising from the lending business

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

23.4. 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 (31) Other operating income and other operating expenses.

23.5. 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. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(24) Other liabilities

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

(25) Share-based payments

Cash-settled share-based payments

Liabilities for cash-settled share-based payments are recognised as Personnel expenses over the relevant service period. The liabilities are remeasured to fair value at each reporting date until the settlement and are presented as Provisions in the balance sheet. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Changes in the measurement of the liability are reflected in the statement of profit or loss.

(26) Equity

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

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

Legal 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

(27) Net interest income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method	**32.898**	**31.802**
Financial assets at fair value through other comprehensive income	806	444
Financial assets at amortised cost	32.092	31.358
Other interest income	**0**	**0**
Other assets	0	0
Total interest income	**32.898**	**31.802**
Financial liabilities measured at amortised cost	-5.048	-5.863
o/w lease liabilites	-18	16
Other liabilities	1	0
Negative interest from financial assets	-771	-244
Total interest expense	**-5.819**	**-6.107**
Net interest income	**27.079**	**25.695**

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -5.819 thousand (YE20: BAM -6.107thousand) includes expenses of BAM -3.198 thousand (YE20: BAM -3.973thousand) related to deposits from households and non-financial corporations.

Interest income break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Debt securities	**807**	**444**
Governments	554	115
Credit institutions	253	329
Loans and advances	**32.091**	**31.358**
Governments	292	712
Credit institutions	4	28
Other financial corporations	589	624
Non-financial corporations	7.348	7.328
Households	23.858	22.666
Total	**32.898**	**31.802**

Interest expenses break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Deposits and borrowings	**-5.028**	**-5.847**
Governments	-116	-107
Credit institutions	-649	-1.067
Other financial corporations	-1.065	-700
Non-financial corporations	-263	-279
Households	-2.935	-3.694
Other financial liabilities	**-18**	**-16**
Other liabilities	**-1**	**0**
Negative interest from financial assets	**-772**	**-244**
Debt securities	**-2**	**0**
Other assets	**-770**	**-244**
Total	**-5.819**	**-6.107**

Out of total interest expense on Deposits and borrowing, BAM -808 thousand refers to interest expense for borrowing (2020: BAM -998 thousand)

(28) Net fee and commission income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Accounts and Packages	6.047	6.230
Transactions	3.374	3.184
Cards	2.708	2.157
Loans	1.164	995
Trade finance	735	585
Securities	0	0
Bancassurance	1.660	870
FX & DCC	2.845	2.014
Other	34	33
Fee and commission income	**18.567**	**16.068**
Accounts and Packages	0	-372
Transactions	-676	-578
Cards	-2.902	-2.049
Securities	-19	-17
Bancassurance	0	0
Client incentives	-118	-26
Trade finance	0	0
FX changes	-2	-9
Loans	-3	-169
Other	-107	-202
Fee and commission expenses	**-3.827**	**-3.422**
Net fee and commission income	**14.740**	**12.646**

The nature of fee and comission income and expenses is described in Note (10).

(29) Net result on financial instruments

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Held for trading financial instruments	16	-250
o/w exchange difference	49	-251
o/w gain or losses on financial instruments	-33	1
Financial assets at fair value through other comprehensive income	450	383
Dividend income from financial asssets at fair value through other comprehensive income	42	4
Total	**508**	**137**

The amount of BAM 450 thousand (YE20: BAM 383 thousand) is related to gain on sale of debt securities.

Result on financial instruments not measured at fair value through profit or loss can be shown:

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Gains or losses on financial assets and liabilites, measured at fair value through other comprehensive income	450	383
Dividend income from financial asssets at fair value through other comprehensive income	42	4
Total	**492**	**387**

(30) Other operating income and other operating expenses

Other operating income and other operating expenses - net

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Deposit guarantee	-1.482	-1.414
Banking levies and other taxes	-355	-394
Restructuring expenses	0	-78
Net result from from sale of non financial assets	1.851	424
Result from operating lease	308	332
Result from other income and other expenses	-797	-1.835
Total	**-475**	**-2.965**

Other operating income and other operating expenses - gross

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Other operating income	**2.482**	**1.498**
Gains from sale of non financial assets	1.885	518
Income from operating lease assets	24	21
Income from Investment property	321	321
Other income in connection with other assets	0	18
Other income	252	620
Other operating expenses	**-2.957**	**-4.463**
Losses from sale of non financial assets	-34	-94
Restructuring expenses	**-37**	-18
Expense incurred in earning the operating lease assets income	0	-78
Deposit guarantee	-1.482	-1.414
Banking levies and other taxes	-355	-394
Other expenses in connection with other assets	0	-10
Other expenses	-1.049	-2.455
Total	**-475**	**-2.965**

Other expenses in the amount of BAM -1.049 thousand (YE20:BAM -2.455 thousand) includes expenses of BAM -685 thousand related to fees to Banking Agency RS (YE20: BAM -647 thousand fees to Banking Agency RS and BAM 1.106 thousand related to disposal of receivables from credit card settlement).

(31) Personnel expenses

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Wages and salaries	-7.482	-7.077
Social security	-1.652	-1.579
Variable remuneration	-1.402	-475
Bonus and sales incentives	-1.247	475
Sales incentives	-405	175
Bonuses	-842	300
Cash-settled share-based payments	-155	0
Other personal tax expenses	-17	-16
Voluntary social expenses	-384	-399
Expenses for retirement benefits	-2.126	-2.015
Expenses for severance payments	-461	-3
Income from release of other employee provisions	457	0
Other personnel expenses	-129	-86
Total	**-13.196**	**-11.650**

	31.12.2021	31.12.2020
Employees at closing date (Full Time Equivalent - FTE)	334,00	322.50
Employees average (FTE)	334,50	329.79

(32) Other administrative expenses

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
IT expense	-7.477	-7.472
Premises expenses (rent and other building expenses)	-2.381	-2.477
Legal and advisory costs	-687	-624
Advertising costs	-1.121	-869
Other administrative expenses	-1.131	-482
Total	**-12.797**	**-11.924**

(33) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Property, plant and equipment	-1.312	-1.457
o/w right of use assets	-486	-504
Intangible assets	-2.277	-2.412
Total	**-3.589**	**-3.869**

(34) Other result

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Net result from legal provision and legal income/expense	**418**	**-1.124**
Release of provisions for legal cases and income from legal cases	**812**	338
Allocation of provisions for passive legal cases and legal costs	-394	-1.462
Impairment / reversal of impairment from non financial assets	**-947**	**-2.497**
Reversal of impairment	1.010	181
Impairment	-1.957	-2.678
Modification gain or loss	**0**	**-139**
Total	**-529**	**-3.760**

The line item “Impairment on non-financial assets” in 2021 in amount of BAM -1.957 thousand includes impairment of Investment poperties in amount of BAM -1.336 thousand and includes impairment of repossessed in amount of BAM -25 thousand (YE20: BAM -2.678 thousand includes impairment of intangible assets in amount of BAM -1.269 thousand, 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 and includes impairment of repossessed in amount of BAM -1.409 thousand.

The COVID-19 debt payment moratorium imposed by BARS determined the recognition of BAM -139 thousand modification loss for year 2020.

(35) Credit loss expenses on financial assets

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

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Change in CL on financial instruments at FVTOCI	**-162**	**-383**
Change in CL on financial instruments at amortised cost	**-483**	**-13.572**
Net allocation to risk provision	-3.028	-15.049
Proceeds from suspended and written-off loans and receivables	2.676	2.711
Directly recognised impairment losses	-131	-1.234
Net allocation of provisions for commitments and guarantees given	**49**	**-961**
Total	**-596**	**-14.916**

(36) Taxes on income

(000) BAM

	01.01. - 31.12.2021	01.01. - 31.12.2020
Current tax	-988	0
of which: from previous year	-312	0
Deferred tax	-654	2.601
Total	**1.642**	**2.601**

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

(000) BAM

	31.12.2021	31.12.2020
Operating result before tax	11.145	-10.606
Theoretical income tax expense based on corporate tax rate of 10 %	-1.115	1.061
Tax effects		
Effects of non-deductible expenses	-199	-1.197
Effects of non-deductible income	470	206
Used tax losses from previous years	167	698
the change of deferred taxes on loss carry-forwards and temporary differences	-653	1.833
Tax effects from prior years	-312	0
Effect of unused tax losses from previous years	0	-1.667
Actual income tax/Recognized deferred tax assets (effective tax rate: 14,7% (2020: -24,5%)	**1.642**	**2.601**

Unused tax losses can be seen in table below:

(000) BAM

Tax losses	31.12.2021	31.12.2020
applicable tax rate - current year	**10,0%**	**10,0%**
Total tax losses carried forward	**0**	**1.667**
1st following year	0	969
2nd following year	0	0
3rd following year	0	0
4th following year	0	0
5th following year	0	698

36.1. 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:

(000) BAM

				Balance at 31 December		
2021	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	964	-236	0	728	728	0
Accelerated depreciation for tax purposes	850	-302	0	548	548	0
Revaluation of tangible assets	-97	0	1	-96	0	96
Revaluations of debt instruments at FVTOCI	-98	0	53	-45	0	45
Allowances for expected credit losses of investment securities at FVOCI	46	0	17	63	63	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	26	0	6	32	32	0
Other	418	-116	0	302	302	0
Total deferred Tax	**2.109**	**-654**	**77**	**1.532**	**1.673**	**141**

The total change in deferred taxes in the financial statements is BAM -577 thousand (YE20: BAM 2.549 thousand). Of which, BAM -654 thousand is recognized in the profit and loss statement (YE20: BAM 2,601 thousand) and an amount of BAM 77 thousand - is shown in other comprehensive income in equity (YE20: BAM 52 thousand).

(000) BAM

				Balance at 31 December		
2020	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	0	964	0	964	964	0
Accelerated depreciation for tax purposes	-341	1.191	0	850	850	0
Revaluation of tangible assets	-99	2	0	-97	0	97
Revaluations of debt instruments at FVTOCI	0	0	-98	-98	0	98
Allowances for expected credit losses of investment securities at FVOCI	0	0	46	46	46	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	0	26	0	26	26	0
Other	0	418	0	418	418	0
Total deferred Tax	**-440**	**2.601**	**-52**	**2.109**	**2.304**	**195**

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

(000) BAM

	2021	2020
Balance at start of period (01.01.)	**2.109**	**-440**
Impact of adopting IFRS 9	**0**	**0**
Tax income/expense recognised in profit or loss	-654	2.601
Tax income/expense recognised in OCI	77	-52
Fx-difference	0	0
Balance at end of period (31.12.)	**1.532**	**2.109**

(000) BAM

	2021	2020
Deferred tax assets	1.673	2.304
Deferred tax liabilities	-141	-195
Total	**1.532**	**2.109**

Notes to the statement of financial position

(37) Cash reserves

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	36.820	0	36.820
Cash balances at central banks	167.993	-168	167.825
Other demand deposits	45.710	-265	45.445
Total	**250.523**	**-433**	**250.090**

[1)]Cash on hand

(000) BAM

31.12.2021	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

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held was BAM 76.300 thousand (YE20: BAM 61.950 thousand).

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**114.930**	**13.118**	**0**	**0**	**128.048**
Changes in the gross carrying amount	82.755	3.653	0	0	86.408
Transfer between stages	15.975	-15.975	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-753	0	0	0	-753
Gross carrying amount at 31.12.2021	**212.907**	**796**	**0**	**0**	**213.703**

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**114.572**	**0**	**0**	**0**	**114.572**
Impact of adopting new regulatory regulation	0	0	0	0	0
Gross carrying amount at 01.01.2020	**114.572**	**0**	**0**	**0**	**114.572**
Changes in the gross carrying amount	13.021	0	0	0	13.021
Transfer between stages	-13.118	13.118	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	455	0	0	0	455
Gross carrying amount at 31.12.2020	**114.930**	**13.118**	**0**	**0**	**128.048**

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

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-222**	**-656**	**0**	**0**	**-878**
Changes in the loss allowance	50	402	0	0	452
Transfer between stages	-217	217	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-4	-3	0	0	-7
ECL allowance as at 31.12.2021	**-393**	**-40**	**0**	**0**	**-433**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2019	**-134**	**0**	**0**	**0**	**-134**
Impact of adopting new regulatory regulation	-181	0	0	0	-181
ECL allowance as at 01.01.2020	**-315**	**0**	**0**	**0**	**-315**
Changes in the loss allowance	-560	0	0	0	-560
Transfer between stages	656	-656	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-3	0	0	0	-3
ECL allowance as at 31.12.2020	**-222**	**-656**	**0**	**0**	**-878**

(38) 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

	31.12.2021	31.12.2020
Derivatives	13	0
Total	**13**	**0**

(39) Loans and receivables

The Bank measures all loans and receivables at amortised cost.

39.1. Loans and advances to credit institutions

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	8.531	-35	8.496
Credit institutions	8.531	-35	8.496
Total	**8.531**	**-35**	**8.496**

(000) BAM

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	3.268	-1	3.267
Credit institutions	3.268	-1	3.267
Total	**3.268**	**-1**	**3.267**

Loans and advances to credit institutions - development of gross carrying amount

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**3.267**	**1**	**0**	**0**	**3.268**
Changes in the gross carrying amount	5.486	-1	0	0	5.485
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-222	0	0	0	-222
Gross carrying amount at 31.12.2021	**8.531**	**0**	**0**	**0**	**8.531**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**9.872**	**0**	**0**	**0**	**9.872**
Impact of adopting new regulatory regulation	**0**	**0**	**0**	**0**	**0**
Gross carrying amount at 01.01.2020	**9.872**	**0**	**0**	**0**	**9.872**
Changes in the gross carrying amount	9.496	-15.783	0	0	-6.287
Transfer between stages	-16.101	16.101	0	0	0
Write-offs	0	-317	0	0	-317
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2020	**3.267**	**1**	**0**	**0**	**3.268**

Loans and advances to credit institutions - development of ECL

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-1**	**0**	**0**	**0**	**-1**
Changes in the loss allowance	-34	0	0	0	-34
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 31.12.2021	**-35**	**0**	**0**	**0**	**-35**

(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**

39.2. Loans and advances to customers

(000) BAM

31.12.2021	Gross carrying amount			ECL	Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Loans and advances	**620.157**				**559.182**
Governments	5.806	-34	-167	0	5.605
Other financial corporations	12.341	-133	-1.732	0	10.476
Non-financial corporations	207.415	-2.792	-5.473	-1.764	197.386
Households	394.595	-2.777	-10.269	-35.834	345.715
Total	**620.157**	**-5.736**	**-17.641**	**-37.598**	**559.182**

(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**

Development of gross carrying amount of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**462.132**	**115.395**	**48.008**	**0**	**625.535**
Changes in the gross carrying amount	49.104	-41.565	-1.784	0	5.755
Transfer between stages	-97.760	90.509	7.251	0	0
Write-offs	-23	-108	-10.798	0	-10.929
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	-7	0	-197	0	-204
Gross carrying amount at 31.12.2021	**413.446**	**164.231**	**42.480**	**0**	**620.157**

(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**

Development of ECL allowances of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2020	**-8.360**	**-17.332**	**-42.787**	**0**	**-68.479**
Changes in the loss allowance	4.824	-2.531	-5.739	0	-3.446
Transfer between stages	-2.200	2.175	25	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	0	47	10.750	0	10.797
Foreign exchange and other movements	0	0	153	0	153
Unwinding	0	0	348	0	348
ECL allowance as at 31.12.2021	**-5.736**	**-17.641**	**-37.598**	**0**	**-60.975**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	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**

Loans and advances to households

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**253.072**	**63.177**	**44.260**	**0**	**360.509**
Changes in the gross carrying amount	57.024	-12.853	-407	0	43.764
Transfer between stages	-50.461	44.337	6.124	0	0
Write-offs	-22	-72	-9.380	0	-9.474
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	-7	0	-197	0	-204
Gross carrying amount at 31.12.2021	**259.606**	**94.589**	**40.400**	**0**	**394.595**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**283.238**	**37.505**	**72.783**	**0**	**393.526**
Impact of adopting new regulatory regulation	0	0	-29.260	0	**-29.260**
Gross carrying amount at 01.01.2020	**283.238**	**37.505**	**43.523**	**0**	**364.266**
Changes in the gross carrying amount	17.072	-10.025	24.955	0	32.002
Transfer between stages	-44.946	35.809	9.137	0	0
Write-offs	-2.147	-47	-33.081	0	-35.275
Changes due to modifications that did not result in derecognition	-35	-55	-25	0	-115
Foreign exchange and other movements	-110	-10	-249	0	-369
Gross carrying amount at 31.12.2020	**253.072**	**63.177**	**44.260**	**0**	**360.509**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2020	**-2.417**	**-11.927**	**-40.067**	**0**	**-54.411**
Changes in the loss allowance	3.038	-1.910	-5.101	0	-3.973
Transfer between stages	-3.398	3.550	-152	0	0
Write-offs	0	18	9.366	0	9.384
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	120	0	120
Unwinding	0	0	315	0	315
ECL allowance as at 31.12.2021	**-2.777**	**-10.269**	**-35.834**	**0**	**-48.880**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-2.403**	**-8.842**	**-41.111**	**0**	**-52.356**
Changes in the loss allowance	3.675	-7.464	-3.542	0	-7.331
Transfer between stages	-3.690	4.388	-698	0	0
Write-off	1	2	5.142	0	5.145
Changes due to modifications that did not result in derecognition	0	-10	-22	0	-32
Foreign exchange and other movements	0	-1	164	0	163
Unwinding	0	0	192	0	192
ECL allowance as at 31.12.2020	**-2.417**	**-11.927**	**-40.067**	**0**	**-54.411**

Loans and advances to non-financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**190.382**	**37.675**	**3.141**	**0**	**231.198**
Changes in the gross carrying amount	5.780	-27.339	-770	0	-22.329
Transfer between stages	-51.305	50.178	1.127	0	0
Write-offs	-1	-36	-1.417	0	-1.454
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2021	**144.856**	**60.478**	**2.081**	**0**	**207.415**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**215.147**	**501**	**7.746**	**0**	**223.394**
Impact of adopting new regulatory regulation	0	0	-2.179	0	**-2.179**
Gross carrying amount at 01.01.2020	**215.147**	**501**	**5.567**	**0**	**221.215**
Changes in the gross carrying amount	12.588	4.265	-2.980	0	13.873
Transfer between stages	-37.075	32.915	4.160	0	0
Write-offs	-248	-20	-3.605	0	-3.873
Changes due to modifications that did not result in derecognition	-31	14	-1	0	-18
Foreign exchange and other movements	1	0	0	0	1
Gross carrying amount at 31.12.2020	**190.382**	**37.675**	**3.141**	**0**	**231.198**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2020	**-5.252**	**-3.250**	**-2.602**	**0**	**-11.104**
Changes in the loss allowance	971	-797	-531	0	-357
Transfer between stages	1.489	-1.455	-34	0	0
Write-offs	0	29	1.383	0	1.412
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	20	0	20
Unwinding	0	0	20	0	20
ECL allowance as at 31.12.2021	**-2.792**	**-5.473**	**-1.764**	**0**	**-10.029**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-2.127**	**-39**	**-4.634**	**0**	**-6.800**
Changes in the loss allowance	-5.560	-3.719	3.284	0	-5.995
Transfer between stages	2.436	507	-2.943	0	0
Write-off	0	0	1.654	0	1.654
Changes due to modifications that did not result in derecognition	-1	1	-1	0	-1
Foreign exchange and other movements	0	0	38	0	38
Unwinding	0	0	38	0	38
ECL allowance as at 31.12.2020	**-5.252**	**-3.250**	**-2.602**	**0**	**-11.104**

Loans and advances to other financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**9.035**	**11.192**	**0**	**0**	**20.227**
Changes in the gross carrying amount	-6.528	-1.358	0	0	-7.886
Transfer between stages	4.005	-4.005	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
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2021	**6.512**	**5.829**	**0**	**0**	**12.341**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**14.433**	**0**	**182**	**0**	**14.615**
Impact of adopting new regulatory regulation	0	0	0	0	**0**
Gross carrying amount at 01.01.2020	**14.433**	**0**	**182**	**0**	**14.615**
Changes in the gross carrying amount	9.416	-3.619	-182	0	5.615
Transfer between stages	-14.811	14.811	0	0	0
Write-offs	-3	0	0	0	-3
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2020	**9.035**	**11.192**	**0**	**0**	**20.227**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2020	**-460**	**-1.524**	**0**	**0**	**-1.984**
Changes in the loss allowance	618	-499	0	0	119
Transfer between stages	-291	291	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
Foreign exchange and other movements	0	0	0	0	0
Unwinding	0	0	0	0	0
ECL allowance as at 31.12.2021	**-133**	**-1.732**	**0**	**0**	**-1.865**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-201**	**0**	**-182**	**0**	**-383**
Changes in the loss allowance	-345	-1.438	182	0	-1.601
Transfer between stages	86	-86	0	0	0
Write-off	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Unwinding	0	0	0	0	0
ECL allowance as at 31.12.2020	**-460**	**-1.524**	**0**	**0**	**-1.984**

Loans and advances to general governments

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2020	**9.643**	**3.351**	**607**	**0**	**13.601**
Changes in the gross carrying amount	-7.172	-15	-607	0	-7.794
Transfer between stages	1	-1	0	0	0
Write-offs	0	0	-1	0	-1
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2021	**2.472**	**3.335**	**-1**	**0**	**5.806**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31.12.2019	**16.558**	**0**	**4.337**	**0**	**20.895**
Impact of adopting new regulatory regulation	0	0	-12	0	**-12**
Gross carrying amount at 01.01.2020	**16.558**	**0**	**4.325**	**0**	**20.883**
Changes in the gross carrying amount	-6.910	-180	-173	0	-7.263
Transfer between stages	-2	3.545	-3.543	0	0
Write-offs	0	-10	-2	0	-12
Changes due to modifications that did not result in derecognition	-3	-4	0	0	-7
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2020	**9.643**	**3.351**	**607**	**0**	**13.601**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 31.12.2020	**-231**	**-631**	**-118**	**0**	**-980**
Changes in the loss allowance	197	675	-107	0	765
Transfer between stages	0	-211	211	0	0
Write-offs	0	0	1	0	1
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	13	0	13
Unwinding	0	0	13	0	13
ECL allowance as at 31.12.2021	**-34**	**-167**	**0**	**0**	**-201**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-160**	**0**	**-1.289**	**0**	**-1.449**
Changes in the loss allowance	-71	537	-29	0	437
Transfer between stages	0	-1.167	1.167	0	0
Write-off	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	-1	0	0	-1
Foreign exchange and other movements	0	0	33	0	33
Unwinding	0	0	33	0	33
ECL allowance as at 31.12.2020	**-231**	**-631**	**-118**	**0**	**-980**

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

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

(000) BAM

	31.12.2021		31.12.2020	
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
General governments	0	0	3.353	-4
Other financial corporations	0	0	0	0
Non-financial corporations	0	0	27.074	14
Households	0	0	11.241	-80
Total	0	0	38.315	-66

(40) Investment securities

(000) BAM

	31.12.2021	31.12.2020
Fair value through other comprehensive income (FVTOCI)	88.353	58.674
Total	**88.353**	**58.674**

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

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2021	**58.878**
Changes in the gross carrying amount	29.837
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2021	**88.715**

(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**

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2021	**-465**
Changes in the loss allowance	-162
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2021	**-627**

(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**

40.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

	31.12.2021	31.12.2020
Debt securities	**88.088**	**58.413**
Governments	56.671	33.977
Credit institutions	31.417	24.436
Equity instruments	**265**	**261**
Other financial corporations	265	261
Total	**88.353**	**58.674**

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

(000) BAM

	31.12.2021	31.12.2020
Banja Luka Stock Exchange	175	175
S.W.I.F.T	60	56
Central Register of Securities, Banja Luka	30	30
Total	**265**	**261**

(41) Tangible assets

(000) BAM

	31.12.2021	31.12.2020
Owned property, plant and equipment	21.427	21.777
Land and buildings	20.309	20.528
Plant and equipment	1.118	1.249
Right of use assets	1.160	569
Land and buildings	660	407
Plant and equipment	500	162
Investment property	3.843	5.523
Total	**26.430**	**27.869**

(42) Intangible assets

(000) BAM

	31.12.2021	31.12.2020
Goodwill	0	0
Purchased software	2.602	3.600
Other intangible assets	3.138	3.169
Total	**5.740**	**6.769**

(43) Development of tangible and intangible assets

43.1. Development of cost and carrying amounts

(000) BAM

31.12.2021	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equip-ment	Invest-ment property	Intangi-ble as-sets	TOTAL FIXED AS-SETS
Acquisition cost 01.01.2021	**32.670**	**7.968**	**1.135**	**464**	**10.159**	**29.168**	**81.564**
Changes due to IFRS 5	0	0	0	0	0	0	0
Additions	442	282	563	513	0	1.248	3.048
Disposals	-458	-949	0	0	-369	0	-1.776
Other changes	0	0	0	0	0	0	0
Acquisition cost 31.12.2021	**32.654**	**7.301**	**1.698**	**977**	**9.790**	**30.416**	**82.836**
Cumulative depreciation 31.12.2021	-12.345	-6.183	-1.038	-477	-5.947	-24.676	-50.666
Carrying amount 31.12.2021	**20.309**	**1.118**	**660**	**500**	**3.843**	**5.740**	**32.170**

(000) BAM

31.12.2020	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment property	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2020	**38.362**	**8.069**	**1.015**	**451**	**3.746**	**25.280**	**76.923**
Changes due to IFRS 16	0	**0**	0	0	0	**0**	**0**
Changes due to IFRS 5	0	0	0	0	0	0	0
Additions	746	296	120	13	0	3.888	5.063
Disposals	-25	-397	0	0	0	0	-422
Other changes	-6.413	0	0	0	6.413	0	0
Acquisition cost 31.12.2020	**32.670**	**7.968**	**1.135**	**464**	**10.159**	**29.168**	**81.564**
Cumulative depreciation 31.12.2020	-12.142	-6.719	-728	-302	-4.636	-22.399	-46.926
Carrying amount 31.12.2020	**20.528**	**1.249**	**407**	**162**	**5.523**	**6.769**	**34.638**

43.2. Development of depreciation and amortisation

(000) BAM

31.12.2021	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Pland and equipment	Investment property	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2021	**-12.142**	**-6.719**	**-727**	**-302**	**-4.636**	**-22.399**	**-46.925**
Changes due to IFRS 5	0	0	0	0	0	0	0
Disposals	239	920	0	0	24	0	1.183
Scheduled depreciation	-442	-384	-311	-175	0	-2.277	-3.589
Impairment	0	0	0	0	-1.335	0	-1.335
Other changes	0	0	0	0	0	0	0
Write-ups	0	0	0	0	0	0	0
Cumulative depreciation 31.12.2021	**-12.345**	**-6.183**	**-1.038**	**-477**	**-5.947**	**-24.676**	**-50.666**

(000) BAM

31.12.2020	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Pland and equipment	Investment property	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2020	**-15.009**	**-6.689**	**-386**	**-140**	**-1.244**	**-18.719**	**-42.187**
Changes due to IFRS 5	0	0	0	0	0	0	0
Disposals	10	389	0	0	0	0	399
Scheduled depreciation	-535	-418	-346	-158	0	-2.412	-3.869
Impairment	0	-1	0	0	0	-1.268	-1.269
Other changes	3.392	0	4	-4	-3.392	0	0
Write-ups	0	0	0	0	0	0	0
Cumulative depreciation 31.12.2020	**-12.142**	**-6.719**	**-728**	**-302**	**-4.636**	**-22.399**	**-46.926**

(44) Other assets

(000) BAM

	31.12.2021	31.12.2020
Prepayments and accrued income	976	1.285
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	121	402
Other remaining assets	3.130	2.259
Total	**4.227**	**3.946**

(45) 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

	31.12.2021	31.12.2020
Property plant and equipment	399	399
Total	**399**	**399**

(46) Financial liabilities held for trading

(000) BAM

	31.12.2021	31.12.2020
Derivatives	13	0
Total	**13**	**0**

(47) Financial liabilities measured at amortised cost

(000) BAM

	31.12.2021	31.12.2020
Deposits and borrowings	764.802	651.011
Deposits of credit institutions	313	29.077
Deposits of customers	729.119	574.760
Borrowings	35.370	47.174
Other financial liabilities	15.827	12.190
o/w lease liabilities	1.157	547
Total	**780.629**	**663.201**

47.1. Deposits of credit institutions

(000) BAM

	31.12.2021	31.12.2020
Current accounts / overnight deposits	313	183
Deposits with agreed terms	0	28.894
Total	**313**	**29.077**

47.2. Deposits of customers

(000) BAM

	31.12.2021	31.12.2020
Current accounts / overnight deposits	**414.597**	**271.308**
Governments	85.276	18.378
Other financial corporations	3.464	8.881
Non-financial corporations	123.948	64.167
Households	201.909	179.882
Deposits with agreed terms	**314.522**	**303.452**
Governments	0	10.012
Other financial corporations	60.161	17.692
Non-financial corporations	13.646	27.322
Households	240.715	248.426
Total	**729.119**	**574.760**

47.3. Borrowings

(000) BAM

	31.12.2021	31.12.2020
Credit insitutions	9.304	12.970
Other financial institutions	26.066	34.204
Total	**35.370**	**47.174**

Overwiev by client can be show in following table:

(000) BAM

	Interest rates	31.12.2021	31.12.2020
EBRD	from 2,2 - 2,7	9.304	12.970
EFSE	2,6	5.222	8.703
Development and Employment Fund of the RS	from 0,5 - 1,0	7.992	9.496
Housing Fund of the RS	from 0,8 - 1,8	11.036	13.803
Fund for Development of Eastern Region of the RS	from 1,0 - 2,3	1.816	2.202
Total		**35.370**	**47.174**

EBRD (European Bank for Reconstruction and Development) approved a long-term loan to the Bank for general long-term financing of micro-sized, small and medium entities. The interest rate was defined as 6-month EURIBOR adjusted for percentage points as the determined minimum interest rate in accordance with the relevant Financing Agreement. The companies that are extended loans from these funds are required to comply with the prescribed environmental and social provisions of the legislation of Bosnia and Herzegovina and the Republic of Srpska.

EFSE (European Fund for Southeast Europe) approved a long-term loan to the Bank for general long-term financing of micro-sized, small and medium entities. The interest rate was defined as 6-month EURIBOR adjusted for percentage points as the determined minimum interest rate in accordance with the relevant Financing Agreement. The companies that are extended loans from these funds are required to comply with the prescribed environmental and social provisions of the legislation of Bosnia and Herzegovina and the Republic of Srpska.

Development and Employment Fund of the RS, Banja Luka approved a loan to the Bank for financing development projects. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Housing Fund of the RS, Banja Luka has provided a loan to the Bank for financing the purchase, reconstruction, and extension of homes. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Fund for Development of Eastern Region of the RS – which assist in development projects in the eastern region of the Republic of Srpska – approved a loan to the Bank. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.
Reconciliation of borrowings and cash flows from financial activities can be shown as follows:

(000) BAM

	2021
Change of cash flows from financial activities	
Balance 01.January	47.174
Increase of borrowings	0
Repayment of borrowings	-11.757
Paid interest	-808
Total change of cash flows from financial activities	**34.609**
Other changes related to liabilities	
Interest expense	761
Other changes	0
Total other changes related to liabilities	**761**
Balance 31.December	**35.370**

(48) Provisions

(000) BAM

	31.12.2021	31.12.2020
Pending legal disputes and tax litigation	980	2.047
Commitments and guarantees granted	1.449	1.498
Cash-settled share-based payments	994	625
Provisions for variable payments	155	0
Pensions and other post employment defined benefit obligations	319	257
Restructuring measures	4	110
Other provisions	16	16
Total	**3.917**	**4.553**

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. More information see in Note 64- Legal risk

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

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

48.1. Provisions – development of loan commitments, financial guarantee and other commitments given

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2021	**122.343**	**18.713**	**23**	**0**	**141.079**
Changes in the nominal value	29.383	-29.308	-427	0	-352
Transfer between stages	-20.882	20.477	405	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-48	0	0	0	-48
Gross carrying amount at 31.12.2021	**130.796**	**9.882**	**1**	**0**	**140.679**

(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
ECL allowance as at 01.01.2021	**-1.060**	**-429**	**-9**	**0**	**-1.498**
Changes in the loss allowance	-38	42	45	0	49
Transfer between stages	-103	139	-36	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2021	**-1.201**	**-248**	**0**	**0**	**-1.449**

(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**

48.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2021	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2021
Pensions and other post employment defined benefit obligations	257	65	-3	0	0	319
Restructuring measures	110	0	-106	0	0	4
Pending legal disputes and tax litigation	2.047	298	-553	-812	0	980
Other	625	1.247	-518	-360	0	994
Cash settled share-based payments	0	155	0	0	0	155
Provision for variable payments	16	0	0	0	0	16
Total	**3.055**	**1.765**	**-1.180**	**-1.172**	**0**	**2.468**

(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
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	913	475	-763	0	0	625
Provision for variable payments	16	0	0	0	0	16
Total	**3.902**	**1.867**	**-2.376**	**-338**	**0**	**3.055**

48.3. Provisions – development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarised.

(000) BAM

	2021	2020
Present value of the defined benefit obligations as of 01.01	**257**	288
+ Current service cost	3	0
+ Contributions paid to the plan	0	0
+/- Actuarial gains/losses	62	-31
+/- Actuarial gains/losses arising from changes in demographic assumptions	52	13
+/- Actuarial gains/losses arising from changes in financial assumptions	10	-44
+/- Actuarial gains/losses arising from changes from experience assumptions	0	0
- Payments from the plan	-3	0
+ Past service cost	0	0
+/- through business combinations and disposals	0	0
+/- Other changes	0	0
Present value of the defined benefit obligations as of 31.12	**319**	**257**

Due to the low amount of personnel provisions for the Bank as at 31 December 2020, further disclosures according to IAS 19 are omitted.

(49) Other liabilities

(000) BAM

	31.12.2021	31.12.2020
Deferred income	156	184
Accruals	1.813	2.130
Other liabilities	371	175
Total	**2.340**	**2.489**

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

(50) Equity

(000) BAM

	31.12.2021	31.12.2020
Equity	**158.020**	**148.867**
Share capital	153.094	153.094
Legal reserves	0	300
Revaluation reserves	802	874
Fair value reserve	1.098	1.393
Retained earnings	7.537	-2.283
Other reserves	-4.511	-4.511
Non-controlling interest	**0**	**0**

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 153,094 thousand (2020: 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 profit in the amount of BAM 9.503 thousand in the financial year 2021.

(51) 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 business segmentation is subdivided into Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages. 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.

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

- Re-segmentation of sub-segment Micro (private entrepreneurs and profit-oriented legal entities with less than EUR 978 thousand annual gross revenue) from segment Consumer to segment SME.

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

Business Segmentation

The segment reporting comprises the five following business segments:

Consumer: the Bank's Consumer segment serves more then a hundred thousand customers, which includes Private Individuals (excluding mortgage and housing loans) through a network of 28 branches and state of the art digital channels.

SME Business: the Bank offers the full product suite to circa 3,5 thousand SME clients (companies with annual turnover up to 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.

Mortgage: Mortgage and housing loans portfolio

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than BAM 97.791 thousand. The Bank services local and international companies by centralised and specialized local teams.

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

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

(000) BAM

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	30.071	8.218	1.741	2.077	368	-656	41.819
Net interest income	18.892	5.315	1.741	1.519	250	-638	27.079
Net fee and commission income	11.179	2.903	0	558	118	-18	14.740
Net result from financial instruments	0	0	0	0	0	508	508
Other operating result	0	0	0	0	0	-475	-475
Operating income	30.071	8.218	1.741	2.077	368	-623	41.852
Operating expenses	-18.256	-4.065	-61	-1.223	-975	-5.002	-29.582
Operating result before impairments and provisions	11.815	4.153	1.680	854	-607	-5.625	12.270
Other result	0	0	0	0	0	-529	-529
Credit loss expenses on financial assets	-2.999	-225	1.470	-450	1.352	256	-596
Result before tax	**8.816**	**3.928**	**3.150**	**404**	**745**	**-5.898**	**11.145**
Business volume							
Net loans and receivables	307.816	161.447	30.320	51.744	7.855	8.496	567.678
o/w gross performing loans customers	316.950	168.216	28.295	53.460	7.987	0	574.908
Financial liabilities at AC	433.209	95.091	0	93.002	128.614	30.713	780.629

(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	-902	38.341
Net interest income	16.662	4.955	2.087	2.224	653	-886	25.695
Net fee and commission income	10.744	1.327	0	481	110	-16	12.646
Net result from financial instruments	0	0	0	0	0	137	137
Other operating result	0	0	0	0	0	-2.965	-2.965
Operating income	27.406	6.282	2.087	2.705	763	-3.730	35.513
Operating expenses	-19.103	-3.506	-52	-654	-518	-3.611	-27.444
Operating result before impairments and provisions	8.303	2.776	2.035	2.051	245	-7.341	8.069
Other result	0	0	0	0	0	-3.760	-3.760
Credit loss expenses on financial assets	-4.437	-7.258	-544	-1.881	432	-1.228	-14.916
Result before tax	**3.866**	**-4.482**	**1.491**	**170**	**677**	**-12.329**	**-10.607**
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	576.133
Financial liabilities at AC	443.795	44.393	0	50.283	61.750	62.980	663.201

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

(000) BAM

31.12.2021	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	4.794	1.100	125	28	0	6.047
Transactions	1.913	1.177	178	106	0	3.374
Cards	2.667	40	1	0	0	2.708
Loans	1.034	109	21	0	0	1.164
Trade finance	3	464	263	5	0	735
Securities	0	0	0	0	0	0
Bancassurance	1.660	0	0	0	0	1.660
FX & DCC	2.465	374	6	0	0	2.845
Other	30	4	0	0	0	34
Fee and commission income	**14.566**	**3.268**	**594**	**139**	**0**	**18.567**
Accounts and Packages	0	0	0	0	0	0
Transactions	-383	-237	-35	-21	0	-676
Cards	-2.858	-43	-1	0	0	-2.902
Securities	0	0	0	0	-19	-19
Bancassurance	0	0	0	0	0	0
Client incentives	-118	0	0	0	0	-118
Trade finance	0	0	0	0	0	0
FX changes	-2	0	0	0	0	-2
Loans	-3	0	0	0	0	-3
Other	-23	-84	0	0	0	-107
Fee and commission expenses	**-3.387**	**-364**	**-36**	**-21**	**-19**	**-3.827**
Net fee and commission income	**11.179**	**2.904**	**558**	**118**	**-19**	**14.740**

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

(000) BAM

31.12.2020	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	5.705	395	102	28	0	6.230
Transactions	2.439	457	195	93	0	3.184
Cards	2.147	9	1	0	0	2.157
Loans	941	29	25	0	0	995
Trade finance	2	409	168	6	0	585
Securities	0	0	0	0	0	0
Bancassurance	870	0	0	0	0	870
FX & DCC	1.695	290	29	0	0	2.014
Other	27	4	1	1	0	33
Fee and commission income	**13.826**	**1.593**	**521**	**128**	**0**	**16.068**
Accounts and Packages	-372	0	0	0	0	-372
Transactions	-443	-83	-35	-17	0	-578
Cards	-2.039	-9	-1	0	0	-2.049
Securities	0	0	0	0	-17	-17
Bancassurance	0	0	0	0	0	0
Client incentives	-26	0	0	0	0	-26
Trade finance	0	0	0	0	0	0
FX changes	-7	-2	0	0	0	-9
Loans	-160	-5	-4	0	0	-169
Other	-36	-166	0	0	0	-202
Fee and commission expenses	**-3.083**	**-265**	**-40**	**-17**	**-17**	**-3.422**
Net fee and commission income	**10.743**	**1.328**	**481**	**111**	**-17**	**12.646**

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

Risk Report

(52) 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.

(53) 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.

(54) Risk organisation

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

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

In 2021, the following organisational units were operative:

Corporate Risk Management - 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.

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.

Retail Risk 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. Retail Risk Management department is also a key participiant 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.
Important goal is implementation and continuously optimize collecttion 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.

Risk controlling department – Risk control function in accordance with legislative covers all risk and regulatory topics which are of strategic importance for the Bank.
It consists of Financial Risks Controlling Team, Nonfinancial Risks Controlling Team and two expert functions: Data Management and Real Estate Valuation.
Financial **Risks** Controlling 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 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. Nonfinancial Risks Controlling Team 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, creates strategic framework and managing key aspects of information security in accordance with all ISO standards relevant to the management of information security system and risks coordinates and supports business continuity management processes and coordinates and support the implementation of the externalization process.
Expert functions Data Management is responsible for data and data quality management in local DWH and relevant group databases.

Expert function Real Estate Valuation is responsible for preparation of valuations, statistical valuations, and control of external real estate valuations, development of an action plan related to valuations, and all types of reports on valuations of collateral and bank assets.

(55) Internal risk management guidelines

The Bank defines 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.

(56) Credit risk

56.1. 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.

56.2. 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.

56.3. 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.

56.4. 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.

56.5. Reconciliation between Financial instruments classes and Credit risk exposure

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

All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

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

(000) BAM

31.12.2021		Performing			Non-Performing				Total
Financial instruments	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net
Cash reserves [1]	213.703	-433	213.270	0	0	0	213.703	-433	213.270
Financial assets held for trading	13	0	13	0	0	0	13	0	13
Loans and receivables	586.208	-23.412	562.796	42.480	-37.598	4.882	628.688	-61.010	567.678
of which credit institutions	8.531	-35	8.496	0	0	0	8.531	-35	8.496
of which customer loans	577.677	-23.377	554.300	42.480	-37.598	4.882	620.157	-60.975	559.182
Investment securities	88.715	-627	88.088	0	0	0	88.715	-627	88.088
On balance total	**888.639**	**-24.472**	**864.167**	**42.480**	**-37.598**	**4.882**	**931.119**	**-62.070**	**869.049**
Off balance	140.678	-1.449	139.229	1	0	1	140.679	-1.449	139.230
Total	**1.029.317**	**-25.921**	**1.003.396**	**42.481**	**-37.598**	**4.883**	**1.071.798**	**-63.519**	**1.008.279**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**1.029.317**	**-25.921**	**1.003.396**	**42.481**	**-37.598**	**4.883**	**1.071.798**	**-63.519**	**1.008.279**

[1] The position does not include cash on hand in

[2] Expected credit losses

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

(000) BAM

31.12.2020		Performing			Non-Performing				Total
Financial instruments	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net
Cash reserves [1]	128.048	-878	127.170	0	0	0	128.048	-878	127.170
Financial assets held for trading	0	0	0	0	0	0	0	0	0
Loans and receivables	580.795	-25.693	555.102	48.008	-42.787	5.221	628.803	-68.480	560.323
of which credit institutions	3.268	-1	3.267	0	0	0	3.268	-1	3.267
of which customer loans	577.527	-25.692	551.835	48.008	-42.787	5.221	625.535	-68.479	557.056
Investment securities	58.878	-465	58.413	0	0	0	58.878	-465	58.413
On balance total	**767.721**	**-27.036**	**740.685**	**48.008**	**-42.787**	**5.221**	**815.729**	**-69.823**	**745.906**
Off balance	141.056	-1.489	139.567	23	-9	14	141.079	-1.498	139.581
Total	**908.777**	**-28.525**	**880.252**	**48.031**	**-42.796**	**5.235**	**956.808**	**-71.321**	**885.487**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**908.777**	**-28.525**	**880.252**	**48.031**	**-42.796**	**5.235**	**956.808**	**-71.321**	**885.487**

[1] The position does not include cash on hand in

[2] Expected credit losses

56.6. Credit risk exposure by rating class

At 31 December 2021 roughly 23.9% (YE20: 23.7%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2021 is mainly influenced by accounting write-off repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2021 by BAM 5.080 thousand.

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

(000) BAM

31.12.2021	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	148.609	108.095	40.906	33.551	25.343	4.076	360.580
SME	14.253	92.577	118.938	35.136	2.138	14	263.056
Non-Focus	35.805	59.355	72.067	12.007	14.863	354	194.451
o/w Large Corporate	2.000	36.399	42.838	4.351	0	1	85.589
o/w Mortgage	741	22.872	1.600	2.838	14.785	351	43.187
o/w Public Finance	33.064	84	27.629	4.818	78	2	65.675
Corporate Center[1)]	57.029	26.266	170.416	0	0	0	253.711
Total	**255.696**	**286.293**	**402.327**	**80.694**	**42.344**	**4.444**	**1.071.798**

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

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

As at the reporting date, exposures with "No rating" can be identified, which are related to newly originated placements which receive the first behavioural rating 6 months after approval or clients that left the "default" status, and which will be assigned a rating in the following monthly rating calculation cycle.
The Bank applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	137.846	4.691	0	0	142.537
2A-2E	163.047	44.179	0	0	207.226
3A-3E	104.401	45.254	0	0	149.655
Watch	4.855	69.101	139	0	74.095
NPE	0	0	42.343	0	42.343
No rating	3.295	1.006	0	0	4.301
Total gross carrying amount	**413.444**	**164.231**	**42.482**	**0**	**620.157**
Loss allowance	-5.736	-17.641	-37.598	0	-60.975
Carrying amount	**407.708**	**146.590**	**4.884**	**0**	**559.182**

(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**

Loans and advances to banks at amortised cost:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	6.903	0	0	0	6.903
2A-2E	0	0	0	0	0
3A-3E	1.628	0	0	0	1.628
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**8.531**	**0**	**0**	**0**	**8.531**
Loss allowance	-35	0	0	0	-35
Carrying amount	**8.496**	**0**	**0**	**0**	**8.496**

(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**

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	64.531	0	0	0	64.531
2A-2E	0	0	0	0	0
3A-3E	24.184	0	0	0	24.184
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**88.715**	**0**	**0**	**0**	**88.715**
Loss allowance	-627	0	0	0	-627
Carrying amount	**88.088**	**0**	**0**	**0**	**88.088**

(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**

Commitments and financial guarantees given:

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	22.934	133	0	0	23.067
2A-2E	51.157	1.641	0	0	52.798
3A-3E	52.856	5.214	0	0	58.070
Watch	3.705	2.895	0	0	6.600
NPE	0	0	2	0	2
No rating	142	0	0	0	142
Total gross carrying amount	**130.794**	**9.883**	**2**	**0**	**140.679**
Loss allowance	-1.113	-336	0	0	-1.449
Carrying amount	**129.681**	**9.547**	**2**	**0**	**139.230**

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	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**

56.7. 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”.

(000) BAM

31.12.2021	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	5.551	-182
B Mining and quarrying	8.147	-188
C Manufacturing	63.487	-1.948
D Electricity, gas, steam and air conditioning supply	31.563	-2.016
E Water supply	495	-12
F Construction	22.591	-960
G Wholesale and retail trade	48.161	-2.774
H Transport and storage	7.223	-268
I Accommodation and food service activities	8.712	-1.339
J Information and communication	5.671	-98
K Financial and insurance activities	0	0
L Real estate activities	631	-4
M Professional, scientific and technical activities	1.966	-126
N Administrative and support service activities	384	-60
O Public administration and defence, compulsory social security	0	0
P Education	25	-6
Q Human health services and social work activities	38	0
R Arts, entertainment and recreation	2	0
S Other services	2.768	-48
Loans and advances	**207.415**	**-10.029**

31.12.2020	Non-financial corporations Gross carrying amount	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**

56.8. Presentation of exposure by overdue days

(000) BAM

31.12.2021	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	327.169	9.924	2.203	688	20.596	360.580
SME	261.077	69	990	0	920	263.056
Non-Focus	174.757	5.615	509	48	13.520	194.449
o/w Large Corporate	81.238	4.351	0	0	0	85.589
o/w Mortgage	27.844	1.264	509	48	13.520	43.185
o/w Public Finance	65.675	0	0	0	0	65.675
Corporate Center	253.713	0	0	0	0	253.713
Total	**1.016.716**	**15.608**	**3.702**	**736**	**35.036**	**1.071.798**

(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**	**1.003**	**40.574**	**956.807**

56.9. Breakdown of financial assets by degree of impairment

Overdue but not impaired financial assets:

(000) BAM

		30.09.2021		31.12.2020
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	14.504	2.435	11.322	1.189
- overdue 31 to 60 days	2.170	400	1.925	471
- overdue 61 to 90 days	601	94	838	46
- overdue 91 to 180 days	0	0	64	0
- overdue 181 to 365 days	0	0	0	0
- overdue over 1 year	0	0	0	0
Total	**17.275**	**2.929**	**14.149**	**1.706**

Impaired financial instruments:

(000) BAM

Loans and advances to customers (on- and off-balance)	31.12.2021	31.12.2020
Exposure	42.481	48.031
Provisions	-37.598	-42.796
Collateral	14.804	18.240

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 tables provides an overview of the forbearance status at the Bank in the course of the financial year 2021 and 2020

(000) BAM

	1.1.2021	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2021
General governments	3.349	0	-470	0	0	0	2.879
Non-financial corporations	846	11.169	-739	0	0	0	11.276
Households	4.624	5.142	-1.035	0	0	0	8.731
Loans and advances	**8.819**	**16.311**	**-2.244**	**0**	**0**	**0**	**22.886**

(000) BAM

	1.1.2020	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2020
General governments	3.588	0	-239	0	0	0	3.349
Non-financial corporations	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 forbearance exposure was as follows in 2021 and 2020:

(000) BAM

2021	Closing Balance 31.12.2021	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments	2.879	0	2.879	0	1
Non-financial corporations	11.276	11.073	0	203	362
Households	8.731	4.109	1.320	3.302	328
Loans and advances	**22.886**	**15.182**	**4.199**	**3.505**	**691**

(000) BAM

2020	Closing Balance 31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
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 following table shows the collateral allocation for the forbearance exposure at the YE 2021:

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	1.949	1.949	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	1.466	1.466	0	0	0	0
Medium and Small Corporate	32.783	31.992	282	77	0	432
Retail	3.107	470	2.637	0	0	0
Total	**39.305**	**35.877**	**2.919**	**77**	**0**	**432**

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

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.096	2.096	0	0	0	0
Financial Institutions	0	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	**5.579**	**3.933**	**1.646**	**0**	**0**	**0**

CARRYING AMOUNTS OF INVENTORIES (INCL. REPOSSESSED COLLATERALS)

In the financial year 2021, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 121 thousand (2020: BAM 281 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).

MORATORIA DUE TO COVID-19

In the first quarter of 2021, the Banking Agency passed a Decision on the amendments to the Decision on banks' temporary measures to mitigate negative economic consequences caused by the COVID-19 viral disease by which the Bank may approve special measures to customers, and it applies to the following changes:

- moratorium, ie delay in repayment of credit obligations until 30.6.2021 at the latest.
- introduction of a grace period for repayment of the principal of credit obligations in the case of loans that are repaid in annuity for the period up to 31.12.2021.
- extension of the maturity of single-maturity loans, including revolving loans and overdrafts on transaction accounts for a period up to 31 December 2021, whereby clients could use the part of the exposure that was unused on the day of modification.
- If the modality involves a combination of measures (moratorium / grace period), the Bank may approve these special measures until 31.12.2021.

In the fourth quarter of 2021, new Decision on the amendments to the Decision on banks' temporary measures to mitigate negative economic consequences caused by the COVID-19 viral disease was published, allowing grace period for repayment of the principal of credit obligations in the case of loans that are repaid in annuity for the period up to 31.12.2021 and also to which extension of the maturity of single-maturity loans, including revolving loans and overdrafts on transaction accounts is extended for a period up to 31.3.2022., whereby clients in meantime could use the part of the exposure that was unused on the day of modification.

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

(000 BAM)

31.12.2021	Performing Exposure	Performing ECL	Non Performing Exposure	Non Performing ECL	Total Exposure	Total ECL
Consumer	12.547	-3.287	201	-5	12.748	-3.292
SME	54.475	-5.599	108	-14	54.583	-5.613
Non Focus	8.636	-661	1.024	-801	9.660	-1.462
o/w Large Corporate	2.350	-314	0	0	2.350	-314
o/w Mortgage	2.694	-195	946	-733	3.640	-928
o/w Public Finance	3.592	-152	78	-68	3.670	-220
Corporate Center	0	0	0	0	0	0
Total	**75.658**	**-9.547**	**1.333**	**-820**	**76.991**	**-10.367**

(000 BAM)

31.12.2020	Performing Exposure	Performing ECL	Non Performing Exposure	Non Performing ECL	Total 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	-333	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**

(57) Development of risk provisions

57.1. Method of calculating risk provisions

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

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

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

Model timeseries (under the same methodology used in the preparation of the 2020 financial statements) were prolonged taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

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

The risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies (wiiw). In general, market expectations continuously improve as demonstrated also by overall upward revisions of publicly available forecasts up to December 2021, however uncertainty remains relatively high. Strong rebound amid current short-term and medium-term risks obviously provides less chance of additional improvement. Therefore, scenario-probabilities used to assign weights to a particular scenario were adjusted in favor of negative scenario as depicted in table below. These probabilities are defined in a joint review process. By default, the scenario probabilities stay the same as in the previous delivery. In case there is a strong argument for a revision, any expert team member can propose to amend the probability distribution. The proposal is reviewed jointly by the research team. If the argument is strong enough, wiiw´s team adopts the change.

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

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

The following tables provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate the ECL for 31 December 2021. 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.

31.12.2021	Baseline case		Optimistic case	Pessimistic case
	First 12 months[1]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
Real GDP (constant prices)	3,7	3,3	5,93	0,94
Industrial production (change % YoY)	7	3,75	7,33	2,34
CPI Inflation (average % YoY)	1,3	1,1	1,31	1,03

[1] The values represent average value for the period

The above scenarios are based on 30 September 2021 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 2020 dataset and assumptions used.

The three scenarios are:

- Baseline: Strong fiscal stimuli and loose monetary policy in major advanced economies continue supporting positive economic outlook despite bottlenecks in international supply chains and uncertainty about effectiveness of vaccines. The main driver of growth during the first half of 2021 has been delayed consumption, although with the re-opening of the economies and fiscal stimuli gradually being repelled amid economic recovery, greater employment levels and consumer credit will become main channels supporting consumption. Euro-area GDP is expected to exceed pre-crisis levels already in 2022, slowly converging to long-term path in subsequent years. On average, real growth will come close to 3% over three-year horizon. Although inflation has spiked due to described imbalances between supply and demand, which was anticipated in previous forecasting cycle, most of signals point to transitory nature of these developments. Thus, inflation rate should be more moderate in 2022, around 1,6% and dampened in years to follow. Bosnia experienced much stronger recovery dynamics than expected, with overall stable labor market conditions. Supported by foreign demand recovery, these trends should continue. Pre-crisis levels of GDP are expected to be exceeded by 2022. On average, 2022-2024 will be growing 3,5% annually. The recovery pace and mid-term developments will depend mostly on the structural reforms that the countries will undertake, on investment in infrastructure and on FDI inflows.

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

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

The following table shows the macro-economic scenarios used for calculation of ECL in the previous reporting period **(30. June 2021):**

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)	2,80	3,20	5,56	0,57
Industrial production (change % YoY)	3,50	3,50	6,00	1,00
CPI Inflation (average % YoY)	0,80	1,10	8,29	8,69

[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.

(000) BAM

31.12.2021(000 BAM)	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	353	273	333	407
PI Other	11.571	10.513	11.316	12.274
Financial Institutions Model	172	48	122	286
Countries	18	8	15	26
Municipalities	649	442	594	795
Corporate Model	9.383	6.806	8.687	11.214
SCPI	56	49	55	61
Total (Stage 1 and 2)	**22.203**	**18.139**	**21.122**	**25.063**

31.12.2020 (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**

57.2. Development of risk provisions

Main drivers of risk cost development in 2021 were: prolongation of timeseries for LGD what decreased LLP, macroeconomic model update what also bring us release when looking full year, additional provisionings for individual clients strongly impacted by Covid crisis, and improved NPL management.

57.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates are performed regularly to make sure that the latest available information is considered. In 2021 a refinement/recalibration of all segments and subsubsdiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, therefore impacting the average PD value. In addition, macro models were adapted in line with validation findings and new macro economic forecasts were used to reflect the latest available economic outlooks throughout all segments, affecting PD values. As a result of the calibration positive development (release) of provisions were observed reflecting current economic developments due to the COVID-19 pandemic, asset quality and macro economic outlook.

(58) 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 Banjaluka 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 2021 as well as 31 December 2020:

(000) BAM

Collateral Distribution	31.12.2021	31.12.2020
Exposure	1.071.798	956.808
Internal Collateral Value (ICV)	552.355	498.282
therof CRE	408.504	337.284
thereof RRE	121.411	139.498
thereof financial collateral	9.275	9.591
thereof guarantees	0	0
thereof other	13.165	11.909
ICV coverage rate	51,5%	52,1%

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

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

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

(000) BAM

	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securi-ties	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	42.482	0	0	0	0	0	0	0	42.482	-37.598
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	2.082	0	0	0	0	0	0	0	2.082	-1.764
Households	40.400	0	0	0	0	0	0	0	40.400	-35.834
Commitments and financial guarantees	1	0	0	0	0	0	0	0	1	0
Loan commitments given	1	0	0	0	0	0	0	0	1	0

(000) BAM

	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securi-ties	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	608	0	0	0	0	0	0	0	608	-119
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	43.838	-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

(59) Market risk

59.1. 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.

59.2. 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).

59.3. Overview – market price risk

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 2021 is BAM 175 thousand (comparable VaR figure as at 31 December 2020: BAM 319 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 trading items of the Bank were relatively stable in 2021. 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 10% on average in 2021 as compared to 8% on average in 2020;).

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 2021 amounts to BAM 52 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2020 was BAM 28 thousand.

FOREIGN EXCHANGE RISK

The main foreign exchange risk drivers are the currencies. The total volume of open currency positions as at 31 December 2021 is roughly BAM 11.747 thousand (volume per 31 December 2020 of approx. BAM 12.913 thousand), with the majority attributed to the currencies. The value at risk for foreign exchange risk was approximately BAM 21 thousand per day as at 31 December 2021 (value at risk as at 31 December 2020: BAM 12 thousand), at a confidence interval of 99%. The limit of BAM 31.293 thousand was adhered to as at 31 December 2021.

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

Currency	FX Open position 31 December 2021	10% increase	10% decrease	FX Open position 31 December 2020	10% increase	10% decrease
USD	-155	15.5	15.5	1.280	128	128
CHF	-6	0.6	0.6	-370	-37	37

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.

EQUITY RISK

Bank held only insignificant amounts of stock in its portfolio during 2021, 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 2021 (value at risk as at 31 December 2020: BAM 0 thousand) with a one-day holding period and a confidence level of 99%.

CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 59 thousand at 73 December 2021 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2020: BAM 59 thousand). The limit of BAM 332 thousand was adhered to as at 31 December 2021. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

The following table shows the estimated values of market risks, which Bank uses for internal risk management:

(000) BAM

	31.12.2021	31.12.2020
Interest Rate Risk (Banking and Trading Book)	3.262	5.952
Credit Spread Risk	1.358	1.101
Foreign Exchange Risk	55	225

The decline in overall market risk exposure can be seen in general as an effect of increased stability in financial markets in the first half of 2021, compared to 2020, which is characterized by unbalanced financial markets as a result of the Covid-19 pandemic. The decrease in interest rate risk is a consequence of increased stability in finan-cial markets. Increased credit spread risk arose as a result of the increase in the securities portfolio in 2021, while foreign exchange rate risk is lower due to lower exchange rate volatility.

(60) Liquidity risk

60.1. 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.

60.2. 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.

60.3. 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 2021, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 269% in January 2021 and its peak of 463% in March 2021.

The counterbalancing capacity at the Bank was structured as follows:

(000) BAM

Counterbalancing Capacity	31.12.2021	31.12.2020
Coins and bank notes	36.821	30.426
Withdrawable central bank reserves	91.692	28.456
Level 1 tradable assets	55.667	33.706
Total Counterbalancing Capacity	184.180	92.588

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

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	0
Securities eligible for Repo	86.896
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	**86.896**

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**

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.

60.4. Overview – liquidity situation

The liquidity situation of the Bank in 2021 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

During the financial year, the Bank recorded a stable level of deposits around BAM 165.130 thousand. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2022.

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

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

(000)BAM

31.12.2021	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	780.629	784.472	494.922	47.810	84.480	150.876	6.384
Derivatives	13	13	13	0	0	0	0
Loan commitments	89.645	89.645	89.645	0	0	0	0
Financial guarantees	11.362	11.362	11.362	0	0	0	0
Other commitments	39.672	39.672	39.672	0	0	0	0
Total	**921.321**	**925.164**	**635.614**	**47.810**	**84.480**	**150.876**	**6.384**

(000)BAM

31.12.2020	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	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**

(61) Operational risk

61.1. 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.

61.2. 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.

61.3. Risk monitoring

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

61.4. 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.

(62) Other risks

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

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

Environmental, Social and Governance (ESG) Risks
ESG risks include all risks arising from potential negative impacts, direct or indirect, on the environment, people and communities and more generally all stakeholders, in addition to those arising from corporate governance. ESG risk could affect profitability, reputation and credit quality and could lead to legal consequences.
As described in the Non Financial Statement the Bank takes into account the environmental, social and governance (“ESG)” risks, associated with the activities of customer companies and pays particular attention to in-depth analysis of sustainability issues related to sectors which are considered as sensitive. The Bank does not treat the ESG risks as a separate risk type but integrates them in the existing risk classification and into the existing risk management framework. As a first step the Bank concentrates on environmental risk management. Due to the fact that the Bank puts its focus on unsecured consumer lending, the environmental risk is considered a minor risk driver, prarily influencing non-retail exposures in specific industries.

The Credit Policy defines industries that are sensitive to environmental and social criteria or would be forbidden to finance. During the credit approval process, special attention is taken when analysing the aspects of the potential ESG risks that the company might face in its business performance or related to the specific project. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.
After aspects above being analysed and in case that transaction is being supported adequate mitigating and monitoring system is implemented/established which will ensure the control over the transaction.

(63) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 4.590 active legal disputes with a total value of BAM 70.228 thousand led by Credit Risk Management Department.

Passive legal disputes

As at 31 December 2021, there were 77 open court proceedings against the Bank, with total nominal value of BAM 52.073 thousand, excluding contingent penalty interest. This amount includes 6 claims with nominal value of BAM 1.101 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 10 claims with nominal value of BAM 12.287 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 2021.
In 2021, the Bank did not have significant unplanned costs related to passive litigation, which confirms the quality of management of this type of risk.
The Bank estimates the amount of provisions for court costs. The estimate is based on the estimated probability of future cash flows arising from past legal or other resulting liabilities. As at 31 December 2021, the Bank set aside funds in the amount of BAM 979 thousand for court proceedings and receivables, which the Management Board considers sufficient.
During 2021, the Bank continued to intensify its litigation and related legal risk management activities. The Bank's strategies in court proceedings are regularly established, and adequate legal representation and coordination of the Bank's defense is established, as well as the out-of-court dispute resolution procedure, recording and reporting on litigation and claims. This resulted in these and other court decisions in favor of the Bank, and the termination of certain proceedings.

The following is overview of court proceedings as of 31.12.2021

Type of case	Number of cases	Value of cases	Provisions
Brush - responsibility of third parties	17	13.233	10
Debt payment	1	3	0
Compensation for damadges	10	12.093	0
Unfair enrichment	2	140	50
Labor dispute	7	62	309
Old foreign currency savings	4	222	56
Administrative and infringement proceedings	1	400	200
Determination	23	23.516	5
Currency clause / margin	11	2.404	350
Total	**76**	**52.073**	**980**

Supplementary information required to be disclosed

(64) Analysis of remaining maturities

(000) BAM

Analysis of remaining maturity as at 31.12.2021	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	173.790	76.300	0	0	0	250.090	0	250.090
Financial assets held for trading	31	0	0	0	0	31	0	31
Financial assets at fair value through other comprehensive income	88.086	0	0	267	0	88.086	267	88.353
Financial assets at amortised cost	11.587	48.506	116.576	259.694	131.315	176.669	391.009	567.678
Tangible assets	26.430	0	0	0	0	26.430	0	26.430
Intangible assets	5.740	0	0	0	0	5.740	0	5.740
Tax assets	1.971	0	0	0	0	1.971	0	1.971
Current tax assets	439	0	0	0	0	439	0	439
Deferred tax assets	1.532	0	0	0	0	1.532	0	1.532
Other assets	4.228	0	0	0	0	4.228	0	4.228
Non-current assets and disposal groups classified as held for sale, financial instruments	0	0	399	0	0	399	0	399
Total	**311.863**	**124.806**	**116.975**	**259.961**	**131.315**	**553.644**	**391.276**	**944.920**
Financial liabilities held for trading	13	0	0	0	0	13	0	13
Financial liabilities measured at amortised cost	489.719	51.965	83.468	149.225	6.252	625.152	155.477	780.629
Provisions	1.178	95	1.377	995	272	2.650	1.267	3.917
Tax liabilities	0	0	0	0	0	0	0	0
Current tax liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2.287	0	0	54	0	2.287	54	2.341
Total	**493.197**	**52.060**	**84.845**	**150.274**	**6.524**	**630.102**	**156.798**	**786.900**

(000) BAM

Analysis of remaining maturity as at 31.12.2020	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	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 assets	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 assets and disposal groups classified as held for sale, financial instruments	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 liabilities held for trading	0	0	0	0	0	0	0	0
Financial liabilities 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 liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	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**

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

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

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

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

The Bank had total cash outflows for leases of BAM 1.048 thousand in (2020: BAM 1.066 thousand).

(000) BAM

	31.12.2021	31.12.2020
Payments for principal portion of lease liability	-467	-483
Payments for interest portion of lease liability	-18	-16
Payments for short-term, low value assets and variable lease payments not included in the measurement of the lease liability	-563	-567
Total	**-1.048**	**-1.066**

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

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2021
up to 1 year	407
from 1 year to 5 years	800
more than 5 years	0
Total undiscounted lease liabilities	1.207

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

(000) BAM

	31.12.2021
Short-term leases	91
Leases of low value assets	472
Total	**563**

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**

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

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

(000) BAM

	31.12.2021
up to 1 year	322
from 1 year to 5 years	107
more than 5 years	0
Total	**429**

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**

Lease income in business year 2020 for the Bank amounts to BAM 345 thousand (2020: BAM 360 thousand).

(67) Assets/liabilities denominated in foreign currencies

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

(000) BAM

	31.12.2021	31.12.2020
Assets	**944.920**	**819.109**
of which: EUR	414.645	488.815
of which: USD	14.388	8.606
of which: CHF	8.305	7.334
of which: BAM	501.839	311.380
of which: RSD	44	25
of which: HRK	816	436
of which: other currencies	4.883	2.513
Liabilities	**786.900**	**670.242**
of which: EUR	318.644	348.330
of which: USD	8.761	7.327
of which: CHF	8.291	7.739
of which: BAM	448.581	305.051
of which: RSD	0	0
of which: HRK	153	81
of which: other currencies	2.470	1.714

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 forward exchange transactions.

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

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

(000) BAM

	31.12.2021	31.12.2020
Loan commitments, given	89.645	92.557
Financial guarantees, given	11.362	9.119
Other commitments, given	39.672	39.403
Total	**140.679**	**141.079**

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.

(69) 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.

69.1. Fair value of assets carried at fair value

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

(000) BAM

31.12.2021	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets				
Financial assets held for trading	0	31	0	31
Derivatives	0	31	0	31
Investment securities at FVTOCI	88.088	60	205	88.353
Equity instruments	0	60	205	265
Debt securities	88.088	0	0	88.088
Non-financial assets				
Tangible assets	0	0	26.430	26.430
Intangible assets	0	0	5.740	5.740
Non-current assets classified as held for sale	0	0	399	399
Total	**88.088**	**91**	**32.774**	**120.953**
Liabilities				
Financial liabilities held for trading	13	0	0	13
Derivatives	13	0	0	13
Total	**13**	**0**	**0**	**13**

(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				
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
Non-financial assets				
Tangible assets	0	0	27.869	27.869
Intangible assets	0	0	6.769	6.769
Non-current assets classified as held for sale	0	0	399	399
Total	**58.413**	**56**	**35.242**	**93.711**
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	**0**	**0**	**0**	**0**

Transfers between level I and level II

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the financial instrument does no longer meet the criteria described above for the categorisation in the respective level.
In the current and the previous reporting period no transfer of debt securities at FVTOCI took place..

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

(000) BAM

2021	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	205	0	0	0	0	0	205
Equity instruments	205	0	0	0	0	0	205
Total	**205**	**0**	**0**	**0**	**0**	**0**	**205**

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

(000) BAM

2021	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	229	0	32	0	0	-56	205
Equity instruments	229	0	32	0	0	-56	205
Total	**229**	**0**	**32**	**0**	**0**	**-56**	**205**

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.

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

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

(000) BAM

31.12.2021	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	250.090	250.105	15	0	0	250.105
Financial assets at amortised cost	567.678	609.891	42.213	0	0	609.891
Loans and receivables	567.678	609.891	42.213	0	0	609.891
Total	**817.768**	**859.996**	**42.228**	**0**	**0**	**859.996**
Liabilities						
Financial liabilities measured at amortised cost	780.629	785.308	4.679	0	0	785.308
Deposits	729.432	733.337	3.905	0	0	733.337
Borrowings	35.370	36.144	774	0	0	36.144
Other financial liabilities	15.827	15.827	0	0	0	15.827
Total	**780.629**	**785.308**	**4.679**	**0**	**0**	**785.308**

(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
Deposits	603.837	608.866	5.029	0	0	608.866
Borrowings	47.174	48.661	1.487	0	0	48.661
Other financial liabilities	12.190	12.190	0	0	0	12.190
Total	**663.201**	**669.717**	**6.516**	**0**	**0**	**669.717**

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 Bank 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.

(70) Derivative financial instruments

70.1. Derivatives held for trading

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

(000) BAM

	Nominal amount	
	31.12.2021	31.12.2020
Foreign exchange and gold		
OTC other	125.173	136.908

(000) BAM

	31.12.2021			31.12.2020		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**0**	**0**	**0**	**0**	**0**	**0**
OTC options	0	0	0	0	0	0
OTC other	0	0	0	0	0	0
b) Foreign exchange and gold						
OTC-products	**125.173**	**31**	**13**	**136.908**	**0**	**0**
OTC other	125.173	31	13	136.908	0	0
c) Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Credit default swap	0	0	0	0	0	0

Trading book volume can be shown as follows:

(000) BAM

	31.12.2021	31.12.2020
Derivatives in trading book (nominal)	125.173	136.908
Debt securities (carrying amount)	0	0
Trading book volume	**125.173**	**136.908**

(71) 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

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel of the institution
Financial assets							
Loan and advances	0	0	0	0	0	1.585	189
Placements	18.462	69	386	165	0	795	0
Derivatives	31	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	**0**
Financial liabilities							
Derivatives	13	0	0	0	0	0	**0**
Deposits	97	0	0	17	79	0	851
Other financial liabilities	75	0	473	129	0	1.460	0
Other liabilities	0	0	0	0	0	**0**	**0**
Loan commitments given	0	0	0	0	0	0	44
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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							
Derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**
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

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel of the institution
Interest and similar income	0	0	0	0	0	0	8
Interest expenses	-63	0	-8	0	0	-44	-3
Fee and commission income	0	0	1	0	0	0	8
Fee and commission expenses	-5	0	-36	-2	0	0	0
Other administrative expenses	-234	0	-428	-129	0	-4	0
Gains on derecognition of financial assets FVOCI	450	0	0	0	0	0	0
Other operating income	0	0	0	0	0	16	0
Credit loss expenses on financial assets	387	20	69	2	0	-36	-1
Total	**535**	**20**	**-402**	**-129**	**0**	**-68**	**12**

(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**

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

(000) BAM

	31.12.2021	31.12.2020
Short term employee benefits	1.160	1.063
Other long term benefits	0	0
Termination benefits	316	0
Total	1.476	1.063

(72) Share-based payments

In 2021 the Bank established, in addition to the annual bonus, a Performance Acceleration Incentive Framework (PAIF) based on which the Bank granted to management board variable remuneration components based on value of shares. The program is intended to closely align the interests of the participants with those of the shareholders. The amount paid is dependent on the average share price of Addiko Bank AG during the month of December 2021. In addition, in alignment with EBA guidelines, the program is activated only if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a pre-defined timeframe. According to the remuneration policy of the Bank, the remuneration program included cash-settled share-based payments.

The PAIF program is accounted for in accordance with IFRS 2.

Cash-settled share-based payments: Under the Bank's PAIF scheme, Management Board members receive an additional variable remuneration in the form of issued cash payments based on the average price of Addiko Bank AG during the month of December 2021. In case the overall amount of the normal bonus and the remuneration granted under the PAIF program exceeds pre-defined limits, the payments are deferred over a period of six years in tranches.

For the total carrying amount of liabilities arising from cash-settled share based payments, see the Note (49) and for expense see the Note (32). There were no settlements during 2021 and 2020.

All share-based payments (cash-settled, equity-settled) can only be paid out if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a pre-defined timeframe.

(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. The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum tresholds are prescribed. The effects of implementation of new regulatory decision are recognized in initial equity as at 1 January 2020 on position Other reserves 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 2021 and 31 December 2020 amount to:

			31.12.2021			31.12.2020
	CET1	T1	TCR	CET1	T1	TCR
Minimum capital requirement	6.75%	9.00%	12.00%	6.75%	9.00%	12.00%
Capital Buffer	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Overall Capital Requirement (OCR)	**9.25%**	**11.50%**	**14.50%**	**9.25%**	**11.50%**	**14.50%**

The Bank is under obligation to maintain capital adequacy at the minimum of 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 Srspka.

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.

	31.12.2021	31.12.2020
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	153.094	153.094
Retained earnings	-6.494	-6.812
Statutory reserves	0	300
Accumulated other comprehensive income (and other reserves)	1.040	1.392
CET1 capital before regulatory adjustments	**147.640**	**147.974**
CET1 capital: regulatory adjustments		
Intangible assets	-5.739	-6.769
Other deductions from common equity	-1.674	-2.305
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-7.413**	**-9.074**
Common Equity Tier 1 (CET1) capital	**140.227**	**138.900**
Tier 2 (T2) capital: instruments and provisions		
General credit risk allowances	0	7.160
Deductions from supplementary capital	0	0
Tier 2 (T2) capital	**0**	**7.160**
Total capital (TC = T1 + T2)	**140.227**	**146.060**
Amount of exposure weighted for credit risk / Total risk-weighted assets	582.623	572.817
Total amount of exposure for position, currency and merchandise risk	13.800	9.065
Weighted operating risk	48.071	67.790
Total risk weighted assets	**644.494**	**649.672**
Capital ratios and buffers %		
CET1 ratio	21,76%	21,38%
TC ratio	21,76%	22,48%

*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 BAM 5.833 thousand comparing to last year. Changes can be seen in Tier 2 Capital on position General credit risk allowances, which according to BARS regulations are not included in Tier 2 Capital anymore.

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 5.178 thousand during the reporting period. The increase of RWAs for credit risk by 9.806 thousand BAM

RWAs for market risk increased by 4.735 thousand BAM. The RWA for operating risks decreased by 19.719 thousand BAM owing to changes of regulatory requests.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the BARS Decision on Minimum Standards for Bank Capital Management, was 14,1% at 31 December 2021, down from 16,0% at 31 December 2020. The fall was driven by increase in the total leverage exposure.

(000) BAM

	31.12.2021	31.12.2020
Tier 1 capital	140.227	138.900
Total leverage ratio exposure	994.489	866.782
Leverage ratio %	14,1%	16,0%

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

(74) Assets pledged as collateral

As of 31. December 2021, the Bank had pledge in favor to funds of Republic of Srpska Investment-Development Bank, ie a pledge is established on the Bank's loan portfolio with the RS Housing Fund, the RS Development Fund and the RS Development and Employment Fund with which the Bank concluded individual loan agreements, with the balance of prinicpal on the aforementioned credit lines as of 31. December 2021 in amount of BAM 15.009 thousand (YE20: BAM 18.756 thousand)
Pledged assets as of 31. December 2021 of the Bank consists of loans given to customers.
The pledged assets is registered in the BiH Pledge Register kept by the Ministry of Justice of Bosnia and Herzegovina.

(75) Events after the reporting date

The Bank does not conduct operations in the Ukrainian market. Consequently, the Bank is no exposed to the economic and financial markets of Ukraine, therefore there is no risk related to this market.

(76) Boards and Officers of the Company

1 January to 31 December 2021

Supervisory Board

Chairman of the Supervisory Board:
Biljana Rabitsch (from 16.09.2020. to 13.09.2021)
Petra Hildegard Zirhan-Wagner (from 13.09.2021 to 26.11.2021)
Tadej Krašovec (from 26.11.2021 -today)

Deputy Chairman of the Supervisory Board:
Petra Hildegard Zirhan-Wagner (from 17.09.2020 to 13.09.2021.)
Mark Potočnik (from 13.09.2021 to 26.11.2021)
Petra Hildegard Zirhan-Wagner (from 26.11.2021 -today)

Members of the Supervisory Board:
Biljana Rabitsch (from 07.03.2017 to 16.09.2020)
Tadej Krašovec (from 11.11.2021 to 26.11.2021)
Petra Hildegard Zirhan-Wagner (from 16.09.2020 to 13.09.2021)
Mark Potočnik (from 23.12.2020. -today)
Stevo Pucar (from 23.12.2020. -today)
Radomir Savić (from 23.12.2020. -today)

Management Board

Srđan Kondić, Chairman (from 01.10.2020. -today)
Slađan Stanić, Member (from 18.12.2020. -today)
Boštjan Pečenko, Member (from 29.07.2016 to 03.08.2021.)
Mile Todorović, Member (from 26.08.2021 -today)

Audit Committee

Đorđe Lazović, Chairman (from 16.05.2019. -today)
Jelena Mažuranić, Member (from 16.05.2019. -today)
Siniša Radonjić, Member (from 16.05.2019. -today)

Addiko Bank

Banja Luka, 28 February
2022 Addiko Bank a.d.

MANAGEMENT BOARD

Srđan Kondić
Chairman

Slađan Stanić
Member of the Management Board

ADDIKO BANK AD
1
BANJA LUKA

Mile Todorović
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, 28 February
2022 Addiko Bank a.d.

MANAGEMENT BOARD

Srđan Kondić
Chairman

Slađan Stanić
Member of the Management Board

ADDIKO BANK AD
1
BANJA LUKA

Mile Todorović
Member of the Management Board

Independent Auditors' report

To the shareholders of Addiko Bank a.d. Banja Luka

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Republic of 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This version of the Auditors' report is a translation from the original, which was prepared in 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 report takes precedence over translation

KPMG

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

Key Audit Matters

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

Impairment of loans and receivables from customers

As at 31 December 2021, gross loans and advances to customers: BAM 620 million, related impairment allowance: BAM 61 million and impairment loss recognised in the income statement for the year then ended: BAM 0.6 million (31 December 2020: gross loans and receivables: BAM 626 million, impairment allowance: BAM 68 million and impairment loss recognised in the income statement for the year then ended: BAM 15 million).

Refer to Accounting policies, Note 4 Use of estimates and assumptions/material uncertainties in relation to estimates, Note 39 Loans and receivables, and Note 56 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and receivables from customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumption in estimating the amounts of such impairment. The Bank calculates allowance for credit losses in accordance with the requirements of the Banking Agency of the Republic of Srpska ("ABRS"), which combines the requirements of IFRS 9 "Financial Instruments" with the prescribed minimum requirements for provisioning. The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below BAM 50 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information, as well as specific rules of the ABRS regarding various minimum provisioning requirements (together "collective impairment allowance").	Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management and information technology (IT) specialists included, among others: • Inspecting the Bank's ECL methods, and assessing their compliance with the relevant requirements of the regulatory and financial reporting framework. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assisted by our own IT specialists, assessing and testing of the Bank's IT control environment for data security and access; • Testing the design and implementation of selected controls over the approval, recording and monitoring of loans, and also testing operating effectiveness of selected controls over the approval and recording, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of

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

Key Audit Matters (continued)

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above BAM 50 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and the minimum period for collateral disposal, as well as the ABRS's specific minimum provisioning requirements. In the wake of the above factors, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances. • For loss allowances calculated on a collective basis: — Evaluating the overall ECL modelling approach, including challenging the key risk parameters for specific representative portfolios (PD, EAD and LGD) by reference to historical realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; • For impairment allowances calculated individually: — selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures and loans with significant change in the provision coverage; — for the sample selected, taking into account client business, market conditions and payment history; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3;

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

Key Audit Matters (continued)

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

Other Matter

The financial statements of the Bank for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those financial statements on 22 March 2021.

Other Information

Management is responsible for the other information. The other information comprises the Key data, Letter from the CEO and Management report but does not include the financial statements and our auditors' report thereon. The other information is expected to be made available to us after the date of this auditors' report.
Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG B-H d.o.o. za reviziju
Branch office Banja Luka
Registered Auditors
Svetozara Markovića 5/11
78000 Banja Luka
Bosnia and Herzegovina

28 February 2022

Glossary

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

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

	standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund, presented in % of the total risk according to Decision about capital management
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2).

TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

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