UNION BANKA D.D. SARAJEVO

Financial statements for the year ended
31 December 2020 and Independent Auditor's Report

Content

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina („Official Gazette of Federation of Bosnia and Herzegovina" No. 83/09), the Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, which give a true and fair view of the state of affairs and results of Union banka d.d. Sarajevo (the „Bank") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, and for this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards implemented; and
- The financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. Also, it must ensure that the financial statements comply with the legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

UNION BANKA DD SARAJEVO SARAJEVO BR. 1

Vedran Hadžiahmetović
President of the Management Board

Union banka d.d.
Hamdije Kreševljakovića 19
71000 Sarajevo
Bosnia and Herzegovina

26 February 2021

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Independent auditor's report

To the Shareholders of Union Banka d.d. Sarajevo

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for 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' (IESBA) *International Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of the loan loss provisions

The carrying amount of loans to customers amounts to BAM 301 million (or 34% of total assets) as at 31 December 2020. As described in Note 4 Key accounting estimations - Impairment of loans and receivables, the provisions for loans are determined under application of regulatory requirements regarding credit risk prescribed by the Banking Agency of Federation of Bosnia and Herzegovina. This is a key audit matter as significant judgement is involved to determine the provisions for loans impairment.	We understood and evaluated the processes and controls for collective provision impairment within the loan portfolios, as well as the impairment assessment processes for individually assessed loans. We involved experts in the field of credit risk modeling and information systems experts in areas that required specific expertise (i.e. data reliability and the ECL model).

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Key areas of judgement included the interpretation of the requirements to determine impairment under application of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty and expected future cash as disclosed in Note 31. c) Risk management - Credit quality of financial assets, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment. The Bank is obliged to observe regulatory requirements regarding credit risk prescribed by the Banking Agency of Federation of Bosnia and Herzegovina and adjust its IFRS 9 based internal calculations under expected credit losses (ECL) models to be in line with these requirements. Additionally, COVID-19 pandemic also affected the estimate due to given moratoriums and lower availability of financial information on performance of Debtors in the current year. Uncertainty around those factors along with uncertain economic outlook resulted in more complex assessment of this effect onto ECL model. For individually assessed loans, the possible outcomes are based on discounted cash flows and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts itself, including collateral realization. For further information, refer to Note 31. c) Risk management - Credit quality of financial assets of the accompanying financial statements.	We assessed the modelling techniques and methodology against the requirements of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina. We also assessed the reasonableness and appropriateness of significant assumptions used in models for calculating the ECL and evaluated if the Bank is compliant with regulatory requirements regarding ECL calculation. We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to requirements of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings), as well as COVID-19 impact on those parameters. We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy. In relation to individually impaired loans, we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision. For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. In particular, we tested key inputs to the impairment calculation including the expected future cash flows and their timing and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines. We also re-performed management's impairment calculation for mathematical accuracy and application of parameters on selected individually impaired loans.

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

We examined a sample of loan exposures that were approved for temporary or special measures in accordance with regulatory agency's decision, as well as clients from industries highly affected by COVID-19 pandemic and evaluated if there are triggers for significant increase in credit risk (SICR) or default which may require client reclassification to Stage 2 or Stage 3. We also assessed if approved measures are adequate to current client's creditworthiness. We engaged internal risk modelling experts to review forward looking information (FLI) and input parameters used and to assess if COVID-19 impact was adequately reflected on probability of default (PD) used.

We assessed the adequacy of the disclosures included in Note 31. c) Risk management - Credit quality of financial assets and Note 4 Key accounting estimations - Impairment of loans and receivables of the accompanying financial statements.

Responsibilities of management and Audit Committee for the financial statements

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

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

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional 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.

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Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

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

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

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

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

We communicate with Audit Committee 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 provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.
From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Zvonimir Madunić, Director

DRUŠTVO ZA REVIZIJU ERNST & YOUNG SARAJEVO d.o.o.

Tarik Alijagić, Licensed auditor

26 February 2021
Ernst & Young d.o.o. Sarajevo
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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2020
(all amounts are expressed in thousands BAM, unless otherwise stated)

	Notes	2020	2019
Interest income calculated using the effective interest method	5	12,134	10,770
Interest expense calculated using the effective interest method	6	(2,615)	(2,599)
Net interest income		**9,519**	**8,171**
Fee and commission income	7	2,633	2,784
Fee and commission expense	8	(1,139)	(1,066)
Net fee and commission income		**1,494**	**1,718**
Net (losses) / gains on the impairment of financial assets	9	(302)	375
Net losses on financial assets at fair value through profit and loss	17	(107)	(182)
Net gains on foreign exchange differences		76	167
Other operating income	10	1,469	1,987
Operating income		**12,149**	**12,235**
Employees' expenses	11	(6,553)	(6,381)
Depreciation and amortization	21, 22	(1,071)	(1,030)
Other expenses	12	(3,979)	(4,244)
Total operating expenses		**(11,603)**	**(11,655)**
PROFIT BEFORE TAX		**546**	**580**
Income tax expense	13	-	(257)
Deferred tax expense	13	(114)	(89)
NET PROFIT FOR THE YEAR		**432**	**234**
Other comprehensive (loss) / income			
Items that will be subsequently reclassified in the statement of profit or loss when specific conditions are met:			
Effects of changes in impairment of financial assets through other comprehensive income, net		343	816
Effects of changes in fair value of financial assets through other comprehensive income, net		(4,464)	6,342
Deferred tax expense of financial assets through other comprehensive income		(200)	-
		(4,321)	7,158
TOTAL COMPREHENSIVE (LOSS) / INCOME		**(3,889)**	**7,392**
Earnings per share (in BAM)	14	**0.20**	**0.11**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of financial position
as at 31 December 2020

(all amounts are expressed in thousands BAM, unless otherwise stated)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and accounts at banks	15	238,946	238,846
Due from banks	15.1	3,908	-
Obligatory reserve with the Central Bank of BiH	16	78,115	80,129
Financial assets at fair value through profit or loss	17	264	372
Financial assets at fair value through other comprehensive income	18	231,709	196,490
Loans to customers and receivables	19	301,405	256,399
Other assets and receivables	20	1,229	4,799
Tangible, intangible and right-of-use assets	21	18,812	18,919
Investment property	22	4,545	4,612
TOTAL ASSETS		**878,933**	**800,566**
LIABILITIES			
Liabilities to other banks and financial institutions	23	1,271	1,353
Liabilities to customers	24	769,253	700,433
Other liabilities	27	3,493	3,810
Subordinated debt	25	40,000	25,000
Provisions	26	1,274	1,089
TOTAL LIABILITIES		**815,291**	**731,686**
EQUITY			
Share capital	28	44,098	44,098
Revaluation reserves for investments		1,808	6,129
Retained earnings		17,736	18,653
TOTAL EQUITY		**63,642**	**68,880**
TOTAL LIABILITIES AND EQUITY		**878,933**	**800,566**

The accompanying accounting policies and notes form an integral part of these financial statements.

Signed on behalf of the Bank on 26 February 2021.

UNION BANKA DD SARAJEVO

Vedran Hadžiahmetović	Lejla Nurko
President of the Management Board	Head of Accounting and Controlling department

Statement of cash flows
for the year ended 31 December 2020
(all amounts are expressed in thousands BAM, unless otherwise stated)

	2020	2019
Operating activities		
Profit before tax	**546**	**580**
Adjustments for:		
Depreciation and amortization	1,071	1,030
Loss on disposal of tangible assets	16	-
Impairment losses and provisions, net	28	(176)
Fair value adjustments of financial assets at fair value through profit or loss	107	182
Interest income from financial assets through OCI recognized in the statement of profit or loss and other comprehensive income	(2,805)	(2,025)
Dividend income recognized in the statement of profit or loss and other comprehensive income	(57)	(365)
Cash flow before changes in operating assets and liabilities:	*(1,094)*	*(774)*
Decrease / (increase) in obligatory reserve with the Central bank of BiH, net	1,929	(10,057)
Increase in due from banks, net	(3,904)	-
Increase in loans to customers, before allowance, net	(46,175)	(64,490)
Decrease in other assets, before allowance, net	3,571	3,738
Decrease in liabilities to other banks and financial institutions, net	(82)	(1,090)
Increase in liabilities to customers, net	68,820	3,000
(Decrease) / increase in other liabilities, net	(250)	884
	22,815	*(68,788)*
Income tax paid	-	-
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**22,815**	**(68,788)**
Investing activities		
Purchase of financial assets through other comprehensive income	(93,723)	(91,784)
Interest received from financial assets through other comprehensive income	56,845	6,232
Purchase of tangible assets	(901)	(67)
Proceeds from sale of tangible assets	-	649
Dividends received	57	365
NET CASH USED IN INVESTING ACTIVITIES	**(37,722)**	**(84,605)**
Financing activities		
Repayment of principal portion of lease liabilities	(193)	(183)
Proceeds from subordinated debt	15,000	15,000
NET CASH FROM FINANCING ACTIVITIES	**14,807**	**14,817**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(100)**	**(138,576)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**238,846**	**377,422**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**238,946**	**238,846**

The accompanying accounting policies and notes form an integral part of these financial statements.

(all amounts are expressed in thousands BAM, unless otherwise stated)

	Share capital	Regulatory reserves	Revaluation reserves for investments	Retained earnings	Total
31 December 2018	**44,098**	**3,347**	**(1,029)**	**15,072**	**61,488**
Net profit	-	-	-	234	234
Transfer of regulatory reserves for credit losses	-	(3,347)	-	3,347	-
Other comprehensive income	-	-	7,158	-	7,158
Total comprehensive income	-	-	*7,158*	*234*	*7,392*
31 December 2019	**44,098**	**-**	**6,129**	**18,653**	**68,880**
Net profit	-	-	-	432	432
Effect of application of FBA Decision (Note 2)	-	-	-	(1,349)	(1,349)
Other comprehensive loss	-	-	(4,321)	-	(4,321)
Total comprehensive loss	-	-	*(4,321)*	*432*	*(3,889)*
31 December 2020	**44,098**	**-**	**1,808**	**17,736**	**63,642**

The accompanying accounting policies and notes form an integral part of these financial statements.

(all amounts are expressed in thousand BAM, unless otherwise stated)

1. GENERAL INFORMATION

History and incorporation

Union banka d.d. Sarajevo (the „Bank“) was established in 1995 as branch of Jugoslovenska banka for foreign trade. By the end of 1989, the Bank was operating under Jugobanka d.d. Belgrade. In 1990, the Bank has been transformed into individual financial institution under name Jugobanka Jubbanka d.d. Sarajevo. At the end of 1992, the Bank changes its name into Union banka d.d. Sarajevo, while at the end of 1997, the Bank is registered as a legal successor of Jugobanka Jubbanka d.d. Sarajevo for territory of the Federation of Bosnia and Herzegovina (the „FBiH“ or “Federation”).

In January 2018, the Bank changed its head office to the address Hamdije Kreševljakovića 19, Sarajevo, Bosnia and Herzegovina. As of 31 December 2020, the Bank was operating through 4 branches: Sarajevo, Mostar, Zenica, Tuzla, and 9 offices: Goražde, Bihać, Zavidovići, Stari Grad – Sarajevo, Novi Grad – Sarajevo, Ilidža, Konjic and Travnik.

Principal activities of the Bank

The Bank provides banking services through developed network of branches in Bosnia and Herzegovina and for:

- Accepting and placing deposits;
- Accepting demand and term deposits;
- Granting short and long-term loans and guarantees;
- Transactions on the interbank money market;
- Performing local and international payments;
- Debit and credit card operations;
- Providing banking services through a branch network in the FBiH.

Managing bodies of the Bank

Supervisory Board:

Maja Letica	President from 20 May 2019
Haris Jahić	Member
Advija Alihodžić	Member
Dražena Tunjić Pavlović	Member from 20 May 2019
Aida Hadžigrahić	Member from 20 May 2019

Management Board

Vedran Hadžiahmetović	President of the Management Board
Edin Mujagić	Member of the Management Board for Risks
Leon Begić	Member of the Management Board for Operations

Audit Committee:

Hajrudin Hadžović	President from 25 October 2019
Nermin Šahinović	Member
Dr. Lejla Demirović	Member from 25 October 2019
Damir Šapina	Member from 25 October 2019
Marko Čule	Member from 25 October 2019

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of Financial Statements

The financial statements of the Bank have been prepared in accordance with the legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina (hereinafter „FBiH“), which are based on the Law on Accounting and Auditing of Federation of Bosnia and Herzegovina, the Law on Banks in Federation of Bosnia and Herzegovina and the Banking Agency by-laws of the Banking Agency of FBiH adopted on the basis of the mentioned laws.

The Law on Accounting and Auditing of FBiH prescribes the preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”). Companies prepare and present their financial statements in accordance with International Accounting Standards (“IAS”), their amendments and interpretations (“Standard Interpretations”), International Financial Reporting Standards (“IFRS”) and their amendments and interpretations (“International Financial Reporting Interpretations”) issued by IASB, as translated and published by Association of accountants, auditors and financial employees in FBiH (by the authorization of Accounting Commission of Bosnia and Herzegovina number 2-11/06). As of the date of this report, the following standards and amendments to standards issued by the IASB have not been translated:

- Conceptual framework in IFRS standards (for those preparing accounting policies based on the Conceptual framework, effective for the period from or after 1 January 2020)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments) - 1 January 2020
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) - 1 January 2021.

The Law on Banks in FBiH prescribes the preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing FBiH, the Law on Banks FBiH, and bylaws adopted on the basis of both laws.

The FBiH Banking Agency adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (“Decision”), which applies from 1 January 2020 and which resulted in certain differences arising from the calculation of value adjustments for credit losses due to the application of minimum rates prescribed by the Decision that are not required by IFRS 9: “Financial Instruments” (“IFRS 9”). The decision also has an impact on the valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRS). In accordance with this Decision the Bank recorded effect on opening balance of equity as of 1 January 2020 in amount of BAM 1,349 thousand, out of which BAM 127 thousand refer to decrease of value adjustments for Stage 1, BAM 189 thousand refer to increase of value adjustments for Stage 2 and BAM 1,287 thousand refer to increase of value adjustments for Stage 3. Additionally, the Bank wrote off to off-balance exposures that have been 100% impaired in period more than 2 years in total amount of BAM 9,071 thousand.

(all amounts are expressed in thousand BAM, unless otherwise stated)

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis for preparation and presentation of Financial Statements (continued)

The Bank has, in accordance with the provisions of the Decision as of 31 December 2020, recognized higher value adjustments for credit losses in the amount of BAM 1,408 thousand (including value adjustments for write-offs) compared to the amount obtained by calculation resulting from the Bank's internal model, which is compliant with IFRS 9. This difference arose due to the following reasons:

- application of minimum value adjustment rates prescribed in Article 23 of the Decision for exposures in the Stage 1 - difference in the amount of BAM 404 thousand,
- application of minimum value adjustment rates prescribed in Article 24 of the Decision for exposures in the Stage 2 - difference in the amount of BAM 631 thousand,
- application of minimum value adjustment rates prescribed in Article 25 of the Decision for exposures in Stage 3 (non-performing assets) - the difference in the amount of BAM 373 thousand, which fully refers to exposures secured by eligible collateral;
- Write-off of exposures to off-balance in the total amount of BAM 9,441 thousand.

The previously described differences between the legal accounting regulations applicable to the banks in the FBiH and the requirements for recognition and measurement based on methodology used for reporting in accordance with International Financial Reporting Standards have resulted in the following effects*:

	31.12.2019 IFRS	**Effects of FBA Decision 1.1.2020**	**1.1.2020.**
Assets	800,566	(1,333)	799,233
Liabilities	731,686	(16)	731,670
Equity	68,880	(1,349)	67,531

	31.12.2020 IFRS	**Effects of FBA Decision 31.12.2020**	**31.12.2020**
Assets	880,027	(1,094)	878,933
Liabilities	815,604	(314)	815,290
Equity	65,050	(1,408)	63,642

	31.12.2020
Financial resulted before tax for the year ended 31.12.2020 if IFRS methodology is used	487

** Note: a positive value represents an increase in value, and a negative one a decrease in value.*

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis for preparation and presentation of Financial Statements (continued)

These financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies given in the text.

In compiling these financial statements, the Bank applied the accounting policies that are explained in Note 3.

All amounts in the Financial Statement have been expressed in thousands of convertible marks. The Mark represents the official reporting currency in Bosnia and Herzegovina.

Going concern

The Financial statements are prepared in accordance with going concern assumption, which implies that the Bank will continue as a going concern for the foreseeable future.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2. Amendments of IFRS and regulatory Decision whose adoption and application is mandatory in the current period

- **Decision on credit risk management and determination of expected credit losses**

  As of 1.1.2020 the Bank updated internal policies on credit risk management such as Program for Credit Risk Management and Calculation of Expected Credit Losses, Methodology for measuring the impairment of loans and other financial assets and Policy for collaterals, which were harmonized with the Decision on Credit Risk Management and Calculation of Expected Credit Losses, published by the Agency. The Bank adjusted its previous methodology, which was based on IFRS, and recorded the effects of the first application in the amount of BAM 1,349 thousand in equity as at 1.1.2020. Changes in the methodology are described in Note 31.c).

- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments did not have impact on financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

  In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). These Amendments did not have impact on financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. International Financial Reporting Standards published by the IASB, but still not translated by the Association of Accountants, Auditors and Financial Professionals in the Federation BiH

- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. Management has assessed that adoption of these Conceptual framework will not have significant impact on financial statements of the Bank.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed that adoption of these Amendments will not have significant impact on financial statements of the Bank.

2.4. Standards that have been issued, translated but not yet effective and have not been earlier adopted

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. Management has assessed that these Amendments will not have significant impact on financial statements of the Bank.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Standards that have been issued, translated but not yet effective and have not been earlier adopted (continued)

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

  Management has assessed that these Amendments will not have significant impact on financial statements of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to 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. The amendment provides a practical expedient for the lessee to account 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 was not a lease modification, only if all of the following conditions are met:

  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  Management has assessed that this Amendment will not have significant impact on financial statements of the Bank.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5. Standards issued by the International Accounting Standards Board but not yet effective and not previously adopted or translated by the Association of Accountants and Auditors of the FBIH

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. This Amendment have not yet been translated by Association of Accountants and Auditors of FBiH. Management has assessed that these Amendments will not have significant impact on financial statements of the Bank.

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

  Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. These Amendments have not yet been translated by Association of Accountants and Auditors of FBiH. Management has assessed that these Amendments will not have significant impact on financial statements of the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Interest Income

Interest income / expense is recognized in the statement of profit or loss for the period that it belongs to using the method of effective interest rate. Effective interest rate is the rate that discounts estimated future cash flows (including all fees on items paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

b) Fee and commission income and expenses

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognized in the period when services are rendered.

c) Taxation

Income tax expense represents the sum of the current tax liability and deferred tax.

Current Income Tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss and other comprehensive income because it includes items of income or expense that are taxable or deductible in other years and it further includes 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 reporting period date.

Deferred Income Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include balances with the Central Bank of Bosnia and Herzegovina (the „CBBH“) and current accounts with other banks.

Cash and cash equivalents exclude the obligatory minimum reserve with the CBBH as these funds are not available for the Bank's day to day operations. The obligatory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

e) Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a contractual party in a contract related to a financial instrument.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributed to the acquisition of financial assets, or the occurrence of financial liability (other than financial assets and liabilities at fair value through profit and loss) are added, or deducted from the fair value of financial assets, or financial liabilities, at initial recognition.

Financial Assets

Transaction costs directly attributable to the acquisition of the financial assets and financial liabilities at fair value through profit and loss are recognized immediately in the income statement and other comprehensive income for the period.
Financial assets are recognized or derecognized at the trade date when the sale of assets is defined by the agreed delivery date of financial asset within the deadlines determined in accordance with the conventions on the market.

The classification of financial assets depends on the nature and purpose of the financial asset and is determined at the moment of initial recognition.

Measurement of the financial assets and liabilities

The Bank classifies all financial assets based on a business model for asset management and contractual terms of assets, measured by:

1. Valuation by the amortized cost method („AC“),
2. Valuation at fair through profit and loss („FVPL“), and
3. Valuation at fair value through other comprehensive income („FVOCI“).

The methodology for classification and measurement of exposure is an internal act of the bank that defines the classification and valuation of assets.
The classification of financial instruments into certain category of accounting measurement depends on the business model in which an instrument is acquired, the characteristics of contractual cash flows, and the options of fair valuation provided by IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

Financial assets	Classification per IAS 39	New classification per IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Deposits at other institutions	Loans and receivables	Amortized cost
Placements with other banks	Loans and receivables	Amortized cost
Loans	Loans and receivables	Amortized cost
Debt securities	Financial assets available for sale	Fair value through other comprehensive income
Debt securities	Financial assets held to maturity	Amortized cost
Equity securities	Financial assets available for sale	Fair value through other comprehensive income
Equity securities	Financial assets at fair value through profit or loss	Fair value through profit or loss
Other financial assets	Loans and receivables	Amortized cost

Effective interest rate method

Effective interest rate method is the method of calculating the amortized cost of financial assets and the allocation of interest income over a specific period. The effective interest rate is the interest rate that discounts future cash flows (including all fees that form an integral part of effective interest rate, transaction cost and other premiums and rebates) through the expected lifetime of the financial asset, or where possible, a shorter period.

Financial instruments recognize income based on the effective interest rate.

Loans and receivables

Loans, deposits and other receivables with fixed or determinable payments that are not quoted in an active market, have been classified as "loans and receivables". They occur when the Bank gives money to the debtor without the intention of simultaneous sale of these receivables or sales in the near future.

The Bank measures loans, placed deposits and other receivables at amortized cost if the following conditions are met:

- A financial asset is held within a business model with the aim of holding it for collection of contractual cash flows

- The contractual terms of the financial asset give cash flows at specific points of time that are exclusively result of the principal and interest payments (SPPI) of the outstanding principal amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial Instruments (continued)

Business model assessment

The business model is determined at the level that reflects the way in which a group of financial assets is managed to achieve a particular business goal, such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model relates to the way in which financial assets are managed to generate cash flows. In other words, the business model determines whether cash flows will arise from the collection of contractual cash flows, sales of financial assets or both. Therefore, this assessment is not carried out based on scenarios that cannot reasonably be expected, such as the "worst-case scenario" or "stress case" scenario.

If the cash flows after initial recognition are realized differently than the Bank's original expectations, the Bank does not change the classification of the remaining financial assets in the business model, but takes into account this information when assessing newly created or newly purchased financial assets.

The steps in the classification of financial instruments are:

1. Determination whether it is a modification of financial instruments,
2. Determination of the nature of balance sheet item being acquired,
3. Determination of the type of individual financial instrument being acquired,
4. Determination of an instrument that contains significant credit risk at the moment of acquisition,
5. Determination of the business model for which a financial instrument is acquired („BM"),
6. Determination of contracted cash flows characteristics for a particular financial instrument that is being acquired („SPPI"),
7. Procedure for the reclassification of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial Instruments (continued)

SPPI test (solely payments of principal and interest on the principal amount outstanding)

The second step in the classification process is that the bank assesses funding contractual terms for identification whether they meet the SPPI test. The determination of the contracted cash flows characteristics for each financial instrument that is being acquired is carried out only for debt instruments, those that have not received the status of POCI assets.
This determination is carried out for the purpose of assessing whether the contracted terms for a particular item of financial assets represent cash flows which are only payments of principal and interest on the outstanding amount of principal on specified dates.

Contractual terms that introduce a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic loan agreement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank assesses the contractual terms according to the basic portfolio segments (long-term corporate loans, short-term corporate loans, retail loans, credit cards, current account overdrafts, debt securities and other financial assets).

All debt financial instruments meet the characteristics of the test. On the date of the assessment, as well as on the date of the report, the Bank does not have assets that fulfill the status of the POCI.

Financial assets measured at fair value through profit or loss

Financial assets are classified in this way if they are:

- purchased with the aim of selling in the near future; or
- a part of the identified portfolio of financial instruments that the Bank holds together, and which acts according to the short-term earnings pattern; or
- a derivative instrument that is not characterized as an effective hedging instrument.

Financial assets can be recognized as financial assets at fair value although not "intended for trading" if:

- Such a classification eliminates or significantly reduces the inconsistency of measurement and recognition that would otherwise arise; or
- the financial assets are part of a group of financial assets or liabilities whose performance is measured based on fair value, in accordance with documented risk management of the Bank or its investment strategy, and information on the internal grouping of assets on that basis; or
- is a part of a contract that contains one or more embedded derivatives.

Financial assets recognized as financial assets at fair value through profit or loss are presented at fair value with the gains and losses presented in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial Instruments (continued)

Financial assets at amortized cost

Bond and treasury bills with fixed or determinable payments and fixed maturity, for which the Bank has intention and ability to hold them to maturity, are classified at amortized cost. They are recorded at their fair value using the effective interest rate method, reduced for impairment, with income recognized on the basis of effective income.

Financial assets measured at fair value through other comprehensive income

Certain stocks, government bonds and treasury bills are valued at fair value and recognized through other comprehensive income. Gains and losses arising from changes in fair value are recognized directly as equity, in other words the revalorization reserves with the exception of impairment losses, interest calculated using the effective interest rate method, and gains and losses on exchange differences on monetary assets, which are recognized directly as profit or loss. In the case of a write-off of the asset or when the asset has suffered impairment, the cumulative gain or loss previously recognized as a revalorization reserve is included in the income statement and other comprehensive income for the period.
Dividends on equity instruments classified as "fair value through other comprehensive income" are recognized as profit or loss when the Bank establishes the right to receive a dividend.

Impairment of financial assets

Financial assets, other than financial entities that are stated at fair value through the profit or loss, are valued with the aim to identify the impairment indicators at each reporting date. Financial assets had impairment where it is proven that because of one or more events that occurred after the initial recognition of financial assets, estimated future cash flows of the investment are changed.
Objective evidence of impairment may include:

- significant financial difficulties of the parties under the contract; or
- delay of failure to pay interest or principal; or
- when it becomes probable that the borrower will go bankrupt or through a financial reorganization.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets for which no impairment is recognized is included in basis for impairment assessment on a group basis. For group impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of that financial asset.

The carrying amount of financial assets at amortized cost is reduced by using the value adjustment account. When the receivables are uncollectible, it is written off through the value adjustment account. Subsequent collection of previously written off amounts are credited to value adjustment account. Changes in the carrying amount of the value adjustment account are recognized in the profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial Instruments (continued)

With the exception of equity instruments measured at fair value through other comprehensive income, if, in the subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurred after the impairment recognition, the previously recognized impairment loss is corrected through the Income statement and other comprehensive income to the extent that it will not result in a carrying amount greater than the amortized cost would be if it was not recognized as impairment at the date when the impairment was recognized.

Termination of recognition of financial assets

The Bank ceases to recognize financial assets only when the contractual rights to cash flows from financial assets expire; or when transferring financial assets, and therefore all risks and rewards of ownership of the asset are transferred to another entity. If the Bank does not transfer and substantially retains all risks and returns from ownership, and keeps control over financial assets, the Bank continues to recognize financial assets.
In accordance with the Decision on credit risk management and determination of expected credit losses, the Bank as of 1.1.2020 and during the year performed an accounting write-off for all exposures for which, in accordance with the Decision, if the conditions of 100% coverage of value adjustments in the period of the last two years were met.

f) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that confirms a right to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of issue costs.

Liabilities for contracted Financial guarantee

Liabilities for contracted financial guarantees are measured initially at their fair value and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets'; or
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified either as „financial liabilities at through profit or loss“ or other financial liabilities“. The Bank has no financial liabilities at fair value through profit or loss.

(all amounts are expressed in thousand BAM, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial liabilities and equity instruments issued by the Bank (continued)

Other financial liabilities

Other financial liabilities, including due to banks, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and interest expense over the relevant period. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

g) Tangible assets

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. The cost of ongoing maintenance and repairs, replacements and investment maintenance are recorded as a cost when incurred.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation is charged from the moment the tangible asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method.

Estimated depreciation and amortization rates were as follows:

	2020	**2019**
Buildings	1,3%	1,3%
Computer equipment	20%	20%
Vehicles and equipment	10%-15%	10%-15%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the statement of profit or loss and other comprehensive income in the period in which they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Tangible assets (continued)

Impairment

At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the net selling price or value in use, depending on which one is higher. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment losses, in this case, are treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revalorization increase.

h) **Investment property**

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

Buildings	1,3%

i) Intangible assets

Intangible assets are measured initially at cost and are amortized on a straight-line basis over their estimated useful life.

j) Employee benefits

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set of legal rates during the course of the year on the gross salary. The Bank pays those taxes and contributions in the favor of the institutions of the FBiH (on federal and canton levels).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employee benefits (continued)

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the statement of profit or loss and other comprehensive income in the period in which the salary expense is incurred.

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 6 average net salaries of the employee or 6 average salaries of the FBiH in accordance with the most recent published report by the Federal Statistics Bureau, depending on what is more favorable to the employee. The cost of retirement severance payments are recognized when earned.

k) Foreign currency translation

Transactions in currencies other than BAM are initially recorded at exchange rate on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rates on the reporting period date. Non-monetary items carried at fair value that and 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 at the reporting period date. Gains and losses arising on translation are included in the statement of profit or loss and other comprehensive income for the period.

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

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

l) Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, if it is probable that the outflow of resources will be required to settle the obligation. The management board of the Banka determined the amount of provisions based on reliable estimate of expenses that will occur by settling the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reserved.

lj) Equity and reserves

Share capital

Share capital represents the nominal value of paid-in-ordinary and preference shares and is denominated in BAM.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

lj) Equity and reserves (continued)

Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognized in accordance with regulations of the Banking Agency of the FBiH ('FBA"). Regulatory reserves for credit losses are non-distributable.

In accordance with changes of Decisions of FBA, Bank does not have missing regulatory reserves nor general regulatory reserves which increased supplementary capital for BAM 718 thousand, which entirely refers to subordinated debt.

Investments revaluation reserve

Investments revaluation reserve comprises changes in fair values of financial assets available-for-sale.

Retained earnings

Profit for the year after appropriations to owners are transferred to retained earnings.

Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss of the current period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

m) Leases

IFRS 16 defines a lease as a contract under which the lessor transfers to the lessee the right of use an asset (leased object) for an agreed period for a fee. For a contract to be considered a lease, it is necessary for the lessee to have the right to control the use the leased property, so that the lessor does not have the opportunity to determine the manner and purpose of using the property and that it is tangible property. This standard provides guidance to facilitate the identification of leases that differentiates them from service contracts.

The following are excluded from IFRS 16:

- Short-term leases (up to 12 months)

- Low value leases (small value leases are identified based on the value of the lease item itself - up to KM 10,000.00, not the rental cost).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Leases (continued)

From January 1, 2019 lessees are required to record the assets they lease as assets and liabilities in their books of account, with subsequent recognition of depreciation expense (cost model) and interest expense. On the first day of the lease, the lessee measures the lease liability at the present value of all future payments during the lease term. Payment is discounted by applying an incremental interest rate. The incremental rate is the rate of interest that the lessee would have to pay to borrow, within a similar timeframe and with similar guarantees, the funds necessary to purchase assets of the same value as assets with a right of use in the same economic environment.

Discounting determines the present value of all future lease payments (cash flows):

$$PV = \frac{FV}{(1 + i)\, n}$$

Where:

PV – present value

FV – future value

i – incremental interest rate

n – period of lease

On 1 January 2019, the Bank made a transition to IFRS 16 in accordance with a modified retrospective approach.

The Bank has elected to use exemptions, proposed by the standard, for lease contracts for which the lease is terminated in 12 months from the date of initial application, as well as to lease contracts for which asset in question can be considered as a low value asset. The Bank has a contract to lease certain office equipment (personal computers, printers and photocopy machines) which are considered to be low value assets.

As a result of the Amendment to IFRS 16 on 1 January 2019, the following leasing contracts previously recognized as operating leases are now being qualified as a lease defined by a new standard: real estate, technical equipment, and vehicles.

4. KEY ACCOUNTING ESTIMATIONS

In the application of the Bank's accounting policies, explained in Note 3, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources.

The estimates and associated assumptions are based on previous experience and other factors considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised if they refer only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment, and investment property

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment, and investment property at the end of each annual reporting period.

Impairment of loans and receivables

As described in Note 3 above, at each reporting period date, the Bank assessed indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis.

The Methodology for measuring the impairment of loans and other financial assets, in accordance with the requirements of IFRS 9: “Financial instruments” (“IFRS 9”), is applied in the preparation of financial statements as of 1 January 2018. The Banking Agency of Federation of Bosnia and Herzegovina (“FBA”) adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (“Decision”), which applies from 1 January 2020 and which resulted in certain differences resulting from the calculation of the correct values for credit losses due to the application of minimum rates prescribed by the Decision that are not required by IFRS 9. The Bank updated its methodology with regulations of the Decision, as of 1 January 2020, and impairment losses on loans and receivables are determined under application of regulatory requirements.

In general, impairment losses are recognized in relation to the carrying amounts of corporate and retail loans, and as provisions for liabilities and costs arising from off-balance sheet exposure to clients, mainly in terms of unused frame loans and guarantees.

4. KEY ACCOUNTING ESTIMATIONS (continued)

Impairment of loans and receivables (continued)

Impairment allowances are also considered for credit exposure to banks and other assets that are not measured at fair value through profit or loss, where the primary risk of impairment is not credit risk.

The Bank first assesses whether there is objective evidence of impairment individually for assets that are individually significant, and collectively for assets that are not individually significant.

In assessing collective impairment, the following guidelines are used:

- Future cash flows of a homogenous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- Information on historical losses rates and applied consistently to defined homogenous segments/groups;
- Historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- The methodology and assumptions used to estimate future cash flows are regularly revised and updated as necessary.

Impairment allowance in nondefault corporate loans portfolio is calculated on collective basis, and the segment of this loan portfolio with status default implies calculation of the impairment allowance on an individual basis.

Retail loans implies collective assessment of impairment allowance, with the exception of the significant threshold exposures defined by the Methodology that fulfill the default status.

Corporate loan portfolio was segmented in groups of short-term and long-term loans, and accordingly the calculation of PD parameter for each of the stated categories has been performed. As at 31 December 2020, segmentation of corporate loan portfolio was updated to following groups: SME (small and medium enterprises) and large companies.

Retail portfolio is segmented in following groups; retail loans, credit cards, and current accounts overdrafts.

Fair values of financial instruments

As described in Note 32, the Management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market participants are applied.

Financial instruments, other than financial assets at amortized costs, are valued using the discounted cash flow analysis which is based on assumptions, where possible, with observable market prices and rates. Considering the fact that there is no active secondary market for the securities portfolio, the Bank decided to use the discounted cash flow method. The discount is based on the weighted average interest rate on active securities with similar characteristic (maturity, issuer).

(all amounts are expressed in thousand BAM, unless otherwise stated)

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2020	2019
Interest on retail loans	5,000	3,663
Interest on corporate loans	4,326	5,077
Interest on financial assets through other comprehensive income	2,805	2,025
Interest on placements with other banks	3	5
	12,134	**10,770**

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2020	2019
Interest on assets exceeding the obligatory reserve with CBBH	1,153	1,164
Interest on corporate deposits	774	796
Interest on retail deposits	557	531
Negative interest on placements with other banks	47	47
Interest on borrowings	36	21
Negative interest on securities	27	12
Interest expense on lease liabilities	21	28
	2,615	**2,599**

7. FEE AND COMMISSION INCOME

	2020	2019
Payment transactions fees	2,113	2,228
Fees from off-balance sheet transactions	250	231
Fees from conversion transactions	91	177
Other fee and commission income	179	148
	2,633	**2,784**

8. FEE AND COMMISSION EXPENSE

	2020	2019
E-banking and SWIFT	772	684
Domestic payment transactions	364	368
Guarantees	3	14
	1,139	**1,066**

(all amounts are expressed in thousand BAM, unless otherwise stated)

9. NET LOSSES / GAINS ON THE IMPAIRMENT OF FINANCIAL ASSETS

	2020	2019
Decrease in impairment allowance for loans to clients (Note 19)	84	967
Release of / (additional) impairment allowance for cash assets (Notes 15 and 16)	28	(16)
(Increase) / decrease in provisions for commitments and contingencies, net (Note 26)	(71)	241
Increase in impairment allowance of financial assets through other comprehensive income (Note 18)	(343)	(816)
	(302)	**375**

10. OTHER OPERATING INCOME

	2020	2019
Collected written-off receivables	1,078	727
Rent income	340	334
Dividends	57	365
Decrease / (Increase) in provisions for employee benefits, net (Note 26)	5	(143)
Gains on sale of tangible assets	-	649
Increase in provisions for legal proceedings, net (Note 26)	(135)	(55)
Other	124	111
	1,469	**1,987**

11. EMPLOYEES' EXPENSES

	2020	2019
Net salaries	3,245	3,149
Taxes and contributions	2,382	2,310
Other	926	922
	6,553	**6,381**

The average number of personnel employed as of 31 December 2020 and 31 December 2019 was 197 and 197, respectively.

Employees' expenses include BAM 1,177 thousand (2019: BAM 1,142 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

(all amounts are expressed in thousand BAM, unless otherwise stated)

12. OTHER EXPENSES

	2020	2019
Services	1,295	1,432
Maintenance	656	735
Insurance	577	558
Advertising and entertainment	322	380
Telecommunications	257	251
Energy	225	243
Other taxes and contributions	215	207
Material expenses	163	175
Other expenses	269	263
	3,979	**4,244**

13. INCOME TAX

Income tax components can be shown as following:

	2020	2019
Current income tax	-	257
Deferred tax expense	114	89
Total income tax	**114**	**346**

	2020	2019
Profit before income tax	**546**	**580**
Income tax expense at 10%	55	58
Adjustments for:		
Capital gains	13	334
Non-taxable income	(6)	(50)
Non-taxable expenses	46	-
Tax relief	(108)	(85)
Effects of lower accounting depreciation rate and higher depreciation rate for tax purposes	114	89
Current and deferred income tax expense	**114**	**346**
Effective income tax rate	**21%**	**60%**

Changes in deferred tax liabilities can be shown as following:

	2020	2019
Balance as at 1 January	89	-
Net changes in deferred tax liabilities	114	89
Deferred tax liabilities as at 31 December	**203**	**89**

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares during the year.

	2020	2019
Profit attributable to shareholders (BAM '000)	432	234
Weighted average number of ordinary shares for the year	2,204,921	2,240,921
Basic earnings per share (BAM)	**0.20**	**0.11**

Diluted earnings per share are not calculated since the Bank has not issued dilutive equity instruments.

15. CASH AND ACCOUNTS IN BANKS

	31 December 2020	31 December 2019
Account with the CBBH	207,341	212,566
Cash at the Bank's treasury	19,455	11,714
Correspondent accounts with other banks	10,421	12,719
Cash at ATMs	1,962	1,904
	239,179	**238,903**
Less: Impairment allowance (Note 9)	(233)	(57)
	238,946	**238,846**

Changes in impairment allowance can be presented as follows:

	2020	2019
Balance at the beginning of the year	**60**	**41**
Effect of FBA's Decision 01.01.2020	200	-
Net (decrease)/increase in impairment allowance (Note 9)	(27)	16
Balance at the end of the year	**233**	**57**

15.1 DUE FROM BANKS

	31 December 2020	31 December 2019
Due from banks	3,912	-
Less: Impairment allowance (Note 9)	(4)	-
	3,908	**-**

Changes in impairment allowance can be presented as follows:

	2020	2019
Balance at the beginning of the year	**-**	**-**
Net increase in impairment allowance (Note 9)	4	-
Balance at the end of the year	**4**	**-**

(all amounts are expressed in thousand BAM, unless otherwise stated)

16. OBLIGATORY RESERVE WITH THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2020	31 December 2019
Obligatory reserve with the CBBH	78,193	80,132
Less: Impairment allowance (Note 9)	(78)	(3)
	78,115	**80,129**

Changes in impairment allowance can be presented as follows:

	2020	2019
Balance at the beginning of the year	**3**	**3**
Effect of FBA's Decision 01.01.2020	80	-
Net decrease in impairment allowance (Note 9)	(5)	-
Balance at the end of the year	**78**	**3**

Minimum obligatory reserve is calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserves were 10% of total deposits and borrowing.

In 2020 interest rate on obligatory reserve was -0.5%, while in 2019 it was from -0.2% till -0.5%.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
ALTA banka d.d. Belgrade, Serbia	264	372
	264	**372**

Movements in the fair value of shares were as follows:

	2020	2019
Balance at the beginning of the year	**372**	**554**
Fair value adjustments loss	(108)	(182)
Balance at the end of the year	**264**	**372**

(all amounts are expressed in thousand BAM, unless otherwise stated)

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Debt securities:		
Ministry of finance of FBiH	230,595	191,789
Sarajevo Canton	189	692
JP Autoceste FBiH	-	3,221
	230,784	**195,702**
Accrued interest	440	308
	231,224	**196,010**
Equity securities:		
Bosna reosiguranje d.d. Sarajevo	427	427
Sarajevo-Osiguranje d.d. Sarajevo	36	32
S.W.I.F.T. Belgium	22	21
	485	**480**
	231,709	**196,490**

Movements in the value of these assets were as follows:

	2020	2019
Balance at the beginning of the year	**196,490**	**102,571**
Purchases during the year	93,723	92,600
Interest (Note 5)	2,805	2,025
Unrealized gain from fair value adjustments (through Other comprehensive income)	(4,464)	6,342
Collected principal and interest	(56,845)	(7,048)
Balance at the end of the year	**231,709**	**196,490**

Changes in impairment allowance can be presented as follows:

	2020	2019
Balance at the beginning of the year	**1,974**	**1,158**
Net increase in impairment allowance (Note 9)	343	816
Balance at the end of the year	**2,317**	**1,974**

(all amounts are expressed in thousand BAM, unless otherwise stated)

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

During 2020, the Bank has purchased:

- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 4,999 thousand; annual interest rate of 1.57%, and maturity date as at 13 May 2027;
- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 24,000 thousand; annual interest rate of 3.21%, and maturity date as at 10 June 2035;
- Treasury notes from the Ministry of Finance of FBiH with nominal value of BAM 20,000 thousand; annual interest rate of 0.11%, and maturity date as at 18 November 2020;
- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 25,000 thousand; annual interest rate of 1.02%, and maturity date as at 15 July 2026; and
- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 20,000 thousand; annual interest rate of 1.20%, and maturity date as at 23 September 2027.

19. LOANS TO CUSTOMERS AND RECEIVABLES

	31 December 2020	**31 December 2019**
Long-term loans		
Corporate	94,908	99,488
Retail	151,412	114,350
Less: Current portion of long-term loans	(46,663)	(34,430)
	199,657	*179,408*
Short-term loans		
Corporate	61,954	57,167
Retail	2,525	3,231
Add: Current portion of long-term loans	46,663	34,430
	111,142	*94,828*
Total loans before allowance for impairment losses	***310,799***	***274,236***
Less: Impairment allowance based on individual assessment	(4,411)	(10,311)
Less: Impairment allowance based on group assessment	(4,983)	(7,526)
	301,405	**256,399**

(all amounts are expressed in thousand BAM, unless otherwise stated)

19. LOANS TO CUSTOMERS AND RECEIVABLES (continued)

The movements in the allowance for impairment losses are summarized as follows:

	2020	2019
Balance at the beginning of the year	**17,837**	**18,804**
Effect of FBA's Decision 01.01.2020	1,085	-
Write-offs FBA's Decision 01.01.2020	(8,412)	-
Write-offs during 2020	(388)	-
Collection of receivables by repossessed assets	(644)	-
Change in impairment allowance, net (Note 9)	(84)	(967)
Balance at the end of the year	**9,394**	**17,837**

An industry analysis of the gross loan portfolio before allowance for impairment losses was as follows:

	31 December 2020	31 December 2019
Individuals	153,937	117,570
Mining and industry	59,701	59,311
Trade	45,468	43,233
Construction	19,663	18,422
Administration and other public services	15,683	15,671
Real estates	4,155	3,440
Restaurants and tourism	3,790	4,441
Transportation and communications	2,798	2,909
Financial services	2,727	4,636
Energy	1,566	43
Agriculture	633	3,376
Other	678	1,184
	310,799	**274,236**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2020, and 31 December 2019.

Weighted average interest rate can be presented as follows:

	2020	2019
Corporate	2.56%	2.86%
Retail	3.91%	3.97%

(all amounts are expressed in thousand BAM, unless otherwise stated)

20. OTHER ASSETS AND RECEIVABLES

	31 December 2020	31 December 2019
Income tax receivables	300	300
Restricted deposit	241	910
Prepaid expenses	123	164
Fees receivables	60	136
Repossessed assets (collateral)	21	-
Inventories	18	11
Receivables from the Government	-	3,298
Other receivables	576	782
	1,339	***5,601***
Less: Impairment allowance	(110)	(802)
	1,229	**4,799**

The movement in the allowance for impairment losses are summarized as follows:

	2020	2019
Balance at the beginning of the year	**802**	**899**
Write-offs FBA’s Decision	(659)	-
Write-off of receivables with no effect on P&L	(33)	(97)
Balance at the end of the year	**110**	**802**

(all amounts are expressed in thousand BAM, unless otherwise stated)

21. TANGIBLE AND INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	Land and buildings	Furniture and equipment	Vehicles	Computer equipment	Leasehold improvements	Intangible assets	Investment in progress	Right-of-use assets (IFRS 16)	Total
COST									
At 31 December 2018	**19,829**	**2,604**	**443**	**1,065**	**277**	**807**	**-**	**-**	**25,025**
Effect on adoption of IFRS 16	-	-	-	-	-	-	-	790	790
Additions	-	-	-	-	-	-	799	-	799
Transfer (from)/to	17	137	87	75	52	115	(483)	-	-
Write-offs/sale	-	(11)	-	(44)	-	-	-	-	(55)
At 31 December 2019	**19,846**	**2,730**	**530**	**1,096**	**329**	**922**	**316**	**790**	**26,559**
Additions		-	-	-	-	-	901	12	913
Transfer (from)/to	1	136	191	358	13	173	(872)	-	-
Write-offs / sale	-	(171)	-	(4)	-	-	-	(40)	(215)
At 31 December 2020	**19,847**	**2,695**	**721**	**1,450**	**342**	**1,095**	**345**	**762**	**27,257**
ACCUMULATED DEPRECIATION									
At 31 December 2018	**4,135**	**1,184**	**286**	**738**	**99**	**290**	**-**	**-**	**6,732**
Depreciation	226	281	60	124	14	75	-	183	963
Write-offs	-	(11)	-	(44)	-	-	-	-	(55)
At 31 December 2019	**4,361**	**1,454**	**346**	**818**	**113**	**365**	**-**	**183**	**7,640**
Depreciation	226	285	56	141	17	89	-	190	**1,004**
Write-offs / sale	-	(171)	-	(3)	-	-	-	(25)	(199)
At 31 December 2020	**4,587**	**1,568**	**402**	**956**	**130**	**454**	**-**	**348**	**8,445**
NET BOOK VALUE									
At 31 December 2020	**15,260**	**1,127**	**319**	**494**	**212**	**641**	**345**	**414**	**18,812**
At 31 December 2019	**15,485**	**1,276**	**184**	**278**	**216**	**557**	**316**	**607**	**18,919**

(all amounts are expressed in thousand BAM, unless otherwise stated)

22. INVESTMENT PROPERTY

	Buildings
COST	
At 31 December 2018	**5,131**
Transfer	24
At 31 December 2019	**5,155**
Transfer	-
At 31 December 2020	**5,155**
ACCUMULATED DEPRECIATION	
At 31 December 2018	**476**
Depreciation	67
At 31 December 2019	**543**
Depreciation	67
As at 31 December 2020	**610**
NET BOOK VALUE	
As at 31 December 2020	**4,545**
As at 31 December 2019	**4,612**

Fair value measurement of investment properties

Fair value of the Bank's investment properties was as follows:

	31 December 2020	31 December 2019
Buildings	1,262	1,262
	1,262	**1,262**

Fair value measurement of Bank's investment properties as at 31 December 2017 was performed by Muharem Karamujić, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating fair value of assets in relevant locations. Fair value of investment properties was determined using an income method-general capitalization method, and comparison method was used for verification. There was neither change in valuation techniques during the year, nor new appraisals were made, including investment property which was activated during December 2018 (net book value as at 31 December 2020 amounts to BAM 3,428 thousand) which refers to rented out space in Bank’s headquarters.

The fair value measurement of the Bank's investment properties as at 31 December 2017 were performed by Hukić Ediba, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating the fair value of the assets at the relevant locations. The fair value of investment properties was determined using a market approach that reflects the current market value, taking into account the construction value of the building and other factors (such as location, usability, quality and other factors). There were no changes in valuation techniques during the year nor new appraisals of assets were made.

(all amounts are expressed in thousand BAM, unless otherwise stated)

23. LIABILITIES TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
Demand deposits:		
In domestic currency	1,238	1,348
In foreign currencies	33	5
	1,271	**1,353**

24. LIABILITIES TO CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits:		
Corporate:		
In domestic currency	316,225	234,863
In foreign currencies	5,078	6,998
	321,303	241,861
Retail:		
In domestic currency	44,628	40,834
In foreign currencies	13,293	12,824
	57,921	53,658
Special purpose deposits:		
In domestic currency	232,876	283,109
In foreign currencies	237	226
	233,113	283,335
	612,337	***578,854***
Term deposits:		
Corporate:		
In domestic currency	77,631	60,954
In foreign currencies	13,137	5,867
	90,768	66,821
Retail:		
In domestic currency	17,904	15,103
In foreign currencies	26,341	24,913
	44,245	40,016
Special purpose deposits:		
In domestic currency	21,697	14,292
In foreign currencies	206	446
	21,903	14,741
	156,916	***121,579***
	769,253	**700,433**

Interest rates on demand deposits of banks during 2020 were from -1% till 0.001%, and interest rates on term deposits in were from 0.20% till 0.31%.

(all amounts are expressed in thousand BAM, unless otherwise stated)

25. SUBORDINATED DEBT

On 30 March 2018 the FBiH Government, represented by Ministry of Finance of FBiH, and the Bank signed the Loan Contract under subordinated conditions in the amount of BAM 10 million. On 21 March 2019 the FBiH Government, represented by Ministry of Finance of FBiH, and the Bank signed the Loan Contract under subordinated conditions in the amount of BAM 15 million, under same conditions as in previous contract. As at 31 December 2020, subordinated debt amounts to BAM 40 million and are increased by BAM 15 million, when compared to previous year-end. On 28 February 2020, by Decision of the FBiH Government, Bank was approved additional loan for forming credit line of long-term housing loans. The maturity of the loan is 20 years from the day of amounts received. Loan repayments are bullet. Interest rate is fixed at 0.10% p.a.

26. PROVISIONS

	31 December 2020	**31 December 2019**
Provisions for employees	539	544
Provisions for commitments and contingencies	476	421
Provisions for court proceedings	259	124
	1,274	**1,089**

Movements in provisions were as follows:

	Employee benefits	**Commitments and contingencies**	**Court proceedings**	**Total**
As at 31 December 2018	**401**	**662**	**69**	**1,132**
Additional provisions (Notes 9 and 10)	178	1,316	55	1,549
Release due to re-measurement (Note 9)	-	(1,557)	-	(1,557)
Releases due to payments (Note 10)	(35)	-	-	(35)
As at 31 December 2019	**544**	**421**	**124**	**1,089**
Effect of FBA’ Decision 01.01.2020	-	(16)	-	(16)
Additional provisions (Notes 9 and 10)	96	71	135	302
Release due to re-measurement (Note 9)	-	-	-	-
Releases due to payments (Note 10)	(101)	-	-	(101)
As at 31 December 2020	**539**	**476**	**259**	**1,274**

26. PROVISIONS (continued)

Commitments and contingencies

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primary include guarantees, letters of credit and undrawn loan commitments.

	31 December 2020	31 December 2019
Contingencies		
Frame loan agreements and card limits	25,098	13,587
Commitments		
Performance guarantees	14,629	10,142
Payment guarantees	5,846	3,565
	45,573	**27,294**

27. OTHER LIABILITIES

	31 December 2020	31 December 2019
Liabilities to clients for paid installments	1,485	1,209
Lease liabilities	414	607
Deferred tax liabilities	404	89
Liabilities toward suppliers	234	235
Accrued expenses	170	208
Deferred income	48	50
Liabilities for unallocated proceeds	35	562
Managed funds (Note 30)	13	12
VAT payables	7	16
Other taxes and contributions	5	4
Other liabilities	678	818
	3,493	**3,810**

28. SHARE CAPITAL

The shareholding structure as of 31 December 2020:

Shareholders	**Number of shares**	**Amount '000 BAM**	**%**
Ministry of finance of the FBiH	2,058,948	41,179	93.38
ZIF BIG INVESTICIONA GRUPA d.d. Sarajevo	36,864	737	1.67
BOSNA RE d.d. SARAJEVO	10,529	211	0.48
Other shareholders	98,580	1,971	4.47
Total	**2,204,921**	**44,098**	**100**

Share capital is made up of 2,204,921 ordinary shares at nominal value of 20 BAM.

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RELATED-PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business.

	31 December 2020	**31 December 2019**
Receivables:		
Shareholders	5,323	11,233
Management Board members and key functions	839	788
	6,162	***12,021***
Investments:		
Shareholders	231,455	188,204
	231,455	***188,204***
Payables:		
Shareholders	457,562	362,793
Supervisory Board members	4	145
Management Board members and key functions	216	274
	457,782	***363,212***
Off-balance sheet:		
Shareholders	7,057	4,084
Management Board members and key functions	19	16
	7,076	***4,100***

	2020	**2019**
Income:		
Shareholders	2,795	2,459
Management Board members and key functions	35	38
	2,830	***2,497***
Expenses:		
Shareholders	526	357
	526	***357***

Management remunerations

The remuneration of the members of the Management Board and the Supervisory Board were as follows:

	2020	**2019**
– gross salaries	319	312
– other benefits	35	28
Fees to Supervisory Board members (gross)	85	81
	439	**421**

(all amounts are expressed in thousand BAM, unless otherwise stated)

30. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank, and therefore, are not included in its balance sheet.

The table below provides analysis of the funds managed on behalf of customers:

	31 December 2020	**31 December 2019**
Placements		
Retail	3	4
Corporate	12,639	12,778
	12,642	***12,782***
Financing		
Governmental organizations	12,571	12,710
Corporate	9	9
Retail	75	75
	12,655	***12,794***
Net liability (Note 27)	**13**	**12**

The Bank does not bear the risk for these placements and charges a fee for its services.

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT

a) Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can be continued to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31 December 2020	**31 December 2019**
Debt	810,489	726,755
Equity	63,642	68,881
Debt to capital ratio %	**12.74**	**10.55**

Debt is defined as liabilities to banks and financial institutions, to customers, and subordinated debt as presented in detail in Note 26, 27 and 28. Capital includes share capital and retained earnings.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, by considering the guidelines developed by FBA for supervisory purposes. The required information are submitted to the FBA on a quarterly basis.

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of BAM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum 12%.

By the FBA decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: BAM 60.8 million (2020: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), decreased by intangible assets); and
- Tier 2 capital or Supplementary Capital: BAM 22.9 million (2020: general regulatory reserves up to 1.25% of the amount calculated by risk-weighted credit risk and subordinated debt, increased/decreased by revaluation reserves.

The risk-weighted assets reflect on an estimate of credit, market, and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

As of 31 December 2020 and 31 December 2019, the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2020, the adequacy of the Bank's capital amounts to 31.07% (31 December 2019: 33.75%).

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

a) Capital risk management (continued)

	31 December 2020	31 December 2019
Core capital – Tier 1 capital		
Ordinary shares	44,098	44,098
Retained earnings	17,305	18,419
Less: Intangible assets	(578)	(494)
Total Core Capital	**60,825**	**62,023**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	-	2,782
Subordinated debt	20,944	23,435
Revaluation reserves	2,008	6,129
Total Supplementary Capital	**22,952**	**32,346**
Decreases of capital		
Missing regulatory reserves	-	(3,500)
Net capital	**83,777**	**90,869**
Risk-weighted assets	256,115	248,420
Weighted operating risk (unaudited)	13,545	20,838
Total weighted risks	**269,660**	**269,258**
Capital adequacy (%)	**31.07%**	**33.75%**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

b) Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk.

Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below *Foreign currency risk and Interest rate risk*). Market risk exposures are analyzed by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the way it manages and measures the risk.

Foreign currency risk

The Bank performs certain transactions denominated in foreign currency. There is an exposure to foreign currency exchange rates.

The Bank's carrying amount of assets and liabilities in foreign currency at the reporting date are as follows:

	BAM	EUR	USD	Other currencies	Total
As of 31 December 2020					
ASSETS					
Cash and cash equivalents	216,168	16,448	1,146	2,184	**238,946**
Obligatory reserves with the CBBH	78,115	-	-	-	**78,115**
Due from banks	-	3,908	-	-	**3,908**
Loans and advances to clients, net	134,701	166,704	-	-	**301,405**
Financial assets at fair value through profit or loss	265	-	-	-	**265**
Financial assets at fair value through other comprehensive income	231,494	215	-	-	**231,709**
Other receivables	452	-	333	-	**785**
Total	**661,195**	**187,275**	**1,479**	**2,184**	**852,133**
LIABILITIES					
Liabilities to other banks and other financial institutions	1,238	33	-	-	**1,271**
Liabilities to customers	622,378	143,417	1,474	1,984	**769,253**
Subordinated debt	-	40,000	-	-	**40,000**
Total	**623,616**	**183,450**	**1,474**	**1,984**	**810,524**
NET FOREIGN POSITION	**37,579**	**3,825**	**5**	**200**	**41,609**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

Foreign currency risk (continued)

	BAM	EUR	USD	Other currencies	Total
As of 31 December 2019					
ASSETS					
Cash and cash equivalents	220,045	14,471	1,013	2,325	**238,854**
Obligatory reserves with the CBBH	80,125	-	-	-	**80,125**
Loans and advances to clients, net	111,572	144,827	-	-	**256,399**
Financial assets at fair value through profit or loss	370	-	-	-	**370**
Financial assets at fair value through other comprehensive income	187,487	9,190	-	-	**196,677**
Other receivables	3,265	-	-	-	**3,265**
Total	**602,864**	**169,488**	**1,013**	**2,325**	**775,690**
LIABILITIES					
Liabilities to other banks and other financial institutions	1,348	5	-	-	**1,353**
Liabilities to customers	568,805	127,831	1,800	1,966	**700,402**
Subordinated debt	-	25,000	-	-	**25,000**
Total	**570,153**	**152,836**	**1,800**	**1,966**	**726,755**
NET FOREIGN POSITION	**32,711**	**16,652**	**(787)**	**359**	**48,935**

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where BAM strengthens 10% against USD. For a 10% weakening of BAM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	2020	**2019**
Profit / (loss)	5	3

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds also at fixed interest rates.

The Bank’s exposures to the interest rates on financial assets and financial liabilities is presented in detail in the liquidity risk management section of this note (see point i).

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only operating with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Exposure to loans is controlled by customer limits that are continuously reviewed by the Credit and Operating Risk Management Department (at the level of individual counterparty according to legal and regulatory constraints). Namely, a quarterly review is provided by the Credit Risk Management Committee.

Risk management's control function, on regular basis, monitors the compliance of the Bank's exposure to the FBA restrictions set by the law and subordinated acts.

The Bank does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related parties.

From 1 January 2020, the Bank is obliged to apply the Decision of the FBA on Credit Risk Management and Determination of Expected Credit Losses and the Guidelines for Classification and Valuation of Financial Assets („Decision"). The Bank modified the methodology for determining expected credit losses in accordance with the Decision and calculated the effects as of 1 January 2020 in the amount of KM 1,349 thousand reflected in equity. The effects are calculated for each individual exposure of the loan portfolio. For other assets, the effects are reported on exposures where the application of this Decision entailed the formation of a higher level of expected credit losses.

On the day of application of the Decision, the Decision on Minimum Standards for Credit Risk Management and Classification of Banks' Assets governing the calculation of reserves for credit losses ceased to apply.

The process of impairment allowance measurement (ECL) involves the following steps:

1. segmentation of portfolios into homogeneous groups,
2. classification of portfolio into the stages (stages 1, 2 and 3),
3. determination of impairment assessment model (collective or individual).

Retail portfolio is segmented in homogeneous groups as follows:

- Retail loans,
- Credit cards,
- Overdrafts on current accounts

Corporate credit portfolio exposure was segmented in following homogenous product groups until 31 December 2020:

- Long-term (long-term loans), and
- Short-term (short-term loans, revolving loans, business cards).

In December 2020, testing of PD parameters was performed, and as of 31 December 2020, the change in the segmentation of the corporate credit portfolio was implemented into:

• exposures to large companies;
• exposures to small and medium-sized enterprises (SMEs);
• guarantees and letters of credit; and
• binding frame loans.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit quality stages (client stage)

For the category of financial instruments that did not have a significant increase in credit risk from initial recognition or have low credit risk, expected credit losses are stated based on the risk of default over the next 12 months, i.e. assets are categorized into Stage 1. If the credit risk has increased significantly, but there is no objective evidence of impairment allowance, assets are allocated in Stage 2.

Assets that meet the criteria of objective impairment allowance (default status) are classified to Stage 3.

The Bank will use, as evidence of a decrease in quality compared to the moment of initial recognition (transition from Stage 1 to Stage 2), the following:

- delay in repayment of liabilities to the Bank in a materially significant amount for more than 30 days, except in cases where the Bank can prove that the delay is not the result of a significant increase in credit risk (delay due to technical error), the criterion for allocating exposure to credit risk level 2 is mandatory,

- restructuring of exposures related to increase in credit risk,

- the client is on the watch list due to certain quality factors.

Counting the days per due involves using a material counter. The materially significant amount includes receivables from:

- a individual in the amount of more than 200 BAM and 1% of the debtor's balance sheet exposure, and

- a legal entity in the amount of more than 1,000 BAM and 1% of the debtor's balance sheet exposure.

The counting of the days per due begins on the day when the total amount of all due outstanding liabilities of the debtor, for all contractual amounts, has become materially significant.

Evidence of the decrease in quality can be retrieved only if there are reasonable and available information indicating that there is no significant increase in credit quality. Evaluation method implies collective or individual impairment assessment.

All exposures that are individually/independently significant are assessed individually and are classified in Stage 3 (status default).

Individually significant exposure is exposure that exceeds the following significance thresholds:

- retail exposure: BAM 50,000.00
- corporate exposure: BAM 0.00
- exposure to central government, regional government, and institutions: BAM 0.00.

The Bank determines the default status on the client level, i.e. borrower for all exposures. During the individual impairment allowance assessment, each contract classified as individually significant is analyzed so that the existence of objective evidence of impairment could be determined.

The transition from Stage 3 to Stage 1 is possible, but only after the defined period for the Stage 2 has passed, in which the instrument has shown decrease in credit risk, so that transition to Stage 1 is possible.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL")

Impairment allowance ECL is calculated by applying PD and LGD risk parameters to exposure. (EAD – exposure at default).

The PD parameter at the level of individual exposure, can be interpreted as the probability that certain transaction or client will, within a given time period, fulfil the definition of the default status in, in other words, the loss event will be identified at individual level. Hence, for the transaction/client already in default status, PD rate is assumed to be equal to 1.

The loss due to the occurrence of the default status (LGD parameter) represents the bank's internal assessment of the level of expected loss related to the exposure in the event of the occurrence of the default status.

The LGD should cover the period from entry to default to end for a particular exposure / client.

The FBA Instruction defines that if a bank does not have an adequate time series, quantity and / or quality of relevant historical data, and is not able to determine the value of LGD parameters using its model in an adequate and documented way, then it uses fixed values of that parameter based on conservative estimates. and they cannot be lower than:

a) 45% for exposures secured by acceptable collateral,

b) 75% for exposures not secured by acceptable collateral.

In accordance with the above, the bank applies these rates, depending on the level of coverage of individual parties with eligible collateral (real estate and securities).

As at 31 December 2019, in determining the level of credit risk, the Bank used FBA risk categories A-E as a criterion.

Financial assets with a delay of up to 30 days, which were not classified in category worse than A, were classified in Stage 1. Assets that did not show signs of impairment, which had a delay of more than 30 days or were classified in the risk category B, were allocated to the Stage 2.

All remaining assets that were found to have signs of impairment, i.e. showed a delay of more than 90 days or were classified in the C, D or E risk category, were classified in the Stage 3.

The Bank monitored the days per due by economic and material counter.

PD parameter by homogeneous groups was calculated at the level of individual client / exposure for the portfolio of credit exposures of legal entities and individuals. The Bank did not calculate the LGD parameter at the level of homogeneous groups, but on each individual basis. The LGD parameter calculation took into account the coverage of real estate exposures and first-class collateral.

As at 31 December 2019, Bank did not adjust PD and LGD parameters for the values of macroeconomic factors, taking into account the expected growth of macroeconomic indicators. The value of the CCF parameter was 100% for all exposures.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

Starting from 01 January 2020, in accordance with the new FBA bylaws, the following changes were made:

- ABCDE classification has been repealed, as well as the calculation of provisions by percentages that were valid for the above categories,

- for the purposes of allocating financial assets to credit risk stages, the Bank uses only a material counter. The economic counter is used exclusively for the purpose of monitoring the quality of the portfolio,

- calculation of LGDs at the level of individual exposures applied by the Bank as of 31 December 2019 was replaced with fixed rates of 45% and 75%, as defined by the Decision,

- CCF parameter is harmonized with the Decision and also the FBA's Decision on equity calculation,

- for credit risk stages, at the level of individual exposures, the Bank applies the minimum rates defined by the Decision,

- the previously defined segmentation of the loan portfolio by homogeneous groups was retained.

During third quarter of 2020, the Risk Control Department performed testing and analysis of credit risk parameters, with a focus on LGD and CCF parameters. Taking into account the results of the analysis for the obtained LGD rates for legal entities, on a sample that can be assessed as not having an adequate time series and amount of data, it was proven that collection or recovery expressed through the LGD rate, is above the prescribed rates by regulator, and for the most part, they reflect the significant probability of loan collection after they acquire default status. For individuals, the analysis was limited to the LGD rate for unsecured exposures, and its adequacy was confirmed indirectly by observing the recovery rates by individual homogeneous groups.

In accordance with the above, as well as the fact that the analysis was conducted on the basis of excel records of collected data (exposure at the time of fulfillment of default status, the existence of a mortgage as collateral, the date of default and recovery), using the LGD rates from the FBA Guidelines does not lead to an overestimation of the collection and recovery after the exposure enters the default status, and that they are adequate for use in the ECL calculation process.

For a period of 36 months, it was observed whether the Bank has adequate quantity and quality of relevant historical data for the calculation of CCF parameter. For legal entities in the specified period, the Bank did not have cases of activated guarantees, and loans that showed a change in status did not have additional use of the off-balance sheet exposure, i.e. the off-balance sheet was used well before the specified moment. For the portfolio of individuals, it was also assessed that the level of transitions of exposures to default that had off-balance sheet exposure was minimal.

Starting from 31 December 2020, the Bank included the effect of macroeconomic factors in the calculation of the ECL. During the last quarter of 2020, the Risk Control Department tested the Methodology for Measuring the Impairment of Loans and Other Financial Assets in the part of analysis of corporate portfolio segmentation and macroeconomic factors, which corrects the value of probability of default (PD) and prepared the Test Report. The effects of segmentation and the introduction of the macroeconomic factor were made with the balances of the portfolio and the level of impairment allowance as of 30 November 2020.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation (“ECL”) (continued)

The test results and accompanying tables were submitted to the Bank's Management Board for approval, and the above calculations were applied for calculation of impairment allowance as at 31 December 2020. Based on the performed testing of credit risk parameters (PD and FLI-macroeconomic factor) and the adopted Methodology for Impairment of Loans and Other Financial Assets, the Risk Control Department calculated the PD parameter by dividing the corporate portfolio according to client size into segments of SME and large companies, and included macroeconomic variables in the calculation of impairment allowance, in such a way that the PD parameter is adjusted for the macroeconomic factor. The macroeconomic factor is calculated separately for the corporate portfolio and the retail portfolio.

Based on the analysis of macroeconomic data, the testing showed the following for the corporate portfolio:

- There is no statistically relevant relationship between the movement of the consumer price index (inflation) and the stated parameters,

- The relationship between the growth rate indicator of gross domestic product and the value of the PD parameter exists, and ranges in the levels of the relationship of medium and significant relationship,

- The relationship between the value of GDP and PD parameters is strongest in the indicator of PD values after 2 years of the realized GDP indicator.

For the retail portfolio, it was found that the correlation is most pronounced with the percentage change in unemployment in the same period in which PD was reported. For each monthly calculation of impairment allowance, calculation was harmonized with the relevant organizational parts of the Bank (Customer Business Division and Credit and Operational Risk Division) prior to submitting the results to the Bank's Management Board for approval.

The results of testing the credit risk parameters performed during the year were timely submitted to the Bank's Management Board, the Audit Committee and the Supervisory Board through quarterly reports of the risk management control function.

Credit risk - Stage *1*

The calculation of the impairment on a collective basis for Stage 1 is performed using the following formula:

Collective ECL =PD *MEF* LGD * EAD* Dt

PD – probability of default,

MEF – macroeconomic factor,

LGD - expected loss rate in case a client receives default status,

EAD - exposure at default,

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, minimum percentages apply (for low risk exposures - 0.1% exposures and for other exposures - 0.5% exposures).

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

Credit risk - Stage 2

For loans classified in Stage 2, the impairment allowance is calculated according to the principle of expected lifetime loss (lifetime PD).

Collective ECL= $\sum_{1}^{t}$ **PDt * MEFt* LGD* EADt * Dt**

t1 – accounting period,

tn – accounting period increased for n years,

PDt- marginal PD rate for t period,

MEF – macroeconomic factor for t period,

LGD – expected loss rate in case a client receives default status,

EAD - exposure at default in t period (undue principal + due liability in the accounting period),

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, a minimum percentage of 5% of exposure shall apply.

Credit risk - Stage 3

The calculation of impairment value on collective basis for Stage 3 is done using the following formula:

ECL=PD * LGD * EAD

The value of PD parameter is 100%.

The individual basis for Stage 3 implies the analysis of the expected future cash flows after the observed placement and the calculation of their present value.

The following formula is used for the impairment allowance: ECL = $\boldsymbol{EAD - \sum CFi/(1+EIR)\ ti}$

Given that these are exposures in default status, it entails that the Bank has already initiated adequate legal actions or will do so in the shortest possible period.

The expected cash flows can be as follows:

- client return to the status of proper repayment without the initiation of legal actions (i.e. client healing)
- restructuring
- third party payment – e.g. guarantees, insurers etc.
- complete or partial repayment by the client after the introduction of legal actions
- collateral realization
- bankruptcy estate distribution upon the termination of the bankruptcy procedure

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

Credit risk - Stage 3 (continued)

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, the following shall apply:

a) Minimum expected credit loss rates for exposures secured by eligible collateral:

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

b) Minimum expected credit loss rates for exposures not secured by eligible collateral:

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 456 days	100%

Impairment allowance for central governments, regional governments and institutions are calculated using the formula PD*LGD*EAD.

The value adjustment of PD and LGD parameters is performed at least once a year and is based on available research.

For the assets in domestic banks PD is reduced to the monthly level in accordance with the maturity, and the ability to get the information about possible adverse developments in the shortest possible period.

For the assets in foreign banks, the values of PD parameter are used on the annual level. For exposures to the state, entities, state institutions, and/or state-owned companies, the value adjustment is determined on the basis of the value of the PD for the rating B, (Standard & Poors –S&P) and the indicated LGD rates.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

COVID-19 portfolio management

The COVID-19 pandemic, which started by the beginning of 2020, has had a significant impact on the global world economy, including Bosnia and Herzegovina. In order to mitigate the negative economic consequences, the Banking Agency of the FB&H adopted by the end of March 2020 the Decision on temporary measures applied by the Bank to mitigate the negative economic consequences caused by the viral disease "COVID-19" (Official Gazette of the Federation of BiH, No. 22 / 20). This Decision provides an opportunity to provide clients affected by the negative effects of the pandemic with a sustainable model that will support the orderly settlement of obligations. Due to the prolonged operation in which many companies and individuals face insufficient liquidity and difficulties in settling their liabilities in the August 2020, the Banking Agency of the FB&H adopted a new Decision on temporary measures applied by the bank to recover from the negative economic consequences caused by the viral disease. "COVID-19" ("Official Gazette of the Federation of BHH", No. 60/20, hereinafter: the Decision). The aforementioned Decision extended the period of special measures, and the deadline for receiving clients' requests for approval of special measures until 31 December 2020.

The bank tried to find the best possible solution in cooperation with clients, and thus support the economy. When defining the measures, the Bank had an individual approach to each client affected by the pandemic, in both business segments - Retail and Legal Entities. Intensive monitoring of the client's business activities has been established in order to gain a realistic picture of creditworthiness. In cooperation with clients, efforts were made to find the most appropriate repayment model, which will enable clients to successfully overcome the upcoming economic shocks.

The Bank has adjusted its customer monitoring and risk classification system, due to objective factors resulting from the pandemic. The Bank regularly monitored these clients through the Committee for management of portfolio quality, by analyzing watch list criterion (qualitative / overall), analysis of the latest financial statements, as well as through regular meetings with clients.

When classifying clients into risk groups, the Bank applied a prudent approach, and classified certain clients in Stage 2 as a result of increased credit risk.

Additionally, the Bank incorporated projections of macroeconomics parameters due to pandemic impact at the same, what finally affected ECL increase. Macroeconomic parameters in the calculation of impairment allowance were introduced as at 31 December 2020, in such a way that the PD parameter is adjusted for the macroeconomic factor, as stated above.

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

COVID-19 portfolio management (continued)

In accordance with the Decisions of the Banking Agency of the FBiH, the Bank approved measures to clients as follows:

	Approved measures		Active measures		Expired measures	
	No of debtors	**Exposure on 31 December 2020**	**No of debtors**	**Exposure on 31 December 2020**	**No of debtors**	**Exposure on 31 December 2020**
Legal entities	64	42,482	15	17,100	49	25,382
Individuals	352	13,062	15	606	337	12,456
Total	**416**	**55,544**	**30**	**17,706**	**386**	**37,838**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

COVID-19 portfolio management (continued)

Measures were approved to clients in following industries:

Industry	Approved measures		Active measures		Expired measures	
	No of debtors	Exposure of debtors for which measures were approved	No of debtors	Gross exposure	No of debtors	Gross exposure
Real estate	1	3,091	-	800	1	2,291
Professional, scientific and technical industries	5	6,619	2	6,459	3	160
Education	1	79	-	-	1	79
Health and social work	1	1,159	-	-	1	1,159
Art, entertainment and recreation	1	2,459	1	2,459	-	-
Other service industries	4	194	-	-	4	194
Processing industry	26	16,040	8	4,927	18	11,113
Construction	2	365	-	-	2	365
Retail and wholesale; cars and motorcycles repair	8	9,004	1	1,951	7	7,052
Transportation and storage	4	1,638	-	-	4	1,638
Accommodation and food service (hotels and restaurants)	7	1,584	2	493	5	1,092
Entrepreneurs	4	250	1	11	3	239
Legal entities	**64**	**42,482**	**15**	**17,100**	**49**	**25,382**
General consumption	240	4,452	11	330	229	4,121
Housing financing	112	8,610	4	276	108	8,335
Individuals	**352**	**13,062**	**15**	**606**	**337**	**12,456**
Total	**416**	**55,544**	**30**	**17,706**	**386**	**37,838**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

COVID-19 portfolio management (continued)

Portfolio quality for which approved measures are active:

Industry	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net exposure
Real estate	-	800	-	800	-	40	-	40	760
Professional, scientific and technical industries	-	6.459	-	6.459	-	323	-	323	6.136
Art, entertainment and recreation	-	2.459	-	2.459	-	123	-	123	2.336
Processing industry	2.539	1.661	727	4.927	36	110	432	578	4.349
Retail and wholesale; cars and motorcycles repair	-	1.951	-	1.951	-	179	-	179	1.772
Accommodation and food service (hotels and restaurants)	-	493	-	493	-	74	-	74	419
Entrepreneurs	-	11	-	11	-	-	-	-	11
Legal entities	**2.539**	**13.834**	**727**	**17.100**	**36**	**849**	**432**	**1.317**	**15.783**
General consumption	294	36	-	330	2	3	-	5	325
Housing financing	242	34	-	276	1	4	-	5	271
Individuals	**536**	**70**	**-**	**606**	**3**	**7**	**-**	**10**	**596**
Total	**3.075**	**13.904**	**727**	**17.706**	**39**	**856**	**432**	**1.327**	**16.379**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

COVID-19 portfolio management (continued)

Portfolio quality for which approved measures have expired:

Industry	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net exposure
Real estate	-	2,291	-	2,291	-	330	-	330	1,961
Professional, scientific and technical industries	160	-	-	160	2	-	-	2	158
Education	79	-	-	79	1	-	-	1	78
Health and social work	1,159	-	-	1,159	14	-	-	14	1,145
Other service industries	196	-	-	196	2	-	-	2	194
Processing industries	3,579	1,933	5,601	11,113	35	242	546	823	10,290
Construction	364	-	-	364	4	-	-	4	360
Retail and wholesale; cars and motorcycles repair	6,702	350	-	7,052	71	18	-	89	6,963
Transportation and storage	426	1,140	72	1,638	3	52	45	100	1,538
Accommodation and food service (hotels and restaurants)	301	790	-	1,091	3	42	-	45	1,046
Entrepreneurs	128	111	-	239	1	15	-	16	223
Legal entities	**13,094**	**6,615**	**5,673**	**25,382**	**136**	**699**	**591**	**1,426**	**23,956**
General consumption	3,869	201	51	4,121	34	16	39	89	4,032
Housing financing	8,335	-	-	8,335	47	-	-	47	8,288
Individuals	**12,204**	**201**	**51**	**12,456**	**81**	**16**	**39**	**136**	**12,320**
Total	**25,298**	**6,816**	**5,724**	**37,838**	**217**	**715**	**630**	**1,562**	**36,276**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Except for the aforementioned table, carrying amount of the financial assets presented in financial statements, decreased by impairment losses, presents the maximum exposure of the Bank to credit risk without taking into account the value of collected collateral.

	31.12.2020			01.01.2020						31.12.2019		
	Gros	Impairment allowance	Net	Gross	Write-off	Impairment allowance	Write-off of impairment allowance	Remea-surement	Net	Gross	Impairment allowance	Net
I. Assets	**865,395**	**(12,136)**	**855,576**	**795,734**	**(9,071)**	**(20,674)**	**9,071**	**(1,365)**	**773,697**	**795,734**	**(20,674)**	**777,034**
Cash and accounts at banks	239,179	(233)	238,946	238,906	-	(57)	-	(200)	238,646	238,906	(57)	238,849
Due from banks	3,912	(4)	3,908	-	-	-	-	-	-	-	-	-
Obligatory reserve with the Central Bank of BiH	78,193	(78)	78,115	80,129	-	(4)	-	(80)	80,049	80,129	(4)	80,125
Financial assets at fair value through profit or loss	265	-	265	372	-	-	-	-	372	372	-	372
Financial assets - AFS	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through OCI	231,709	(2,317)	231,709	196,490	-	(1,974)	-	-	194,516	196,490	(1,974)	196,490
Loans to customers and receivables	310,799	(9,394)	301,405	274,236	(8,412)	(17,837)	8,412	(1,085)	255,315	274,236	(17,837)	256,399
Other assets and receivables	1,338	(110)	1,228	5,601	(659)	(802)	659	-	4,799	5,601	(802)	4,799
II. Off-balance sheet	**45,574**	**(475)**	**45,097**	**27,294**	**-**	**(421)**	**-**	**16**	**26,890**	**27,294**	**(421)**	**26,873**
Payable guarantees	5,847	(57)	5,789	3,565	-	(27)	-	(33)	3,506	3,565	(27)	3,538
Performance guarantees	14,629	(274)	14,354	10,142	-	(77)	-	(169)	9,896	10,142	(77)	10,065
Approved unused financing lines	25,098	(144)	24,954	13,587	-	(317)	-	218	13,488	13,587	(317)	13,270
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total (I+II)	**910,969**	**(12,611)**	**900,673**	**823,028**	**(9,071)**	**(21,095)**	**9,071**	**(1,349)**	**800,587**	**823,028**	**(21,095)**	**803,907**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit exposure and collateral

	Credit risk exposure		Fair value of collateral
	Net exposure	Undrawn loans / Guarantees	
At 31 December 2020			
Cash and cash equivalents	242,854	-	-
Obligatory reserve with the CBBH	78,115	-	-
Financial assets at fair value through profit or loss	265	-	-
Financial assets at fair value through OCI	231,709	-	-
Loans to clients, net	301,405	45,098	490,010
Other receivables	1,228	-	-
	855,576	**45,098**	**490,010**
At 31 December 2019			
Cash and cash equivalents	238,846	-	-
Obligatory reserve with the CBBH	80,129	-	-
Loans to clients, net	256,399	27,293	438,084
Financial assets at fair value through profit or loss	372	-	-
Financial assets at fair value through OCI	194,490	-	-
Other receivables	4,799	-	-
	777,035	**27,293**	**438,084**

Fair value of the collateral

	31 December 2020	31 December 2019
Real estates	448,767	406,194
Deposits	17,720	12,006
Movable assets	15,946	19,884
Securities	7,577	-
	490,010	**438,084**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Arrears

31 December 2020	**Gross loan portfolio**	**Not due**	**Up to 30 days**	**31 – 90 days**
Corporate	146,905	140,242	5,039	1,624
Retail	152,952	151,936	926	89
Total	**299,857**	**292,178**	**5,965**	**1,713**
31 December 2019				
Corporate	139,149	133,716	5,329	104
Retail	113,643	112,993	618	32
Total	**252,792**	**246,709**	**5,947**	**136**

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS

In 000 BAM

31 December 2020	S1	S2	S3	Write-off	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	99,067	34	60	52	99,161	604	4	36	644	98,517
Consumer loans and credit cards	53,596	255	924	2,022	54,775	474	21	903	1,398	53,377
Total retail	**152,663**	**289**	**984**	**2,074**	**153,936**	**1,078**	**25**	**939**	**2,042**	**151,894**
Large companies	99,027	12,071	1,846	2,201	112,944	986	684	1,711	3,381	109,563
Medium companies	16,142	4,244	1,514	1,633	21,900	222	293	1,193	1,708	20,192
Small companies	9,442	5,979	6,598	2,202	22,019	126	665	1,472	2,263	19,756
Total corporate	**124,611**	**22,294**	**9,958**	**6,036**	**156,863**	**1,334**	**1,642**	**4,376**	**7,352**	**149,511**
Total	**277,274**	**22,583**	**10,942**	**8,111**	**310,799**	**2,412**	**1,667**	**5,315**	**9,394**	**301,405**
Banks	**12,720**	**-**	**-**	**-**	**12,720**	**30**	**-**	**-**	**30**	**12,690**

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS
In 000 BAM

1 January 2020	S1	S2	S3	Write-off	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	70,534	598	-	52	71,132	570	34	-	604	70,528
Consumer loans and credit cards	41,931	581	1,029	2,064	43,541	497	30	975	1,502	42,039
Total retail	**112,465**	**1,179**	**1,029**	**2,117**	**114,673**	**1,067**	**64**	**975**	**2,106**	**112,567**
Large companies	87,933	7,764	2,060	2,589	97,757	1,970	359	1,907	4,236	93,521
Medium companies	28,356	1,788	1,819	1,416	31,963	568	90	1,132	1,790	30,173
Small companies	11,724	1,571	8,135	2,291	21,430	210	75	2,091	2,376	19,054
Total corporate	**128,013**	**11,123**	**12,014**	**6,296**	**151,150**	**2,748**	**524**	**5,130**	**8,402**	**142,748**
Total	**240,478**	**12,302**	**13,043**	**8,412**	**265,823**	**3,815**	**588**	**6,105**	**10,508**	**255,315**
Banks	**13,540**	**-**	**-**	**-**	**13,540**	**327**	**-**	**-**	**327**	**13,213**

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS *(continued)*
In 000 BAM

31 December 2019	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	70,534	598	52	71,184	546	40	52	638	70,546
Consumer loans and credit cards	41,931	581	3,094	45,606	462	18	2,866	3,346	42,260
Total retail	**112,465**	**1,179**	**3,146**	**116,790**	**1,008**	**58**	**2,918**	**3,984**	**112,806**
Large companies	87,933	7,764	4,649	100,346	2,188	341	3,728	6,257	94,089
Medium companies	28,356	1,788	3,235	33,379	566	103	2,281	2,950	30,429
Small companies	11,724	1,571	10,426	23,721	224	120	4,302	4,646	19,075
Total corporate	**128,013**	**11,123**	**18,310**	**157,446**	**2,978**	**564**	**10,311**	**13,853**	**143,593**
Total	**240,478**	**12,302**	**21,456**	**274,236**	**3,986**	**622**	**13,229**	**17,837**	**256,399**
Banks	**13,540**	**-**	**-**	**13,540**	**47**	**-**	**-**	**47**	**13,493**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 1

31 December 2020	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	98,535	291	-	-	**98,826**
Consumer loans and credit cards	52,759	542	-	-	**53,301**
COVID-19 measures	536	-	-	-	**536**
Total retail	**151,830**	**833**	**-**	**-**	**152,663**
Large companies	96,978	2,049	-	-	**99,027**
Medium companies	13,809	1,000	-	-	**14,809**
Small companies	7,991	246	-	-	**8,237**
COVID-19 measures	2,538	-	-	-	**2,538**
Total corporate	**121,316**	**3,295**	**-**	**-**	**124,611**
Total	**273,146**	**4,128**	**-**	**-**	**277,274**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**12,720**	**-**	**-**	**-**	**12,720**

1 January 2020 / 31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	70,301	233	-	-	**70,534**
Consumer loans and credit cards	41,692	239	-	-	**41,931**
Total retail	**111,993**	**472**	-	-	**112,465**
Large companies	84,918	3,015	-	-	**87,933**
Medium companies	26,935	1,421	-	-	**28,356**
Small companies	11,717	7	-	-	**11,724**
Total corporate	**123,570**	**4,443**	-	-	**128,013**
Total	**235,563**	**4,915**	-	-	**240,478**
of which: restructured	-	-	**-**		-
Bank Receivables	**13,540**	-	**-**	**-**	**13,540**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 2

31 December 2020	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	-	-
Consumer loans and credit cards	37	93	35	54	-	**219**
COVID-19 measures	70	-	-	-	-	**70**
Total retail	**107**	**93**	**35**	**54**	**-**	**289**
Large companies	899	302	-	-	-	**1,201**
Medium companies	2,243	-	512	739	-	**3,494**
Small companies	2,592	950	223	-	-	**3,765**
COVID-19 measures	13,192	492	150	-	-	**13,834**
Total corporate	**18,926**	**1,744**	**885**	739	**-**	**22,294**
Total	**19,033**	**1,837**	**920**	**793**	**-**	**22,583**
of which: restructured	**-**	**-**	-	-	-	**-**
Bank Receivables	**-**	-	-	-	-	**-**

1 January 2020 / 31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	598	-	-	-	-	**598**
Consumer loans and credit cards	403	147	18	13	-	**581**
Total retail	**1,001**	**147**	**18**	**13**	**-**	**1,179**
Large companies	7,077	687	-	-	-	**7,764**
Medium companies	1,788	-	-	-	-	**1,788**
Small companies	1,269	198	104	-	-	**1,571**
Total corporate	**10,134**	**885**	**104**	**-**	**-**	**11,123**
Total	**11,135**	**1,032**	**122**	**13**	**-**	**12,302**
of which: restructured	**-**	**-**	-	-	-	**-**
Bank Receivables	**-**	-	-	-	-	**-**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 3

31 December 2020	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	60	**60**
Consumer loans and credit cards	33	-	-	-	892	**924**
COVID-19 measures	-	-	-	-	-	**-**
Total retail	**33**	**-**	**-**	**-**	**952**	**984**
Large companies	-	-	-	-	1,846	**1,846**
Medium companies	39	-	72	-	748	**859**
Small companies	5,601	-	-	-	925	**6,526**
COVID-19 measures	727	-	-	-	-	**727**
Total corporate	**6,367**	**-**	**72**	-	**3,519**	**9,958**
Total	**6,400**	**-**	**72**	**-**	**4,471**	**10,942**
of which: restructured	**-**	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 3

1 January 2020	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Write-off	Total
Housing loans	-	-	-	-	-	52	**-**
Consumer loans and credit cards	79	9	-	20	921	2,064	**1,029**
Total retail	**79**	**9**	**-**	**20**	**921**	**2,116**	**1,029**
Large companies	-	-	-	-	2,060	2,589	**2,060**
Medium companies	832	-	-	-	987	1,416	**1,819**
Small companies	5,710	23	-	-	2,402	2,291	**8,135**
Total corporate	**6,542**	**23**	**-**	-	**5,449**	**6,296**	**12,014**
Total	**6,621**	**32**	**-**	**20**	**6,370**	**8,412**	**13,043**
of which: restructured	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	52	52
Consumer loans and credit cards	79	9	-	20	2,985	3,093
Total retail	**79**	**9**	**-**	**20**	**3,037**	**3,145**
Large companies	-	-	-	-	4,649	4,649
Medium companies	832	-	-	-	2,403	3,235
Small companies	5,710	23	-	-	4,693	10,426
Total corporate	**6,542**	**23**	**-**	**-**	**11,745**	**18,310**
Total	**6,621**	**32**	**-**	**20**	**14,782**	**21,455**
of which: restructured	**-**	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Cash and balances with Central Bank

	31 December 2020	1 January 2020	31 December 2019
Cash on hand	21,417	13,619	13,619
Obligatory reserve with the Central Bank	78,193	80,129	80,129
Deposits with the Central Bank	207,341	212,567	212,567
Less: Allowance for impairment losses	(286)	(293)	(13)
Total	**306,665**	**306,022**	**306,302**

	31 December 2020	1 January 2020	31 December 2019
Placements with Banks	14,333	12,720	12,720
Less: Allowance for impairment losses	(30)	(48)	(47)
Total	**14,303**	**12,672**	**12,673**

The following table shows the analysis of the change in gross carrying amount of the placements with banks and expected loan loss:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	12,720	-	-	-	12,720
Assets derecognized or repaid	-	1,613	-	-	-	1,613
At 31 December 2020	**-**	**14,333**	**-**	**-**	**-**	**14,333**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	13,027	-	-	-	13,027
Assets derecognized or repaid	-	(307)	-	-	-	(307)
At 1 January 2020 / 31 December 2019	**-**	**12,270**	**-**	**-**	**-**	**12,270**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Placements with Banks (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2020 under IFRS 9	-	**48**	-	-	-	**48**
Assets derecognized or repaid (excluding write offs)	-	(18)	-	-	-	(18)
At 31 December 2020	-	**30**	-	-	-	**30**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	-	**47**	-	-	-	**47**
Assets derecognized or repaid (excluding write offs)	-	1	-	-	-	1
At 1 January 2020	-	**48**	-	-	-	**48**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	-	**25**	-	-	-	**25**
Assets derecognized or repaid (excluding write offs)	-	22	-	-	-	22
At 31 December 2019	-	**47**	-	-	-	**47**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019	**-**	**87,933**	**-**	**7,764**	**4,649**	**100,346**
Write-off 1 January 2020	-	-	-	-	(2,589)	(2,589)
Gross carrying amount 1 January 2020	**-**	**87,933**	**-**	**7,764**	**2,060**	**97,757**
New assets originated or purchased	-	72,207	-	4,328	-	76,535
Assets derecognized or repaid (excluding write offs)	-	(54,257)	-	(6,877)	(44)	(61,178)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(6,856)	-	6,856	-	-
Transfers to Stage 3	-	-	-	-	-	-
Write-off	-	-	-	-	(170)	(170)
At 31 December 2020	**-**	**99,027**	**-**	**12,071**	**1,846**	**112,944**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	57,881	-	13,402	10,526	81,809
New assets originated or purchased	-	64,413	-	4,728	-	69,141
Assets derecognized or repaid (excluding write offs)	-	(34,757)	-	(9,970)	(5,877)	(50,604)
Transfers to Stage 1	-	396	-	(396)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	**-**	**87,933**	**-**	**7,764**	**4,649**	**100,346**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**2,188**	**-**	**341**	**3,728**	**6,257**
Write-off 1 January 2020	-	-	-	-	(2,589)	(2,589)
Changes in models and inputs for ECL calculation 1 January 2020	-	(218)	-	18	768	568
ECL on 1 January 2020 under IFRS 9	**-**	**1,970**	**-**	**359**	**1,907**	**4,236**
New assets originated or purchased	-	743	-	298	-	1,041
Assets derecognized or repaid (excluding write offs)	-	(1,385)	-	(315)	(26)	(1,726)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(164)	-	164	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	(178)	-	178	-	-
Unwinding of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	(170)	(170)
At 31 December 2020	**-**	**986**	**-**	**684**	**1,711**	**3,382**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies (continued)

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
ECL on 1 January 2019 under IFRS 9	**-**	**2,082**	**-**	**830**	**4,139**	**7,051**
New assets originated or purchased	-	1,575	-	193	-	1,768
Assets derecognized or repaid (excluding write offs)	-	(1,477)	-	(674)	(411)	(2,562)
Transfers to Stage 1	-	62	-	(62)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	(54)	-	54	-	-
At 31 December 2019	**-**	**2,188**	**-**	**341**	**3,728**	**6,257**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Medium and small companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019	**-**	**40,080**	**-**	**3,359**	**13,661**	**57,100**
Write-off 1 January 2020	-	-	-	-	(3,707)	(3,707)
Gross carrying amount 1 January 2020	**-**	**40,080**	**-**	**3,359**	**9,954**	**53,393**
New assets originated or purchased	-	10,741	-	3,220	-	13,961
Assets derecognized or repaid	-	(19,914)	-	(1,679)	(1,625)	(23,218)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(5,323)	-	5,323	-	-
Transfers to Stage 3	-	-	-	-	-	-
Write-off	-	-	-	-	(217)	(217)
At 31 December 2020	-	**25,584**	-	**10,223**	**8,112**	**43,919**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**39,016**	**-**	**4,816**	**12,263**	**56,095**
New assets originated or purchased	-	20,072	-	1,026	6,351	27,449
Assets derecognized or repaid	-	(18,561)	-	(2,902)	(4,981)	(26,444)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(419)	-	419	-	-
Transfers to Stage 3	-	(28)	-	-	28	-
At 31 December 2019	**-**	**40,080**	-	**3,359**	**13,661**	**57,100**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Medium and small companies (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**790**	**-**	**223**	**6,583**	**7,596**
Write-off 1 January 2020	-	-	-	-	(3,707)	(3,707)
Changes in models and inputs for ECL calculation 1 January 2020	-	(12)	-	(58)	347	277
ECL on 1 January 2020 under IFRS 9	**-**	**778**	**-**	**165**	**3,223**	**4,166**
New assets originated or purchased	-	171	-	195	-	366
Assets derecognized or repaid (excluding write offs)	-	57	-	(60)	(341)	(344)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(125)	-	125	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	(533)	-	533	-	-
Write-off	**-**	-	-		(217)	(217)
At 31 December 2020	**-**	**348**	**-**	**958**	**2,665**	**3,971**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets (*continued)*

Impairment allowance for loans– Medium and small companies (*continued*)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**1,164**	**-**	**532**	**6,187**	**7,883**
New assets originated or purchased	-	422	-	51	667	1,140
Assets derecognized or repaid (excluding write offs)	-	(742)	-	(388)	(297)	(1,427)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(12)	-	12	-	-
Transfers to Stage 3	-	(3)	-	-	3	-
Impact on year end ECL of exposures transferred between stages during the year	-	(39)	-	16	23	-
At 31 December 2019	**-**	**790**	**-**	**223**	**6,583**	**7,596**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019	**-**	**41,931**	**-**	**581**	**3,094**	**45,606**
Write-off 1 January 2020	-	-	-	-	(2,065)	(2,065)
Gross carrying amount 1 January 2020	**-**	**41,931**	**-**	**581**	**1,029**	**43,541**
New assets originated or purchased	-	21,599	-	68	1	21,668
Assets derecognized or repaid (excluding write offs)	-	(10,158)	-	(144)	(132)	(10,434)
Transfers to Stage 1	-	418	-	(371)	(47)	-
Transfers to Stage 2	-	(173)	-	178	(5)	-
Transfers to Stage 3	-	(21)	-	(57)	78	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2020	**-**	**53,596**	**-**	**255**	**924**	**54,775**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**24,738**	**-**	**260**	**3,286**	**28,284**
New assets originated or purchased	-	25,728	-	366	49	26,143
Assets derecognized or repaid (excluding write offs)	-	(8,360)	-	(121)	(340)	(8,821)
Transfers to Stage 1	-	95	-	(90)	(5)	-
Transfers to Stage 2	-	(183)	-	183	-	-
Transfers to Stage 3	-	(87)	-	(17)	104	-
At 31 December 2019	**-**	**41,931**	**-**	**581**	**3,094**	**45,606**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**462**	**-**	**18**	**2,866**	**3,346**
Write-off 1 January 2020	-	-	-	-	(2,064)	(2,064)
Changes in models and inputs for ECL calculation 1 January 2020	-	35	-	12	173	220
ECL on 1 January 2020 under IFRS 9	**-**	**497**	**-**	**30**	**975**	**1,502**
New assets originated or purchased	-	188	-	5	1	194
Assets derecognized or repaid (excluding write offs)	-	(212)	-	(11)	(74)	(297)
Transfers to Stage 1	-	4	-	(4)	(1)	(1)
Transfers to Stage 2	-	(15)	-	15	-	-
Transfers to Stage 3	-	(16)	-	(45)	61	-
Impact on year end ECL of exposures transferred between stages during the year	-	28	-	31	(59)	-
Unwinding of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
At 31 December 2020	-	**474**	-	**21**	**903**	**1,398**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	-	310	-	8	3,040	3,358
New assets originated or purchased	-	280	-	13	34	327
Assets derecognized or repaid (excluding write offs)	-	(124)	-	(2)	(272)	(398)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(4)	-	4	-	-
Transfers to Stage 3	-	(61)	-	(12)	73	-
Impact on year end ECL of exposures transferred between stages during the year	-	60	-	8	(9)	59
At 31 December 2019	**-**	**462**	-	**18**	**2,866**	**3,346**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019	**-**	**70,534**	**-**	**598**	**52**	**71,184**
Write-off 1 January 2020	-	-	-	-	(52)	(52)
Gross carrying amount 1 January 2020	**-**	**70,534**	**-**	**598**	**-**	**71,132**
New assets originated or purchased	-	33,290	-	34	-	33,324
Assets derecognized or repaid (excluding write offs)	-	(5,258)	-	(37)	-	(5,295)
Transfers to Stage 1	-	561	-	(561)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(60)	-	-	60	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2020	**-**	**99,067**	**-**	**34**	**60**	**99,161**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	44,494	-	946	52	45,492
New assets originated or purchased	-	29,547	-	-	-	29,547
Assets derecognized or repaid (excluding write offs)	-	(3,775)	-	(80)	-	(3,855)
Transfers to Stage 1	-	789	-	(789)	-	-
Transfers to Stage 2	-	(521)	-	521	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	-	**70,534**	-	**598**	**52**	**71,184**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**546**	**-**	**40**	**52**	**638**
Write-off 1 January 2020	-	-	-	-	(52)	(52)
Changes in models and inputs for ECL calculation 1 January 2020	-	26	-	(6)	-	20
ECL on 1 January 2020 under IFRS 9	**-**	**570**	**-**	**34**	**-**	**604**
New assets originated or purchased	-	223	-	4	-	227
Assets derecognized or repaid (excluding write offs)	-	(191)	-	6	-	(185)
Transfers to Stage 1	-	3	-	(3)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(36)	-	-	36	-
Impact on year end ECL of exposures transferred between stages during the year	-	35	-	(37)	-	(2)
At 31 December 2020	**-**	**604**	**-**	**4**	**36**	**644**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**389**	**-**	**72**	**52**	**513**
New assets originated or purchased	-	242	-	-	-	242
Assets derecognized or repaid (excluding write offs)	-	(87)	-	(2)	-	(89)
Transfers to Stage 1	-	6	-	(6)	-	-
Transfers to Stage 2	-	(36)	-	36	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	32	-	(60)	-	(28)
At 31 December 2019	-	**546**	-	**40**	**52**	**638**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Financial guarantees

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019 / 1 January 2020	**-**	**8,316**	**-**	**5,391**	**-**	**13,707**
New assets originated or purchased	-	11,928	-	2,327	15	14,270
Assets derecognized or repaid (excluding write offs)	-	(5,499)	-	(2,003)	-	(7,502)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2020	**-**	**14,745**	**-**	**5,715**	**15**	**20,475**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	10,114	-	5,393	-	15,507
New assets originated or purchased	-	5,263	-	2,665	-	7,928
Assets derecognized or repaid (excluding write offs)	-	(8,738)	-	(990)	-	(9,728)
Transfers to Stage 1	-	1,677	-	(1,677)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	-	**8,316**	-	**5,391**	-	**13,707**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Financial guarantees (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**63**	**-**	**41**	**-**	**104**
Changes in models and inputs for ECL calculation 1 January 2020	-	(24)	-	224	-	200
ECL on 1 January 2020 under IFRS 9	**-**	**39**	**-**	**265**	**-**	**304**
New assets originated or purchased	-	51	-	99	2	152
Assets derecognized or repaid (excluding write offs)	-	(25)	-	(100)	-	(125)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2020	**-**	**65**	**-**	**264**	**2**	**331**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**80**	**-**	**43**	**-**	**123**
New assets originated or purchased	-	40	-	20	-	60
Assets derecognized or repaid (excluding write offs)	-	(70)	-	(9)	-	(79)
Transfers to Stage 1	-	13	-	(13)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2019	**-**	**63**	**-**	**41**	**-**	**104**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Unused liabilities

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2019 / 1 January 2020	**-**	**13,561**	**-**	**17**	**8**	**13,586**
New assets originated or purchased	-	21,776	-	839	-	22,615
Assets derecognized or repaid	-	(11,090)	-	(6)	(8)	(11,104)
Transfers to Stage 1	-	11	-	(11)	-	-
Transfers to Stage 2	-	(1)	-	1	-	-
Transfers to Stage 3	-	(1)	-	-	1	-
At 31 December 2020	-	**24,256**	-	**840**	**1**	**25,097**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	17,356	-	22	3	17,381
New assets originated or purchased	-	11,485	-	7	-	11,492
Assets derecognized or repaid	-	(15,286)	-	(1)	-	(15,287)
Transfers to Stage 1	-	23	-	(20)	(3)	-
Transfers to Stage 2	-	(9)	-	9	-	-
Transfers to Stage 3	-	(8)	-	-	8	-
At 31 December 2019	-	**13,561**	-	**17**	**8**	**13,586**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Unused liabilities (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2019 under IFRS 9	**-**	**309**	**-**	**-**	**7**	**316**
Changes in models and inputs for ECL calculation 1 January 2020	-	(215)	-	1	(4)	(218)
ECL on 1 January 2020 under IFRS 9	**-**	**94**	**-**	**1**	**3**	**98**
New assets originated or purchased	-	81	-	42	-	123
Assets derecognized or repaid	-	(74)	-	(1)	(3)	(78)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on the ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2020	**-**	**101**	**-**	**42**	**-**	**143**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**537**	**-**	**-**	**2**	**539**
New assets originated or purchased	-	287	-	-	-	287
Assets derecognized or repaid	-	(515)	-	-	(2)	(517)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(7)	-	-	7	-
Impact on the ECL of exposures transferred between stages during the year	-	7	-	-	-	7
At 31 December 2019	-	**309**	-	-	**7**	**316**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Branch structure of Financial Assets

Exposure of financial assets per industry as of 31 December 2020

DESCRIPTION 1. Loans for corporate entities	Gross carrying amount	Impairment allowance	Net exposure
Production	67,262	3,121	64,141
Commerce	38,758	1,252	37,506
Construction	20,478	1,708	18,770
Real estate, renting and business services	12,083	744	11,339
Financial services	2,726	33	2,693
Public administration and defense, compulsory social security	6,045	73	5,972
Catering	4,081	212	3,869
Transport, storage and communication	2,744	162	2,582
Agriculture	100	1	99
Other	2,586	46	2,540
TOTAL 1.	**156,863**	**7,352**	**149,511**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	54,774	1,398	53,376
Housing loans	99,162	644	98,518
TOTAL 2.	**153,936**	**2,042**	**151,894**
TOTAL (1.+ 2.)	**310,799**	**9,394**	**301,405**

Exposure of financial assets per industry as of 31 December 2019

DESCRIPTION 1. Loans for corporate entities	Gross carrying amount	Impairment allowance	Net exposure
Production	59,682	4,757	54,925
Commerce	43,238	4,300	38,938
Construction	18,422	1,787	16,635
Real estate, renting and business services	11,565	397	11,168
Financial services	4,637	592	4,045
Public administration and defense, compulsory social security	5,677	208	5,469
Catering	4,563	130	4,433
Transport, storage and communication	2,923	277	2,646
Agriculture	3,376	172	3,204
Other	3,363	1,233	2,130
TOTAL 1.	**157,446**	**13,853**	**143,593**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	45,606	3,346	42,260
Housing loans	71,183	637	70,546
TOTAL 2.	**116,789**	**3,983**	**112,806**
TOTAL (1.+ 2.)	**274,235**	**17,836**	**256,399**

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit concentration with the Federation of Bosnia and Herzegovina

The Bank has significant asset concentration with the Federation of Bosnia and Herzegovina:

	Note	31 December 2020	31 December 2019
Bonds:			
Ministry of Finance of FBiH	18	230,595	191,789
Interest receivables:			
Ministry of Finance of FBiH	18	440	308
		231,035	**192,097**

On the other hand, significant part of the Bank's financing sources relates to the funds of the Federation of Bosnia and Herzegovina:

	Note	31 December 2020	31 December 2019
Liabilities to customers:			
Ministry of Finance of FBiH	24	412,068	334,923
Interest payables:			
Ministry of Finance of FBiH	24	-	-
Subordinated debt:			
Ministry of Finance of FBiH	25	40,000	25,000
		452,068	**359,923**

The Bank does not have concentration beyond the territory of the Federation of Bosnia and Herzegovina

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages the type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flow and by comparing maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

Maturity of financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2020							
Non-interest bearing	-	240,439	-	-	485	-	240,924
Fixed interest rate instruments	2.19%	317,748	15,144	86,151	130,771	118,619	668,433
		558,187	**15,144**	**86,151**	**131,256**	**118,619**	**909,357**
31 December 2019							
Non-interest bearing	-	240,680	-	3,337	481	-	244,498
Fixed interest rate instruments	2.38%	291,603	14,950	69,368	107,999	81,438	565,358
		532,283	**14,950**	**72,705**	**108,480**	**81,438**	**809,856**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

(all amounts are expressed in thousand BAM, unless otherwise stated)

31. RISK MANAGEMENT (continued)

d) Liquidity risk management (continued)

Liquidity and interest rate tables (continued)

Maturity of financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2020							
Non-interest bearing	-	226,642	24	552	289	4,009	231,516
Fixed interest rate instruments	0.24%	414,093	20,346	60,120	42,129	48,522	585,210
		640,735	**20,370**	**60,672**	**42,418**	**52,531**	**816,726**
31 December 2019							
Non-interest bearing	-	213,837	22	746	1,321	9,630	225,556
Fixed interest rate instruments	0.28%	389,104	3,630	64,792	22,204	10,202	489,932
		602,941	**3,652**	**65,538**	**23,525**	**19,832**	**715,488**

The Bank expects to meet other obligations from due financial assets operating cash flows and inflows.

The Bank does not have any financial assets related to variable interest rate instruments. For financial assets there has been a decrease in the level of interest rates in accordance with market movements, and an increase in the share of the retail housing loans in the Bank's portfolio. In general, financial assets reflect prolonged periods of interest rate contracting, monitored through indicators set by the local regulator.

(all amounts are expressed in thousand BAM, unless otherwise stated)

32. FAIR VALUE MEASUREMENT

32.1 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / financial liabilities	Fair value as at 31 December 2020	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)
1) Financial assets at fair value through profit or loss (see Note 17)	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 265 thousand	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 372 thousand	Level 1	Quoted bid prices in an active market.
2) Financial assets at fair value through OCI (see Note 18)	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 427 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 36 thousand	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 427 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 32 thousand	Level 1	Quoted bid prices in an active market.
	Debt securities not quoted in Bosnia and Herzegovina: • Ministry of finance of the FBiH- BAM 230,593 thousand • Sarajevo Canton – BAM 191 thousand	Debt securities not quoted in Bosnia and Herzegovina: • Ministry of finance of the FBiH - BAM 191,789 thousand • Sarajevo Canton – BAM 692 thousand • JP Autoceste FBiH - BAM 3,221 thousand	Level 2	Discounted cash flows, by considering the last available rate on owned or similar debt securities as yield rate.
	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 22 thousand	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 21 thousand	Level 3	Unquoted bid prices in an active market.

There were no transfers between Level 1 and Level 2 during the period.

(all amounts are expressed in thousand BAM, unless otherwise stated)

32. FAIR VALUE MEASUREMENT (continued)

32.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	31 December 2020		31 December 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables:				
- Loans to customers	301,405	299,299	256,399	257,212
Other receivables	1,228	1,228	4,799	4,761
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	770,524	767,786	701,785	699,931

	Fair value hierarchy as at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
- Loans to customers	-	299,299	-	299,299
Other receivables	-	1,228	-	1,228
	-	**300,527**	**-**	**300,527**
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	-	767,786	-	767,786
	-	**767,786**	**-**	**767,786**

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The calculation of the fair value is determined by discounting future cash flows using the weighted average interest rate on the state level, published by the CBBH separately for corporate and retail.

33. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date that would need to be disclosed in the financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 26 February 2021.

Vedran Hadžiahmetović
President of the Management Board

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