UNION BANKA D.D. SARAJEVO

Financial statements for the year ended

31 December 2021 and Independent Auditor's Report

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Responsibility for the financial statements

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina („Official Gazette of Federation of Bosnia and Herzegovina" No. 15/21), 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:

Vedran Hadžiahmetović
President of the Management Board

UNION BANKA DD SARAJEVO BR. 3

Edin Mujagić
Member of the Management Board for Risks

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

28 February 2022

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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 2021, 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 2021, and 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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 352 million (or 33% of total assets) as at 31 December 2021. 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, expected future cash flows and forward looking macroeconomic factors 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 impact of COVID-19 on business 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.

Other Information included in the Bank's Annual Business Report

Other information consists of the information included in the Annual Business Report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the Law on accounting and auditing in Federation of Bosnia and Herzegovina. Our opinion on the financial statements does not cover the Other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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Independent auditor's report *(continued)*

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

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

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

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

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

Danijela Mirković, Procurator

Tarik Alijagić, Licensed auditor

Ernst & Young d.o.o. Sarajevo
Vrbanja 1 (SCC – Sarajevo City Center)
71000 Sarajevo
Bosnia and Herzegovina

Sarajevo, 28 February 2022

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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021
(all amounts are expressed in thousands BAM, unless otherwise stated)

	Notes	2021	2020
Interest income calculated using the effective interest method	5	13,389	12,134
Interest expense calculated using the effective interest method	6	(2,800)	(2,615)
Net interest income		**10,589**	**9,519**
Fee and commission income	7	3,071	2,633
Fee and commission expense	8	(1,301)	(1,139)
Net fee and commission income		**1,770**	**1,494**
Net losses on the impairment of financial assets	9	(417)	(302)
Net losses on financial assets at fair value through profit and loss	17	(68)	(107)
Net gains on foreign exchange differences		152	76
Other operating income	10	1,284	1,469
Operating income		**13,310**	**12,149**
Employees' expenses	11	(6,754)	(6,553)
Depreciation and amortization	21, 22	(1,122)	(1,071)
Other expenses	12	(4,365)	(3,979)
Total operating expenses		**(12,241)**	**(11,603)**
PROFIT BEFORE TAX		**1,069**	**546**
Income tax expense	13	-	-
Deferred tax expense	13	(40)	(114)
NET PROFIT FOR THE YEAR		**1,029**	**432**
Other comprehensive income / (loss)			
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		(345)	343
Effects of changes in fair value of financial assets through other comprehensive income, net		6,724	(4,464)
Deferred tax expense of financial assets through other comprehensive income		(638)	(200)
		6,724	(4,321)
TOTAL COMPREHENSIVE INCOME / (LOSS)		**6,770**	**(3,889)**
Earnings per share (in BAM)	14	**0.30**	**0.20**

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

Statement of financial position
as at 31 December 2021
(all amounts are expressed in thousands BAM, unless otherwise stated)

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and accounts at banks	15	373,033	238,946
Due from banks	15.1	7,815	3,908
Obligatory reserve with the Central Bank of BiH	16	96,776	78,115
Financial assets at fair value through profit or loss	17	196	264
Financial assets at fair value through other comprehensive income	18	198,698	231,709
Loans to customers and receivables	19	352,495	301,405
Other assets and receivables	20	1,340	1,229
Tangible, intangible and right-of-use assets	21	18,478	18,812
Investment property	22	4,480	4,545
TOTAL ASSETS		**1,053,311**	**878,933**
LIABILITIES			
Liabilities to other banks and financial institutions	23	1,201	1,271
Liabilities to customers	24	918,296	769,253
Other liabilities	27	6,772	3,493
Subordinated debt	25	30,000	40,000
Provisions	26	1,630	1,274
TOTAL LIABILITIES		**957,899**	**815,291**
EQUITY			
Share capital	28	69,098	44,098
Revaluation reserves for investments		7,549	1,808
Retained earnings		18,765	17,736
TOTAL EQUITY		**95,412**	**63,642**
TOTAL LIABILITIES AND EQUITY		**1,053,311**	**878,933**

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

Signed on behalf of the Bank on 28 February 2022:

UNION BANKA DD SARAJEVO SARAJEVO BR. 3

Vedran Hadžiahmetović
President of the Management Board

Edin Mujagić
Member of the Management Board for Risks

Nermin Sijerčić
Head of Accounting and Controlling department

Statement of cash flows
for the year ended 31 December 2021
(all amounts are expressed in thousands BAM, unless otherwise stated)

	2021	2020
Operating activities		
Profit before tax	**1,069**	**546**
Adjustments for:		
Depreciation and amortization	1,122	1,071
Loss on disposal of tangible assets	19	16
Impairment losses and provisions, net	417	142
Fair value adjustments of financial assets at fair value through profit or loss	69	107
Interest income from financial assets through OCI recognized in the statement of profit or loss and other comprehensive income	(2,771)	(2,805)
Dividend income recognized in the statement of profit or loss and other comprehensive income	(65)	(57)
Cash flow before changes in operating assets and liabilities:	*(137)*	*(980)*
(Increase) / decrease in obligatory reserve with the Central bank of BiH, net	(18,680)	1,929
Increase in due from banks, net	(3,911)	(3,904)
Increase in loans to customers, before allowance, net	(51,594)	(46,175)
(Increase) / decrease in other assets, before allowance, net	(114)	3,571
Increase / (decrease) in liabilities to other banks and financial institutions, net	70	(82)
Increase in liabilities to customers, net	149,043	68,820
Increase / (decrease) in other liabilities, net	2,591	(264)
	77,268	*22,915*
Income tax paid	-	-
NET CASH FROM OPERATING ACTIVITIES	**77,268**	**22,915**
Investing activities		
Purchase of financial assets through other comprehensive income	(10,482)	(93,723)
Principal received from financial assets through other comprehensive income	52,988	56,845
Purchase of tangible assets	(742)	(901)
Dividends received	65	57
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	**41,829**	**(37,722)**
Financing activities		
Repayment of principal portion of lease liabilities	(10)	(193)
Proceeds from subordinated debt	15,000	15,000
NET CASH FROM FINANCING ACTIVITIES	**14,990**	**14,807**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**134,087**	**100**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**238,946**	**238,846**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**373,033**	**238,946**

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	Revaluation reserves for investments	Retained earnings	Total
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**
Net profit	-	-	1,029	1,029
Other comprehensive income	-	5,741	-	5,741
Total comprehensive income	-	*5,741*	*1,029*	*6,770*
Issue of share capital	25,000	-	-	-
31 December 2021	**69,098**	**7,549**	**18,765**	**95,412**

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

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 2021, 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
Haris Jahić	Member
Advija Alihodžić	Member
Dražena Tunjić Pavlović	Member
Aida Hadžigrahić	Member

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
Nermin Šahinović	Member
Dr. Lejla Demirović	Member
Damir Šapina	Member
Marko Čule	Member

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 legal accounting regulations applicable on banks in the Federation of Bosnia and Herzegovina (“FBiH”), which is based on the Law of Accounting and Auditing of FBiH, the Law on Banks of FBiH and bylaws FBiH Banking Agency adopted on the basis of the mentioned laws:

- Law on Accounting and Auditing of FBiH determines the preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”).
- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previous mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.
- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the “Decision”), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: “Financial instruments ”(“ IFRS 9 ”). The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS).

The Bank has, in accordance with the provisions of the Decision as of 31 December 2021, recognized higher value adjustments for credit losses in the amount of BAM 2,283 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 1,222 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 834 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 227 thousand,
- Write-off of exposures to off-balance in the total amount of BAM 226 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 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 IFRS have resulted in the following effects:

	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

	31.12.2021 IFRS	Effects of FBA Decision 31.12.2021	31.12.2021
Assets	1,055,180	(1,869)	1,053,311
Liabilities	958,313	(414)	957,899
Equity	97,695	(2,283)	95,412

	31.12.2021
Financial result before tax for the year ended 31.12.2021 if IFRS methodology is used	1,944

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. New and amended standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

- **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. 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. While application is retrospective, an entity is not required to restate prior periods. The amendments had no impact on the financial statements of the Bank.

2.3. Standards issued but not yet effective and not early adopted

- **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. Management has assessed no impact on the financial statements of the Bank.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

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

  The amendments were initially 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.

  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. The management has assessed no impact on the financial statements of the Bank.

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

2.3. Standards issued but not yet effective and not early 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

The Management has assessed no impact on the financial statements of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Management has assessed no impact on the financial statements of the Bank.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed these amendments had no impact on financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed these amendments had no impact on financial statements.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Management has assessed no impact on the 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)

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:

	2021	**2020**
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 2021	1 EUR = 1.95583 BAM	1 USD = 1.725631 BAM
31 December 2020	1 EUR = 1.95583 BAM	1 USD = 1.592566 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)

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

	2021	2020
Interest on retail loans	5,951	5,000
Interest on corporate loans	4,655	4,326
Interest on financial assets through other comprehensive income	2,772	2,805
Interest on placements with other banks	11	3
	13,389	**12,134**

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2021	2020
Interest on assets exceeding the obligatory reserve with CBBH	1,129	1,153
Interest on corporate deposits	738	774
Interest on retail deposits	717	557
Negative interest on placements with other banks	87	47
Interest on assets of obligatory reserve with CBBH	74	-
Interest on borrowings	41	36
Negative interest on securities	12	27
Interest expense on lease liabilities	2	21
	2,800	**2,615**

7. FEE AND COMMISSION INCOME

	2021	2020
Payment transactions fees	2,366	2,113
Fees from off-balance sheet transactions	377	250
Fees from conversion transactions	131	91
Other fee and commission income	197	179
	3,071	**2,633**

8. FEE AND COMMISSION EXPENSE

	2021	2020
E-banking and SWIFT	920	772
Domestic payment transactions	367	364
Guarantees	14	3
	1,301	**1,139**

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

9. NET LOSSES ON THE IMPAIRMENT OF FINANCIAL ASSETS

	2021	2020
(Increase) / decrease in impairment allowance for loans to clients (Note 19)	(504)	84
(Increase) / decrease in impairment allowance for cash assets (Notes 15 and 16)	(196)	28
Increase in provisions for commitments and contingencies, net (Note 26)	(62)	(71)
Decrease / (increase) in impairment allowance of financial assets through other comprehensive income (Note 18)	345	(343)
	(417)	**(302)**

10. OTHER OPERATING INCOME

	2021	2020
Collected written-off receivables	989	1,078
Rent income	343	340
Dividends	65	57
(Increase) / decrease / in provisions for employee benefits, net (Note 26)	(23)	5
Increase in provisions for legal proceedings, net (Note 26)	(271)	(135)
Other	182	124
	1,284	**1,469**

11. EMPLOYEES' EXPENSES

	2021	2020
Net salaries	3,333	3,245
Taxes and contributions	2,439	2,382
Other	982	926
	6,754	**6,553**

The average number of personnel employed as of 31 December 2021 and 31 December 2020 was 197.

Employees' expenses include BAM 1,204 thousand (2020: BAM 1,177 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

	2021	**2020**
Services	1.382	1,295
Maintenance	774	656
Insurance	652	577
Advertising and entertainment	410	322
Telecommunications	274	257
Energy	253	225
Other taxes and contributions	208	215
Material expenses	129	163
Other expenses	267	269
	4,365	**3,979**

13. INCOME TAX

Income tax components can be shown as following:

	2021	**2020**
Current income tax	-	-
Deferred tax expense	40	114
Total income tax	**40**	**114**

	2021	**2020**
Profit before income tax	**1,069**	**546**
Income tax expense at 10%	107	55
Adjustments for:		
Capital gains	13	13
Non-taxable income	(7)	(6)
Non-taxable expenses	30	46
Tax relief	(143)	(108)
Effects of lower accounting depreciation rate and higher depreciation rate for tax purposes	40	114
Current and deferred income tax expense	**40**	**114**
Effective income tax rate	**4%**	**21%**

Changes in deferred tax liabilities can be shown as following:

	2021	**2020**
Balance as at 1 January	203	89
Net changes in deferred tax liabilities	40	114
Deferred tax liabilities as at 31 December	**243**	**203**

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.

	2021	2020
Profit attributable to shareholders (BAM '000)	1,029	432
Weighted average number of ordinary shares for the year	3,454,921	2,204,921
Basic earnings per share (BAM)	**0.30**	**0.20**

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

15. CASH AND ACCOUNTS IN BANKS

	31 December 2021	31 December 2020
Account with the CBBH	326,502	207,341
Correspondent accounts with other banks	25,503	10,421
Cash at the Bank's treasury	19,308	19,455
Cash at ATMs	2,107	1,962
	373,420	**239,179**
Less: Impairment allowance (Note 9)	(387)	(233)
	373,033	**238,946**

Changes in impairment allowance can be presented as follows:

	2021	2020
Balance at the beginning of the year	**233**	**60**
Effect of FBA’s Decision 01.01.2020	-	200
Net increase / (decrease) in impairment allowance (Note 9)	154	(27)
Balance at the end of the year	**387**	**233**

15.1 DUE FROM BANKS

	31 December 2021	31 December 2020
Due from banks	7,823	3,912
Less: Impairment allowance (Note 9)	(8)	(4)
	7,815	**3,908**

Changes in impairment allowance can be presented as follows:

	2021	2020
Balance at the beginning of the year	**4**	**-**
Net increase in impairment allowance (Note 9)	4	4
Balance at the end of the year	**8**	**4**

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

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

	31 December 2021	31 December 2020
Obligatory reserve with the CBBH	96,873	78,193
Less: Impairment allowance (Note 9)	(97)	(78)
	96,776	**78,115**

Changes in impairment allowance can be presented as follows:

	2021	2020
Balance at the beginning of the year	**78**	**3**
Effect of FBA's Decision 01.01.2020	-	80
Net increase / (decrease) in impairment allowance (Note 9)	19	(5)
Balance at the end of the year	**97**	**78**

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 accordance with the amendments to the Decision on determining and maintaining required reserves and determining the fee for the amount of the reserve, the fee ranged from 0.2% for funds above the obligatory reserve in previous years to 0.5% in 2021. From June 1, 2021, the fee is calculated on the required reserve funds in foreign currencies and in domestic currency with a currency clause.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2021	31 December 2020
ALTA banka d.d. Belgrade, Serbia	196	264
	196	**264**

Movements in the fair value of shares were as follows:

	2021	2020
Balance at the beginning of the year	**264**	**372**
Fair value adjustments loss	(68)	(108)
Balance at the end of the year	**196**	**264**

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021	31 December 2020
Debt securities:		
Ministry of finance of FBiH	197,658	230,595
Sarajevo Canton	191	189
	197,849	**230,784**
Accrued interest	366	440
	198,215	**231,224**
Equity securities:		
Bosna reosiguranje d.d. Sarajevo	427	427
Sarajevo-Osiguranje d.d. Sarajevo	33	36
S.W.I.F.T. Belgium	23	22
	483	**485**
	198,698	**231,709**

Movements in the value of these assets were as follows:

	2021	2020
Balance at the beginning of the year	**231,709**	**196,490**
Purchases during the year	10,482	93,723
Interest (Note 5)	2,771	2,805
Unrealized gain from fair value adjustments (through Other comprehensive income)	6,724	(4,464)
Collected principal and interest	(52,988)	(56,845)
Balance at the end of the year	**198,698**	**231,709**

Changes in impairment allowance can be presented as follows:

	2021	2020
Balance at the beginning of the year	**2,317**	**1,974**
Net (decrease) / increase in impairment allowance (Note 9)	(345)	343
Balance at the end of the year	**1,972**	**2,317**

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

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

During 2021, the Bank has purchased:

- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 7,500 thousand; annual interest rate from 0.75% to 0.85%, and maturity date as at 30 June 2027;
- Treasury notes from the Ministry of Finance of FBiH with nominal value of BAM 3,000 thousand; annual interest rate of 0.00%, and maturity date as at 23 June 2022.

19. LOANS TO CUSTOMERS AND RECEIVABLES

	31 December 2021	**31 December 2020**
Long-term loans		
Corporate	126,711	94,908
Retail	174,588	151,412
Less: Current portion of long-term loans	(46,273)	(46,663)
	255,026	*199,657*
Short-term loans		
Corporate	58,435	61,954
Retail	2,421	2,525
Add: Current portion of long-term loans	46,273	46,663
	107,129	*111,142*
Total loans before allowance for impairment losses	***362,155***	***310,799***
Less: Impairment allowance based on individual assessment	(5,468)	(4,411)
Less: Impairment allowance based on group assessment	(4,192)	(4,983)
	352,495	**301,405**

(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:

	2021	2020
Balance at the beginning of the year	**9,394**	**17,837**
Effect of FBA's Decision 01.01.2020	-	1,085
Write-offs FBA's Decision 01.01.2020	-	(8,412)
Write-offs during the year	(238)	(388)
Collection of receivables by repossessed assets	-	(644)
Change in impairment allowance, net (Note 9)	504	(84)
Balance at the end of the year	**9,660**	**9,394**

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

	31 December 2021	31 December 2020
Individuals	177,009	153,937
Mining and industry	75,880	59,701
Trade	57,390	45,468
Construction	21,745	19,663
Administration and other public services	9,598	15,683
Energy	6,839	1,566
Transportation and communications	5,703	2,798
Restaurants and tourism	2,986	3,790
Real estates	2,428	4,155
Agriculture	1,608	633
Financial services	444	2,727
Other	524	678
	362,155	**310,799**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2021, and 31 December 2020.

Weighted average interest rate can be presented as follows:

	2021	2020
Corporate	2.62%	2.56%
Retail	3.30%	3.91%

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

20. OTHER ASSETS AND RECEIVABLES

	31 December 2021	**31 December 2020**
Restricted deposit	341	241
Income tax receivables	300	300
Prepaid expenses	190	123
Fees receivables	133	60
Repossessed assets (collateral)	21	21
Inventories	15	18
Other receivables	430	576
	1,429	***1,339***
Less: Impairment allowance	(89)	(110)
	1,340	**1,229**

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

	2021	**2020**
Balance at the beginning of the year	**110**	**802**
Write-offs FBA's Decision	-	(659)
Write-off of receivables with no effect on P&L	(21)	(33)
Balance at the end of the year	**89**	**110**

(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 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**
Additions	-	-	-	-	-	-	570	172	742
Transfer (from)/to	136	93	-	81	61	51	(422)	-	-
Write-offs / sale	-	(46)	(37)	(12)	-	(116)	-	(173)	(384)
At 31 December 2021	**19,847**	**2,695**	**721**	**1,450**	**342**	**1,095**	**345**	**762**	**27,257**
ACCUMULATED DEPRECIATION									
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	-	(171)	-	(3)	-	-	-	(25)	(199)
At 31 December 2020	**4,587**	**1,568**	**402**	**956**	**130**	**454**	**-**	**348**	**8,445**
Depreciation	227	286	73	159	17	108	-	185	**1,055**
Write-offs / sale	-	(45)	(33)	(12)	-	(100)	-	(173)	**(363)**
At 31 December 2020	**4,814**	**1,809**	**442**	**1,103**	**147**	**462**	**-**	**360**	**9,137**
NET BOOK VALUE									
At 31 December 2021	**15,169**	**933**	**242**	**416**	**256**	**568**	**493**	**401**	**18,478**
At 31 December 2020	**15,260**	**1,127**	**319**	**494**	**212**	**641**	**345**	**414**	**18,812**

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

22. INVESTMENT PROPERTY

	Buildings
COST	
At 31 December 2019	**5,155**
Transfer	-
At 31 December 2020	**5,155**
Transfer	1
At 31 December 2021	**5,156**
ACCUMULATED DEPRECIATION	
At 31 December 2019	**543**
Depreciation	67
At 31 December 2020	**610**
Depreciation	67
As at 31 December 2021	**676**
NET BOOK VALUE	
As at 31 December 2021	**4,480**
As at 31 December 2020	**4,545**

Fair value measurement of investment properties

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

	31 December 2021	**31 December 2020**
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 2021 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 2021	**31 December 2020**
Demand deposits:		
In domestic currency	1,166	1,238
In foreign currencies	35	33
	1,201	**1,271**

24. LIABILITIES TO CUSTOMERS

	31 December 2021	**31 December 2021**
Demand deposits:		
Corporate:		
In domestic currency	455,215	316,225
In foreign currencies	9,100	5,078
	464,315	321,303
Retail:		
In domestic currency	52,135	44,628
In foreign currencies	14,440	13,293
	66,575	57,921
Special purpose deposits:		
In domestic currency	230,065	232,876
In foreign currencies	296	237
	230,361	233,113
	761,251	***612,337***
Term deposits:		
Corporate:		
In domestic currency	59,027	77,631
In foreign currencies	19,735	13,137
	78,762	90,768
Retail:		
In domestic currency	23,693	17,904
In foreign currencies	31,041	26,341
	54,734	44,245
Special purpose deposits:		
In domestic currency	23,380	21,697
In foreign currencies	169	206
	23,549	21,903
	157,045	***156,916***
	918,296	**769,253**

Interest rates on demand deposits of banks during 2021 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

Between the Government of FBiH, represented by the Ministry of Finance of FBiH, and the Bank on 5 March 2020, a Loan Agreement was signed on subordinated terms in the amount of BAM 15 million. On 12 May 2021, the Loan Agreement was signed on subordinated terms in the amount of BAM 15 million. As of 31 December 2021, subordinated debt amount to BAM 30 million and compared to the end of the previous year, they are decreased by BAM 10 million. The approved funds are intended for the formation of a credit line for long-term housing loans. The maturity of the loan under this Agreement is 20 years from the date of payment of the full amount of funds. The loan repayments are bullet. The interest rate is fixed at 0.10% per annum.

On 29 July 2020, the Government of FBiH, represented by the Ministry of Finance of FBiH, and the Bank concluded the Agreement on Termination of Loan Agreements on Subordinated Terms on 30 March 2018 and 21 March 2019. On 29 October 2021, the funds were transferred to the founding (share) capital in accordance with the agreement.

26. PROVISIONS

	31 December 2021	**31 December 2020**
Provisions for employees	562	539
Provisions for commitments and contingencies	538	476
Provisions for court proceedings	530	259
	1,630	**1,274**

Movements in provisions were as follows:

	Employee benefits	**Commitments and contingencies**	**Court proceedings**	**Total**
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
Releases due to payments (Notes 9 and 10)	(101)	-	-	(101)
As at 31 December 2020	**539**	**476**	**259**	**1,274**
Additional provisions (Notes 9 and 10)	101	797	272	1,170
Releases due to payments (Notes 9 and 10)	(78)	(735)	(1)	(814)
As at 31 December 2021	**562**	**538**	**530**	**1,630**

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 2021	31 December 2020
Contingencies		
Frame loan agreements and card limits	23,167	25,098
Commitments		
Performance guarantees	11,767	14,629
Payment guarantees	10,337	5,846
	45,271	**45,573**

27. OTHER LIABILITIES

	31 December 2021	31 December 2020
Liabilities for unallocated proceeds	2,162	35
Liabilities to clients for paid installments	1,758	1,485
Deferred tax liabilities	1,082	404
Lease liabilities	401	414
Accrued expenses	283	170
Liabilities toward suppliers	93	234
Deferred income	45	48
Managed funds (Note 30)	45	13
VAT payables	8	7
Other taxes and contributions	2	5
Other liabilities	893	678
	6,772	**3,493**

28. SHARE CAPITAL

The shareholding structure as of 31 December 2021:

Shareholders	**Number of shares**	**Amount '000 BAM**	**%**
Ministry of finance of the FBiH	3,308,948	66,179	95.77
ZIF BIG INVESTICIONA GRUPA d.d. Sarajevo	36,864	737	1.07
Kolić Kadrija	11,324	226	0.33
BOSNA RE d.d. SARAJEVO	10,529	211	0.30
Other shareholders	87,256	1,745	2.53
Total	**3,454,921**	**69,098**	**100**

Share capital is made up of 3,454,921 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 2021	**31 December 2020**
Receivables:		
Shareholders	11,772	5,323
Management Board members and key functions	1,006	839
	12,778	***6,162***
Investments:		
Shareholders	191,794	231,455
	191,794	***231,455***
Payables:		
Shareholders	404,136	457,562
Supervisory Board members	3	4
Management Board members and key functions	159	216
	404,368	***457,782***
Off-balance sheet:		
Shareholders	6,243	7,057
Management Board members and key functions	20	19
	6,263	***7,076***

	2021	**2020**
Income:		
Shareholders	3,212	2,795
Management Board members and key functions	37	35
	3,249	***2,830***
Expenses:		
Shareholders	457	526
	457	***526***

Management remunerations

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

	2021	**2020**
– gross salaries	335	319
– other benefits	34	35
Fees to Supervisory Board members (gross)	84	85
	453	**439**

(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 2021	31 December 2020
Placements		
Retail	2	3
Corporate	13,251	12,639
	13,253	***12,642***
Financing		
Governmental organizations	13,214	12,571
Corporate	9	9
Retail	75	75
	13,298	***12,655***
Net liability (Note 27)	**45**	**13**

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 2021	**31 December 2020**
Debt	950,127	810,524
Equity	95,412	63,642
Debt to capital ratio %	**9.96**	**12.74**

Debt is defined as liabilities to banks and financial institutions, to customers, and subordinated debt as presented in detail in Note 23, 24 and 25. 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 86.3 million (2021: 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 37.5 million (2021: 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 2021, and 31 December 2020, the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2021, the adequacy of the Bank's capital amounts to 38.44% (31 December 2020: 31.07%).

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

31. RISK MANAGEMENT (continued)

a) Capital risk management (continued)

	31 December 2021	31 December 2020
Core capital – Tier 1 capital		
Ordinary shares	69,098	44,098
Retained earnings	17,736	17,305
Less: Intangible assets	(568)	(578)
Total Core Capital	**86,266**	**60,825**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	-	-
Subordinated debt	30,000	20,944
Revaluation reserves	7,549	2,008
Total Supplementary Capital	**37,549**	**22,952**
Decreases of capital		
Missing regulatory reserves	-	-
Net capital	**123,815**	**83,777**
Risk-weighted assets	307,747	256,115
Weighted operating risk (unaudited)	14,311	13,545
Total weighted risks	**322,058**	**269,660**
Capital adequacy (%)	**38.44%**	**31.07%**

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

31. RISK MANAGEMENT (continued)

b) Financial risk management objectives

The Bank's Department for liquidity and assets / liabilities management 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 2021					
ASSETS					
Cash and cash equivalents	335,210	33,660	1,342	2,821	**373,033**
Obligatory reserves with the CBBH	96,776	-	-	-	**96,776**
Due from banks	-	7,815	-	-	**7,815**
Loans and advances to clients, net	186,923	165,572	-	-	**352,495**
Financial assets at fair value through profit or loss	196	-	-	-	**196**
Financial assets at fair value through other comprehensive income	198,508	190	-	-	**198,698**
Other receivables	927	238	171	4	**1,340**
Total	**818,540**	**207,475**	**1,513**	**2,825**	**1,030,353**
LIABILITIES					
Liabilities to other banks and other financial institutions	1,166	35	-	-	**1,201**
Liabilities to customers	707,599	206,867	1,470	2,360	**918,296**
Subordinated debt	-	30,000	-	-	**30,000**
Total	**708,765**	**236,902**	**1,470**	**2,360**	**949,497**
NET FOREIGN POSITION	**109,775**	**(29,427)**	**43**	**465**	**80,856**

(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 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**

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	
	2021	**2020**
Profit / (loss)	4	1

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:

- 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 (as od 31 December 2021, exposure increased to BAM 100,000.00)
- 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 not possible.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

	Exposure	Recovery period		
		Stage 2	**Stage 1**	**Total**
Allocation of exposures to lower stage	Unmodified exposures in Stage 2		3	**3**
	Unmodified exposures in Stage 3	6	3	**9**
	Modified exposures which were in Stage 2 in moment of modification		6	**6**
	Modified exposures which were in Stage 3 in moment of modification (including POCI)	12	24	**36**

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).

In December 2021, testing and validation of risk parameters was performed. 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.

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

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

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.

Recognizing the significant share of housing loans in the portfolio of individuals, the effects of separating consumer loans from housing loans were presented through a test and validation report. Taking into account the significant technical changes required by the change in customer segmentation, it is proposed that the changes be made when full system support for the calculation is provided.

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.

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.

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. Since the effects of the pandemic continued during 2021, Banking Agency of the FB&H issued an amendment to the relevant decisions with the aim of providing additional support to entrepreneurs in order to overcome the negative consequences that the Bank has consistently implemented in its work.

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.

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.

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.

The aforementioned activities resulted in the fact that the bank recovered a large number of clients and provided them with an easier and safer way of repaying approved exposures. As of 31 December 2021, the total balance of the portfolio under measures amounts to BAM 6,003 thousand and makes 1.64% of the total loan portfolio of the bank (BAM 5,928 thousand refers to placements approved to legal entities, and BAM 74 thousand to placements approved to individuals).

(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 as at 31 December 2021:

	Approved measures		Active measures		Expired measures	
	No of debtors	**Exposure on 31 December 2021**	**No of debtors**	**Exposure on 31 December 2021**	**No of debtors**	**Exposure on 31 December 2021**
Legal entities	55	33,836	4	5,928	51	27,908
Individuals	38	1,777	4	75	34	1,702
Total	**93**	**35,613**	**8**	**6,033**	**85**	**29,610**

Data as at 31 December 2020 is shown below:

	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 as at 31 December 2021:

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	2,421	-	-	1	2,421
Professional, scientific and technical industries	4	4,559	-	404	4	4,155
Education	-	-	-	-	-	-
Health and social work	1	774	-	-	1	774
Art, entertainment and recreation	1	2,039	-	-	1	2,039
Other service industries	3	95	-	-	3	95
Processing industry	22	12,988	1	678	21	12,310
Construction	3	3,988	-	-	3	3,988
Retail and wholesale; cars and motorcycles repair	7	5,231	2	4,545	5	686
Transportation and storage	3	496	-	-	3	496
Accommodation and food service (hotels and restaurants)	6	1,039	1	301	5	738
Entrepreneurs	4	206	-	-	4	206
Legal entities	**55**	**33,836**	**4**	**5,928**	**51**	**27,908**
General consumption	27	831	3	42	24	789
Housing financing	11	946	1	33	10	913
Individuals	**38**	**1,777**	**4**	**75**	**34**	**1,702**
Total	**93**	**35,613**	**8**	**6,003**	**85**	**29,610**

(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 as at 31 December 2020:

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 as at 31 December 2021:

Industry	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net exposure
Real estate	-	-	-	-	-	-	-	-	-
Professional, scientific and technical industries	-	-	404	404	-	-	104	104	300
Art, entertainment and recreation	-	-	-	-	-	-	-	-	-
Processing industry	-	678	-	678	-	69	-	69	609
Retail and wholesale; cars and motorcycles repair	-	4,545	-	4,545	-	327	-	327	4,218
Accommodation and food service (hotels and restaurants)	-	301	-	301	-	20	-	20	281
Entrepreneurs	-	-	-	-	-	-	-	-	-
Legal entities	**-**	**5,524**	**404**	**5,928**	**-**	**416**	**104**	**520**	**5,408**
General consumption	36	6	-	42	-	-	-	-	42
Housing financing	-	33	-	33	-	2	-	2	31
Individuals	**36**	**39**	**-**	**75**	**-**	**2**	**-**	**2**	**73**
Total	**36**	**5,563**	**404**	**6,003**	**-**	**418**	**104**	**522**	**5,481**

(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 as at 31 December 2020:

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 as at 31 December 2021:

Industry	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net exposure
Real estate	-	2,421	-	2,421	-	158	-	158	2,264
Professional, scientific and technical industries	68	7	4,080	4,155	-	-	1,047	1,047	3,108
Education	-	2,039	-	2,039	-	102	-	102	1,937
Health and social work	774	-	-	774	4	-	-	4	770
Other service industries	81	13	-	95	-	1	-	1	94
Processing industries	4,196	1,465	6,648	12,310	30	100	1,220	1,349	10,961
Construction	56	3,932	-	3,988	-	197	-	197	3,791
Retail and wholesale; cars and motorcycles repair	486	200	-	686	2	10	-	12	674
Transportation and storage	327	-	169	496	2	-	67	69	427
Accommodation and food service (hotels and restaurants)	113	625	-	738	1	38	-	39	699
Entrepreneurs	103	103	-	206	1	6	-	7	199
Legal entities	**6,204**	**10,806**	**10,897**	**27,908**	**40**	**612**	**2,333**	**2,985**	**24,922**
General consumption	720	69	-	789	4	3	-	7	782
Housing financing	913	-	-	913	5	-	-	5	908
Individuals	**1,633**	**69**	**-**	**1,702**	**8**	**3**	**-**	**12**	**1,691**
Total	**7,837**	**10,875**	**10,897**	**29,610**	**48**	**615**	**2,333**	**2,997**	**26,613**

(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 as at 31 December 2020:

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.

	31.12.2021			31.12.2020		
	Gross	**Impairment allowance**	**Net**	**Gross**	**Impairment allowance**	**Net**
I. Assets	**1,040,594**	**(12,213)**	**1,028,381**	**865,395**	**(12,136)**	**855,576**
Cash and accounts at banks	373,420	(387)	373,033	239,179	(233)	238,946
Due from banks	7,823	(8)	7,815	3,912	(4)	3,908
Obligatory reserve with the Central Bank of BiH	96,873	(97)	96,776	78,193	(78)	78,115
Financial assets at fair value through profit or loss	196	-	196	265	-	265
Financial assets at fair value through OCI	198,698	(1,972)	196,726	231,709	(2,317)	231,709
Loans to customers and receivables	362,155	(9,660)	352,495	310,799	(9,394)	301,405
Other assets and receivables	1,429	(89)	1,340	1,338	(110)	1,228
II. Off-balance sheet	**45,270**	**(538)**	**44,732**	**45,574**	**(475)**	**45,097**
Payable guarantees	10,337	(235)	10,102	5,847	(57)	5,789
Performance guarantees	11,765	(207)	11,558	14,629	(274)	14,354
Approved unused financing lines	23,168	(96)	23,072	25,098	(144)	24,954
Total (I+II)	**1,085,864**	**(12,751)**	**1,073,113**	**910,969**	**(12,611)**	**900,673**

(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		
	Net exposure	Undrawn loans / Guarantees	Fair value of collateral
At 31 December 2021			
Cash and cash equivalents	373,033	-	-
Due from banks	7,815	-	-
Obligatory reserve with the CBBH	96,776	-	-
Financial assets at fair value through profit or loss	196	-	-
Financial assets at fair value through OCI	196,726	-	-
Loans to clients, net	352,495	44,372	530,288
Other receivables	1,340	-	-
	1,028,381	**44,372**	**530,288**
At 31 December 2020			
Cash and cash equivalents	242,854	-	-
Due from banks	3,908	-	-
Obligatory reserve with the CBBH	78,115	-	-
Loans to clients, net	265	-	-
Financial assets at fair value through profit or loss	231,709	-	-
Financial assets at fair value through OCI	301,405	45,098	490,009
Other receivables	1,228	-	-
	859,484	**45,098**	**490,009**

Fair value of the collateral

	31 December 2021	31 December 2020
Real estates	485,557	448,767
Movable assets	18,620	15,946
Deposits	15,337	17,720
Securities	10,774	7,577
	530,288	**490,010**

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

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Arrears

31 December 2021	**Gross loan portfolio**	**Not due**	**Up to 30 days**	**31 – 90 days**
Corporate	170,801	157,327	1,440	12,034
Retail	175,686	174,793	893	-
Total	**346,487**	**332,120**	**2,333**	**12,034**
31 December 2020				
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**

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

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS

31 December 2021	S1	S2	S3	Write-off	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	112,206	298	132	52	**112,636**	562	15	90	667	**111,969**
Consumer loans and credit cards	63,289	234	859	1,906	**64,382**	321	12	846	1,179	**63,203**
Total retail	**175,495**	**532**	**991**	**1,958**	**177,018**	**883**	**27**	**936**	**1,846**	**175,172**
Large companies	93,209	1,730	4,483	2,197	**99,422**	456	87	1,150	1,693	**97,729**
Medium companies	29,051	15,825	-	1,633	**44,876**	269	994	-	1,263	**43,613**
Small companies	25,933	5,052	9,854	2,430	**40,839**	204	336	4,318	4,858	**35,981**
Total corporate	**148,193**	**22,607**	**14,337**	**6,260**	**185,137**	**929**	**1,417**	**5,468**	**7,814**	**177,323**
Total	**323,688**	**23,139**	**15,328**	**8,218**	**362,155**	**1,812**	**1,444**	**6,404**	**9,660**	**352,495**
Banks	**33,495**	**-**	**-**	**-**	**33,495**	**67**	**-**	**-**	**67**	**33,428**

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

31. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS

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**

(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 2021	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	112,017	189	-	-	**112,206**
Consumer loans and credit cards	62,630	623	-	-	**63,253**
COVID-19 measures	36	-	-	-	**36**
Total retail	**174,683**	**812**	**-**	**-**	**175,495**
Large companies	87,857	-	5,352	-	**93,209**
Medium companies	28,156	895	-	-	**29,051**
Small companies	25,843	90	-	-	**25,933**
COVID-19 measures	-	-	-	-	**-**
Total corporate	**141,856**	**985**	**-**	**-**	**148,193**
Total	**316,539**	**1,797**	**5,352**	**-**	**323,688**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**33,495**	**-**	**-**	**-**	**33,495**

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**

31 December 2020	**Not in delay**	**Delay up to 30 days**	**31-60 days**	**61-90 days**	**Total**

(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 2021	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	265	-	-	**265**
Consumer loans and credit cards	71	81	76	-	-	**228**
COVID-19 measures	39	-	-	-	-	**39**
Total retail	**110**	**81**	**341**	**-**	**-**	**532**
Large companies	1,730	-	-	-	-	**1,730**
Medium companies	6,669	-	3,932	-	-	**10,601**
Small companies	1,548	454	28	2,722	-	**4,752**
COVID-19 measures	5,524	-	-	-	-	**5,524**
Total corporate	**15,471**	**454**	**3,960**	**2,722**	**-**	**22,607**
Total	**15,581**	**535**	**4,301**	**2,722**	**-**	**23,139**
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 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	**-**	-	-	-	-	**-**

(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 2021	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	132	**132**
Consumer loans and credit cards	5	-	-	-	854	**859**
COVID-19 measures	-	-	-	-	-	**-**
Total retail	**5**	**-**	**-**		**986**	**991**
Large companies	-	-	-	-	4,080	**4,080**
Medium companies	-	-	-	-	-	**-**
Small companies	5,558	-	-	310	3,986	**9,854**
COVID-19 measures	-	-	-	-	403	**403**
Total corporate	**5,558**	**-**	**-**	**310**	**8,469**	**14,337**
Total	**5,564**	**-**	**-**	**310**	**9,455**	**15,328**
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)

Cash and balances with Central Bank

	31 December 2021	31 December 2020
Cash on hand	21,415	21,417
Obligatory reserve with the Central Bank	96,873	78,193
Deposits with the Central Bank	326,502	207,341
Less: Allowance for impairment losses	(423)	(286)
Total	**444,366**	**306,665**

	31 December 2021	31 December 2020
Placements with Banks	33,495	14,333
Less: Allowance for impairment losses	(67)	(30)
Total	**33,562**	**14,303**

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	-	14,333	-	-	-	14,333
Assets derecognized or repaid	-	19,162	-	-	-	19,162
At 31 December 2021	-	**33,495**		-	-	**33,495**

	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**

(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 2021	-	30	-	-	-	**30**
New assets originated or purchased	-	37	-	-	-	**37**
At 31 December 2021	**-**	**67**	**-**	**-**	**-**	**67**

	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**

(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 2020	-	**99,027**	**-**	**12,071**	**1,846**	**112,944**
New assets originated or purchased	-	69,591	-	1,552	404	71,547
Assets derecognized or repaid (excluding write offs)	-	(63,449)	-	(3,605)	(236)	(67,290)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	(4,080)	4,080	-
Change of category under Law	-	(11,960)	-	(4,208)	(1,611)	(17,779)
Write-off	-	-	-	-	-	-
At 31 December 2021	-	**93,209**	**-**	**1,730**	**4,483**	**99,422**

	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**

(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 2020	**-**	**986**	**-**	**684**	**1,711**	**3,381**
New assets originated or purchased	-	339	-	78	104	521
Assets derecognized or repaid (excluding write offs)	-	(739)	-	(154)	(211)	(1,104)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	(205)	205	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	842	842
Change of category under Law	-	(130)	-	(316)	(1,501)	(1,947)
Unwinding of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
At 31 December 2021	**-**	**456**	**-**	**87**	**1,150**	**1,693**

(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– 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 2020	**-**	**25,584**	**-**	**10,223**	**8,112**	**43,919**
New assets originated or purchased	-	36,087	-	4,746	316	41,149
Assets derecognized or repaid	-	(11,827)	-	(4,781)	(287)	(16,895)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(6,820)	-	6,820	-	-
Transfers to Stage 3	-	-	-	(339)	339	-
Change of category under Law	-	11,960	-	4,208	1,610	17,778
Write-off	-	-	-	-	(236)	(236)
At 31 December 2021	**-**	**54,983**	**-**	**20,877**	**9,854**	**85,715**

	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**

(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 2020	**-**	**348**	**-**	**958**	**2,665**	**3,971**
New assets originated or purchased	-	332	-	347	161	840
Assets derecognized or repaid (excluding write offs)	-	(257)	-	(694)	88	(863)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(79)	-	79	-	-
Transfers to Stage 3	-	-	-	(19)	19	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	343	121	464
Change of category under Law	-	129	-	316	1,500	1,945
Unwind of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	(236)	(236)
At 31 December 2021	**-**	**473**	**-**	**1,330**	**4,318**	**6,121**

(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– 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 2020	**-**	**53,596**	**-**	**255**	**924**	**54,774**
New assets originated or purchased	-	24,315	-	24	-	24,339
Assets derecognized or repaid (excluding write offs)	-	(14,565)	-	(52)	(115)	(14,732)
Transfers to Stage 1	-	91	-	(91)	-	-
Transfers to Stage 2	-	(98)	-	98	-	-
Transfers to Stage 3	-	(50)	-	-	50	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2021	**-**	**63,289**	**-**	**234**	**859**	**64,382**

(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– Consumer loans (continued)

	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
ECL on 31 December 2020	-	**474**	**-**	**21**	**903**	**1,398**
New assets originated or purchased	-	123	-	1	-	124
Assets derecognized or repaid (excluding write offs)	-	(233)	-	(15)	(95)	(343)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(5)	-	5	-	-
Transfers to Stage 3	-	(38)	-	-	38	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2021	**-**	**321**	**-**	**12**	**846**	**1,179**

(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 – 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 2020	**-**	**99,067**	**-**	**34**	**60**	**99,161**
New assets originated or purchased	-	-	-	-	-	-
Assets derecognized or repaid (excluding write offs)	-	22,286	-	-	1	22,286
Transfers to Stage 1	-	(8,811)	-	(1)	-	(8,812)
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(265)	-	265	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	(71)	-	-	71	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2021	**-**	**112,206**	**-**	**298**	**132**	**112,636**

(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 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
ECL on 31 December 2020	**-**	**604**	**-**	**4**	**36**	**644**
New assets originated or purchased	-	112	-	-	-	112
Assets derecognized or repaid (excluding write offs)	-	(87)	-	(2)	-	(89)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(13)	-	13	-	-
Transfers to Stage 3	-	(54)	-	-	54	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2021	**-**	**562**	**-**	**15**	**90**	**667**

(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)

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 2020	**-**	**14,745**	**-**	**5,715**	**15**	**20,475**
New assets originated or purchased	-	5,675	-	4,013	-	9,688
Assets derecognized or repaid (excluding write offs)	-	(6,318)	-	(1,726)	(15)	(8,059)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2021	**-**	**14,102**	**-**	**8,002**	**-**	**22,104**

	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**

(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 2020	**-**	**65**	**-**	**265**	**2**	**332**
New assets originated or purchased	-	28	-	201	-	229
Assets derecognized or repaid (excluding write offs)	-	(30)	-	(86)	(2)	(118)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2021	**-**	**63**	**-**	**379**	**-**	**443**

	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**

(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 2020	**-**	**24,257**	**-**	**840**	**1**	**25,098**
New assets originated or purchased	-	19,759	-	284	-	20,043
Assets derecognized or repaid	-	(21,135)	-	(837)	(1)	(21,973)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(1)	-	1	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2020	-	**22,880**	-	**288**	**-**	**23,168**

	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**

(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 2020	**-**	**101**	**-**	**42**	**-**	**143**
New assets originated or purchased	-	65	-	14	-	79
Assets derecognized or repaid	-	(85)	-	(42)	-	(127)
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 2021	**-**	**81**	**-**	**14**	**-**	**95**

	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**

(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 2021

DESCRIPTION 1. Loans for corporate entities	Gross carrying amount	Impairment allowance	Net exposure
Production	76,524	2,587	73,937
Commerce	51,388	1,337	50,051
Construction	22,483	1,929	20,554
Real estate, renting and business services	12,668	1,441	11,227
Financial services	2,418	12	2,406
Public administration and defense, compulsory social security	6,006	30	5,976
Catering	3,170	154	3,016
Transport, storage and communication	6,354	301	6,053
Agriculture	-	-	-
Other	4,126	23	4,103
TOTAL 1.	**185,137**	**7,814**	**177,323**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	64,382	1,178	63,204
Housing loans	112,636	668	111,969
TOTAL 2.	**177,018**	**1,846**	**175,172**
TOTAL (1.+ 2.)	**362,155**	**9,660**	**352,495**

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**

(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 2021	31 December 2020
Bonds:			
Ministry of Finance of FBiH	18	197,658	230,595
Interest receivables:			
Ministry of Finance of FBiH	18	366	440
		231,034	**231,035**

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 2021	31 December 2020
Liabilities to customers:			
Ministry of Finance of FBiH	24	365,000	412,068
Interest payables:			
Ministry of Finance of FBiH	24	-	-
Subordinated debt:			
Ministry of Finance of FBiH	25	30,000	40,000
		395,000	**452,068**

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 2021							
Non-interest bearing	-	47,969	-	-	483	-	48,452
Fixed interest rate instruments	2.27%	638,923	14,483	84,969	150,418	121,171	1,009,964
		686,892	**14,483**	**84,969**	**150,901**	**121,171**	**1,058,416**
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**

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 2021							
Non-interest bearing	-	640,790	308	937	2,322	4,180	648,537
Fixed interest rate instruments	0.47%	143,535	13,793	58,571	56,848	37,462	310,209
		784,325	**14,101**	**59,508**	**59,170**	**41,642**	**958,746**
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**

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		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2021	**31 December 2020**		
1) Financial assets at fair value through profit or loss (see Note 17)	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 196 thousand	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 264 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 33 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 197,658 thousand • Sarajevo Canton – BAM 191 thousand	Debt securities not quoted in Bosnia and Herzegovina: • Ministry of finance of the FBiH - BAM 230,595 thousand • Sarajevo Canton – BAM 189 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 23 thousand	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 22 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 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers	352,495	351,352	301,405	299,299
Other receivables	1,340	1,340	1,228	1,228
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	919,497	919,468	770,524	767,786

	Fair value hierarchy as at 31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans to customers	-	351,352	-	351,352
Other receivables	-	1,340	-	1,340
	-	**352,692**	**-**	**352,692**
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	-	919,468	-	919,468
	-	**919,468**	**-**	**919,468**

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

Following the outbreak of the conflict in Ukraine during February 2022 as well as sanctions imposed to Russian Federation, the Bank has assessed its position. As the conflict and sanctions continue to evolve, it is challenging to predict the full extent and duration of its business and economic implications. Based on current expectations, Management believes it is not probable that the situation will have significant negative impact on the Bank's liquidity and its capital adequacy or ability of the Bank to continue as a going concern in the foreseeable future.

Other than the above, there were no events after the balance sheet date that would require adjustments or disclosures in the financial statements or notes to the financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 28 February 2022:

Vedran Hadžiahmetović	UNION BANKA DD SARAJEVO SARAJEVO BR. 3-O	Edin Mujagić
President of the Management Board		Member of the Management Board for Risks

ANNUAL BUSINESS REPORT
For the period of 01 January – 31 December 2021

Sarajevo, February 2022

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

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1. INTRODUCTION

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina („Official Gazette of Federation of Bosnia and Herzegovina" No. 15/21):

- Article 42 - legal entities are obliged to prepare reports that give an objective view of the legal entity's operations and its position, including a description of the main risks and uncertainties faced by the legal entity.

- Article 44 (2) and 46 - The bank is obliged to submit the business report, together with the financial statements (auditor's report), to the Financial Information Agency (FIA) for public disclosure.

- Article 68 (h) – the external auditor should give an opinion on the compliance of business report with the financial statements for the same business year.

Annual business report shown on pages 3 – 26 is approved by the Management Board on 28 February 2022, and is signed on behalf of the Bank by:

UNION BANKA DD SARAJEVO
SARAJEVO

Vedran Hadžiahmetović President of the Management Board	Edin Mujagić Member of the Management Board for Risks	Nermin Sijerčić Head of Accounting and Controlling department

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

2. MANAGEMENT'S STATEMENT

Dear clients, business partners and valued shareholders!

Union Banka d.d. Sarajevo in 2021 continued to grow strongly in all important business segments, and what we are proud to point out is that we have entered the company of banks with assets of more than BAM 1 billion.

At the end of the year, the balance of the loan portfolio amounted to BAM 362 million, which again represents a double-digit growth of this indicator compared to the previous year, while interest-bearing assets amount to BAM 560 million.

As in the previous year, business in 2021 was marked by the Covid-19 virus pandemic and the focus of our work was on maintaining business continuity but also providing timely and adequate assistance to our existing and new clients to overcome the negative trends caused by the pandemic. In this regard, we emphasize that Union Banka has used the entire fund intended for our bank under the credit-guarantee programs of the FBiH Guarantee Fund, and that we have placed funds from this fund on the market in the total amount of BAM 50 million. Analyzing the percentage of utilization as well as the absolute amount of invested funds from this fund, Union Banka is a leader in the FBiH market, which once again showed our social responsibility and confirmed the partnership we are building with our clients.

Traditionally, this year we implemented our action of housing loans for young people, with a fixed and extremely favorable interest rate, and we successfully implemented two actions of consumer loans for households, which managed to keep the loan portfolio in the retail segment at approximately 50% share in the total loan portfolio of Bank.

Good results in the retail segment were also contributed by finalized projects on new mobile and electronic banking applications - mUNION and eUNION, which were recognized by our clients and highly positively evaluated, as well as the implementation of the "Scoring" model when analyzing clients' creditworthiness, by significantly speeding up the lending process.

During 2021, the process of recapitalization of the Bank by the Government of FBiH in the amount of BAM 25 million was completed, which further strengthened our already strong stability and created conditions for even stronger growth in the coming period.

We believe that we will have the full support of the FBiH Government as the majority owner, as we have had so far, and that we will successfully respond to all the challenges ahead, both through the efforts of each individual and through teamwork.

In the following pages, the Management Board of Union banka d.d. Sarajevo is pleased to present the Annual Report for 2021, which includes a financial review of operations, audited financial statements and an independent auditor's report.

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

3. SIGNIFICANT EVENTS OCCURRED IN THE PERIOD FROM THE END OF THE BUSINESS YEAR TO THE DATE OF SUBMISSION OF THE FINANCIAL STATEMENT

The Bank did not have any significant events occurring in the period from the end of the business year to the date of submission of the financial statements.

4. DEVELOPMENT PLAN OF UNION BANKA DD SARAJEVO

Summary of the development plan of Union banka d.d. Sarajevo is based on the Business Policy and Strategy 2021-2023 approved by the Bank's Supervisory Board.

Mission

Union Banka's mission is to build a development-oriented commercial bank with a wide range of quality banking services that meet the real needs and capabilities of our clients. Based on the principles of our corporate values, the bank's activities should contribute to the economic development and stability of the financial sector of Bosnia and Herzegovina. Taking responsibility and role in the market as the only commercial bank with majority state capital, achieving sustainable growth and long-term care for the community in which we operate is our commitment. We attach an important role in the realization of the mission to the employees, because we believe that the quality and strategic advantage of each institution depends on the professionalism, expertise and investment in training and development of employees.
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Corporate values

Union Banka's corporate values represent the organizational culture, way of doing business and working in the Bank. We define key values as principles that have a positive effect on employee performance and contribute to the Bank's visibility as a reliable and responsible partner to clients and the wider community. By constantly emphasizing key values, we strive to unite the interests of the Bank and employees and thus encourage engagement, motivation, common spirit and quality of work of employees.
These five values represent the core of our corporate culture and are actively applied in everyday business. These values are reflected in the Bank's Code of Conduct through practical guidelines for all employees.

Retail Segment

The Bank will offer common products and services for the needs of target groups within the market segment of the population.
By creating a product offer, the Bank will increase the share of income from non-credit products.
The Bank will strive to provide funds for long-term dedicated lending with specific objectives of creditors as follows:
- Loans for young people for solving the housing matter,
- Purpose loans for renovation and energy efficiency,
- Loans with other purposes that do not have the character of mass consumption, ie, contribute to long-term well-being and development,
- Other forms of lending in order to develop a stable portfolio, reduce the effects of concentration of exposures in other segments of lending and ensure long-term stable income.

Corporate Segment

The Bank will strive to establish contacts and cooperation with clients who have a leading position or make a significant contribution to the development of the economy. Through product supply criteria, the share of revenue from non-credit products will increase.
Product prices will be formed on the basis of market conditions, creditor requirements as well as the overall effects on all forms of cooperation between the bank and the client. Sales activities will be aligned with available funding sources.
The Bank has the following sales and financing priorities, which are in the function of economic work, especially taking into account the effects caused by the COVID-19 virus pandemic:
- credit products that encourage the development of entrepreneurship,
- products that contribute to maintaining the same or increasing the number of employees of the legal entity,
- products intended to strengthen the segment of small and medium enterprises,
- products that promote energy, environmental and other forms of efficiency and savings in business,

- support to production, export companies and tourism development, projects and investments with mandatory definition of criteria for reducing the risk of project financing,
- trade that supports domestic production,
- products that have other financing purposes.

The Bank will use the possibilities of continuing and expanding cooperation with various levels of government that have credit-guarantee funds.

Public sector and state

The Bank will continue its activities on profiling and strengthening the role of the "service bank" for all levels of government and public institutions.
Cooperation with public companies, institutions, different levels of government, will be carried out in order to strengthen the Bank's position and through connecting different segments of the economy and the public sector. Providing support to the public sector and active participation in the optimization of financing models will have a favorable effect on the liquidity and development potentials of the economy and the FBiH.

Financial sector

Cooperation with other financial institutions will be carried out in order to effectively manage available funds and liquidity. The primary criterion for cooperation with financial institutions is dispersion and risk limitation.

5. RESEARCH AND DEVELOPMENT

Bank did not have activities in relation to research and development.

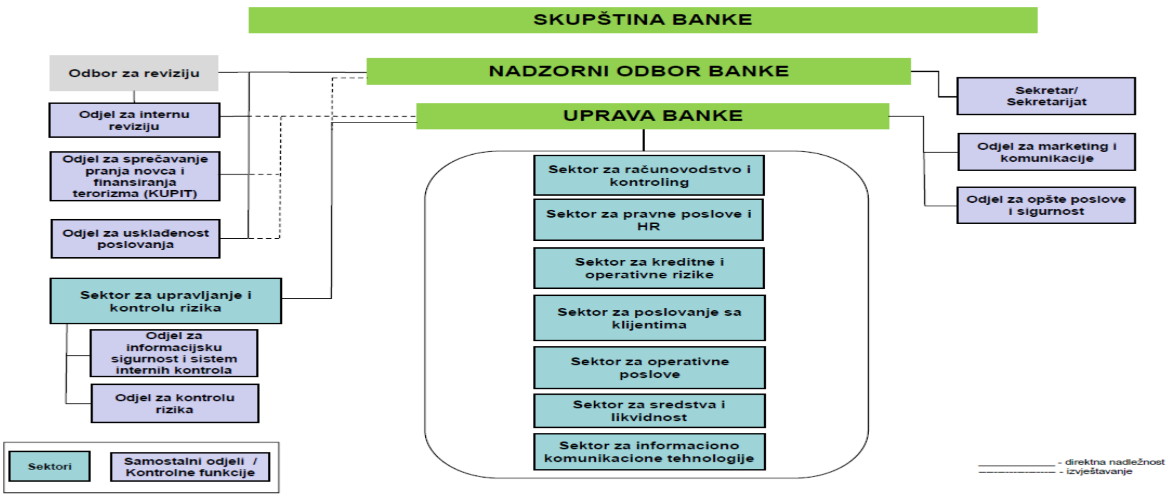
6. REPURCHASE OF OWN SHARES, STOCK AND CHANGES IN EQUITY

During 2021, the bank was recapitalized in the amount of BAM 25 million through a closed bid by the FBiH Government.

During 2021, the Bank did not repurchase its own shares.

7. INFORMATION ON BUSINESS SEGMENTS OF LEGAL ENTITY'S

The Bank's operations are organized into 8 Sectors and 4 Independent Departments as shown below:



The Credit and Operational Risks Department is an organizational unit in charge of establishing credit and operational risk management processes at all levels of the Bank's organization through the implementation of specific activities and development of awareness of banking's business risks, monitoring, simulating effects, measuring the effects of materialization and proposing and implementing measures to avoid and reduce effects.

The Department for Operational Affairs is the organizational unit in charge of performing internal payment operations, international payment operations and account administration and joint operations.

The Client Business Department is an organizational unit that is responsible for the sale of all Bank products intended for the target market, implements specific sales and other activities in accordance with the Bank's internal acts and standards, monitors known (potential) risks, competition and markets in terms of product development. and process optimization with the aim of maximizing the achieved results and market position, but also minimizing the negative effects.

The Accounting and Controlling Department is an organizational unit that supports the Bank's operations by organizing accounting and controlling in accordance with the FBiH Law on Accounting and Auditing, the Law on Banks, IAS and IFRS, supports financial planning, analysis, business control and profitability. optimization of sources of key business and financial information for management and reporting purposes, is responsible for the proper application of the law on direct and indirect taxes on business events.

The Legal Affairs and HR Department is an organizational unit that supports the Bank's operations by achieving compliance with laws, bylaws and other external requirements, establishing, harmonizing and improving the standards of all legal affairs at the Bank level, operational implementation of legal representation and support for processes. includes legal affairs, performs Human Resources Management Affairs and is in charge of performing credit administration and execution tasks on clients' accounts.

The Department for Information and Communication Technologies is an organizational unit that performs tasks related to improving system support, organizes their application, installation and maintenance of all information systems, physical maintenance of computer and network equipment, implementation and maintenance of equipment needed for transaction network (SWIFT, CBBH, etc.).), management of IT projects and changes in the information system, planning, design, development, testing and implementation of internally developed applications, direct or indirect support to end customers of the bank in relation to banking services (ebanking, card business, formatted data for automatic import / export) and monitoring the stability of databases and their advanced maintenance (replication, reindexing, fragmentation, backup, etc.).

The Department for Assets and Liquidity is an organizational unit that performs activities related to liquidity, asset and liability management of the Bank, is in charge of managing the Bank's sources of funds, managing foreign exchange position and determining the Bank's exchange rate list. He is also in charge of Correspondent Banking and Securities Investments.

The Risk Management and Control Department is an organizational unit in charge of defining, establishing, maintaining and assessing the adequacy of controls within business processes under the responsibility of the organizational part, as an integral part of the Bank's internal control system, as well as reporting all potential and materialized risks and their effects in the manner prescribed by the Bank 's internal acts.

8. FINANCIAL INSTRUMENTS WHICH BANK USES

The Bank actively participates in the financial market of the Federation of Bosnia and Herzegovina in the purchase of securities issued by the Federal Ministry of Finance of BiH and the Sarajevo Canton.

During 2021, the Bank has purchased:

- Bonds from the Ministry of Finance of FBiH with nominal value of BAM 7,500 thousand; annual interest rate from 0.75% to 0.85%, and maturity date as at 30 June 2027;
- Treasury notes from the Ministry of Finance of FBiH with nominal value of BAM 3,000 thousand; annual interest rate of 0.00%, and maturity date as at 23 June 2022.

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.
The accompanying financial statements have been prepared under the historical cost principle, except for assets at fair value through profit or loss and assets at fair value through other comprehensive income. The net positive effect of changes in the fair value of financial assets was recorded on revaluation reserves in equity in the amount of (BAM 6,724 thousand).

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.

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.

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).

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.

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.
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.

9. LEGAL ENTITY'S OBJECTIVES AND POLICIES REGARDING FINANCIAL MANAGEMENT

The Supervisory Board adopts the Risk Acceptance and Management Strategy, individual risk policies, the Bank's Internal Capital and Liquidity Adequacy Methodology (ICAAP and ILAAP Methodology), the Stress Resilience Testing Program, and ensures that they are subject to independent review by internal audit.

The Management Board is responsible for:

• establishing clear and consistent lines of authority and responsibility for risk assumption and management, including the division of powers and responsibilities between the Supervisory Board, the Management Board and other employees involved in the risk management process, on the other hand.

• In accordance with the principle of proportionality, the Decision on Risk Management in the Bank, and taking into account the fact that the Bank is not systemically significant in the financial sector, the Supervisory Board retained the powers of the Risk Committee.

• establishing adequate communication, exchange of information and cooperation at all organizational levels of the Bank in order to implement the Strategy, policies, procedures and other internal acts for risk management, ensuring an adequate number of employees with expertise in the risk management system, valuation of assets. for identifying and measuring, ie assessing the risks to which the Bank is exposed, stress testing.

• All organizational parts of the Bank have continuous communication with the Bank's Management Board in order to achieve risk management and control in proportion to the size of the Bank.

• Identifying key employees in the risk management process and providing appropriate replacements for those employees, as appropriate. During the initial adjustment, the Bank determined the holders of key functions who have knowledge adequate for the entire risk management process.

• Periodic review, ie, if necessary, harmonization of the Strategy, policies, procedures and other internal acts for risk management. The Bank's Management Board is continuously provided with reports on the positions of the financial statements and information on key risk parameters, which is used in the further process as an input for the harmonization of internal acts for risk management.

• maintaining the effectiveness of internal controls built into the risk management system, including ensuring the security of information systems,

• Establishing appropriate procedures to assess the impact of the introduction of new products, services or systems on the Bank's risk exposure. This is done in a way that the introduction of new products is in accordance with the provisions of the internal act Procedure for the implementation of new and modification of existing products.

• adequate and timely taking of measures in the risk management process, in accordance with the Strategy,

• providing adequate resources for the implementation of the ICAAP procedure, ensuring the documentation of the procedure in the ICAAP. In the previous year, the Bank partially improved the ICAAP process. The

Management Board was presented with the Report and key shortcomings and weaknesses in the process itself. The Bank's Management Board adopts the proposal of the Report, providing guidelines for further improvement of the planning procedure and implementation of the procedure.

• The Bank's Management Board adopted the proposal of the new Rulebook on the internal organization and systematization of Union Bank d.d. Sarajevo, based on which the provision of the Decision on the internal process of capital adequacy assessment in the bank is fulfilled that the Bank's Management Board is obliged to prescribe duties and responsibilities assigned to certain functions and organizational parts of the bank in a way to ensure clear division of duties and responsibilities with the same.

Control functions through the established system of regular reporting provide the necessary information to the Bank's management bodies on identified weaknesses with recommendations and proposals for improving business processes, activities and areas of risk management. In accordance with the Law, control functions attend the meetings of the Audit Committee and the Supervisory Board at least once during the reporting period.

If necessary, the control functions also attend the sessions of the Bank's Management Board, thus ensuring continuous information of the Management Board on the results of performed controls and audits of the analyzed business processes, activities and risk areas.

Relevant organizational units and management bodies of the Bank are actively involved in the risk management and control process as follows:

• The Department for Planning, Financial Controlling and Reporting submits a report on changes on the balance sheet and income statement items on a daily basis, and deviations from planned values are analyzed on a monthly basis, which is the basis for control indicators on changes in risk level.

• The Department for Liquidity, Asset and Liability Management reports to the Management Board on a daily basis on changes in liquidity level (including information on concentration indicators), foreign exchange risk position, and in case of significant unplanned outflows on the effect on liquidity position parameters. The Bank's Management Board is involved in the work of the ALCO Board,

• The Risk Control Department submits to the Management Board on a monthly basis:

• review of the ratio and changes in the level of the loan-guarantee portfolio, ie credit risk,

• report on credit concentrations,

• interest rate risk report,

• Stress tests of liquidity position for the ALCO Board, in accordance with the Stress Test Program.

• The Risk Control Department submits the indicators of the Recovery Plan to the Bank's Management and organizational units involved in risk management on a weekly basis,

• At the quarterly level, all control functions present to the Management Board a report on the performed risk controls, which are submitted in the further procedure to the Audit Committee and the Supervisory Board for approval and approval.

• The Management Board and the Supervisory Board of the Bank assess the adequacy of the performed stress tests and the procedure of ICAAP and ILAAP at the meetings, and if necessary provide guidelines for changes and optimization of the process.

As part of individual audits, in order to assess the effectiveness of the established system of internal controls, as well as assess the management of all types of risks, and verify compliance with internal regulations and legal regulations related to the Bank's operations, Internal Audit audits.

In accordance with the Internal Audit’s Methodology with risk analysis and risk matrix development, individual reports with findings, conclusions and proposals are submitted to the Bank's Management Board for information, and individual findings and proposals are discussed at the Bank's Management Board meetings, as well as measures for their implementation and elimination.

Supervisory staff attends seminars and trainings on current topics, including the area of risk management, and changes in banking regulations and standards. Internal audit also compiles the annual training plan, striving to maintain and improve the level of knowledge from various segments of banking operations, and within the work report monitors and reports on its implementation to the Bank's Management Board, Audit Committee and Supervisory Board.

In accordance with organizational changes and the requirements of the new regulations, the Bank has established internal risk reporting processes, where the formal requirements of the regulations are met.

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

10. THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY

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 2021	31 December 2020
Debt	950,127	810,524
Equity	95,412	63,642
Debt to capital ratio %	**9.96**	**12.74**

Debt is defined as liabilities to banks and financial institutions, to customers, and subordinated debt as presented in detail in Note 23, 24 and 25. 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 86.3 million (2021: 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 37.5 million (2021: 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 2021, and 31 December 2020, the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2021, the adequacy of the Bank's capital amounts to 38.44% (31 December 2020: 31.07%).

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

	31 December 2021	31 December 2020
Core capital – Tier 1 capital		
Ordinary shares	69,098	44,098
Retained earnings	17,736	17,305
Less: Intangible assets	(568)	(578)
Total Core Capital	**86,266**	**60,825**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	-	-
Subordinated debt	30,000	20,944
Revaluation reserves	7,549	2,008
Total Supplementary Capital	**37,549**	**22,952**
Decreases of capital		
Missing regulatory reserves	-	-
Net capital	**123,815**	**83,777**
Risk-weighted assets	307,747	256,115
Weighted operating risk (unaudited)	14,311	13,545
Total weighted risks	**322,058**	**269,660**
Capital adequacy (%)	**38.44%**	**31.07%**

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

b) Financial risk management

The Bank's Department for liquidity and assets / liabilities management 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 2021					
ASSETS					
Cash and cash equivalents	335,210	33,660	1,342	2,821	**373,033**
Obligatory reserves with the CBBH	96,776	-	-	-	**96,776**
Due from banks	-	7,815	-	-	**7,815**
Loans and advances to clients, net	186,923	165,572	-	-	**352,495**
Financial assets at fair value through profit or loss	196	-	-	-	**196**
Financial assets at fair value through other comprehensive income	198,508	190	-	-	**198,698**
Other receivables	927	238	171	4	**1,340**
Total	**818,540**	**207,475**	**1,513**	**2,825**	**1,030,353**
LIABILITIES					
Liabilities to other banks and other financial institutions	1,166	35	-	-	**1,201**
Liabilities to customers	707,599	206,867	1,470	2,360	**918,296**
Subordinated debt	-	30,000	-	-	**30,000**
Total	**708,765**	**236,902**	**1,470**	**2,360**	**949,497**
NET FOREIGN POSITION	**109,775**	**(29,427)**	**43**	**465**	**80,856**

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

	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**

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	
	2021	**2020**
Profit / (loss)	4	1

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 d).

c) Credit risk management

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:

- Exposures to large companies,
- exposures to small and medium-sized enterprises (SMEs),
- Guarantees and letters of credit, and
- Binding frame loans.

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 (as od 31 December 2021, exposure increased to BAM 100,000.00)
- 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 not possible.

	Exposure	Recovery period		
		Stage 2	Stage 1	Total
Allocation of exposures to lower stage	Unmodified exposures in Stage 2		3	**3**
	Unmodified exposures in Stage 3	6	3	**9**
	Modified exposures which were in Stage 2 in moment of modification		6	**6**
	Modified exposures which were in Stage 3 in moment of modification (including POCI)	12	24	**36**

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).

In December 2021, testing and validation of risk parameters was performed. 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 fulfilment 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.

Recognizing the significant share of housing loans in the portfolio of individuals, the effects of separating consumer loans from housing loans were presented through a test and validation report. Taking into account the significant technical changes required by the change in customer segmentation, it is proposed that the changes be made when full system support for the calculation is provided.

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.

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.

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. Since the effects of the pandemic continued during 2021, Banking Agency of the FB&H issued an amendment to the relevant decisions with the aim of providing additional support to entrepreneurs in order to overcome the negative consequences that the Bank has consistently implemented in its work.

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.

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

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.

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.

The aforementioned activities resulted in the fact that the bank recovered a large number of clients and provided them with an easier and safer way of repaying approved exposures. As of 31 December 2021, the total balance of the portfolio under measures amounts to BAM 6,003 thousand and makes 1.64% of the total loan portfolio of the bank (BAM 5,928 thousand refers to placements approved to legal entities, and BAM 74 thousand to placements approved to individuals).

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.

	31.12.2021			**31.12.2020**		
	Gross	**Impairment allowance**	**Net**	**Gross**	**Impairment allowance**	**Net**
I. Assets	**1,040,594**	**(12,213)**	**1,028,381**	**865,395**	**(12,136)**	**855,576**
Cash and accounts at banks	373,420	(387)	373,033	239,179	(233)	238,946
Due from banks	7,823	(8)	7,815	3,912	(4)	3,908
Obligatory reserve with the Central Bank of BiH	96,873	(97)	96,776	78,193	(78)	78,115
Financial assets at fair value through profit or loss	196	-	196	265	-	265
Financial assets at fair value through OCI	198,698	(1,972)	196,726	231,709	(2,317)	231,709
Loans to customers and receivables	362,155	(9,660)	352,495	310,799	(9,394)	301,405
Other assets and receivables	1,429	(89)	1,340	1,338	(110)	1,228
II. Off-balance sheet	**45,270**	**(538)**	**44,732**	**45,574**	**(475)**	**45,097**
Payable guarantees	10,337	(235)	10,102	5,847	(57)	5,789
Performance guarantees	11,765	(207)	11,558	14,629	(274)	14,354
Approved unused financing lines	23,168	(96)	23,072	25,098	(144)	24,954
Total (I+II)	**1,085,864**	**(12,751)**	**1,073,113**	**910,969**	**(12,611)**	**900,673**

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

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 2021							
Non-interest bearing	-	47,969	-	-	483	-	48,452
Fixed interest rate instruments	2.27%	638,923	14,483	84,969	150,418	121,171	1,009,964
		686,892	**14,483**	**84,969**	**150,901**	**121,171**	**1,058,416**
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**

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.

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 2021							
Non-interest bearing	-	640,790	308	937	2,322	4,180	648,537
Fixed interest rate instruments	0.47%	143,535	13,793	58,571	56,848	37,462	310,209
		784,325	**14,101**	**59,508**	**59,170**	**41,642**	**958,746**
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**

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.

11. OVERVIEW OF CORPORATE GOVERNANCE RULES

Union Banka d.d. Sarajevo declares that it applies the Corporate Governance Policy adopted by the Supervisory Board, which combines the principles of corporate practice and organizational culture within the regulatory framework established by the FBiH Banking Law, FBiH Banking Law, FBiH Banking Agency laws and all other regulations. are appropriately applied to the Bank's operations.

Significant shareholders and restrictions on share rights

The Government of FBiH - through the Ministry of Finance is the most important individual shareholder of the Bank with 95.77% of the Bank's shares.

The Bank's shareholders exercise their rights at the Bank's General Meeting. The General Meeting of the Bank decides on issues determined by the Bank's Articles of Association.

The General Meeting of the Bank is convened by the Supervisory Board, except in cases when otherwise prescribed by law. A request to convene the General Meeting may also be submitted by: a shareholder or a group of shareholders with more than 10% of the total number of voting shares, a member of the Supervisory Board and a member of the Audit Committee.

Supervisory Board

The Supervisory Board consists of five members appointed and dismissed by the Bank's Assembly. The Bank's Supervisory Board must have at least two independent members, in accordance with the Law on Banks and the regulations of the FBiH Banking Agency. Members of the Supervisory Board are appointed for a period of four years with the possibility of re-election. The powers of the Supervisory Board are regulated by the Bank's Articles of Association.

In the period from 01.01.2021. to 31.12.2021. The Bank's Supervisory Board consisted of five members, as follows:

- Maja Letica, President of the Supervisory Board
- Advija Alihodžić, member
- Haris Jahić, member
- Aida Hadžigrahić, member
- Dražena Pavlović- Tunjić, member

Members of the Bank's Supervisory Board were appointed at the Bank's General Meeting held on May 20, 2019. years for a period of 4 years.

Members of the Supervisory Board do not own shares in the Bank.

In 2021, 10 regular meetings of the Supervisory Board were held to discuss issues related to the Bank's operations.

Professional support to the work of the Supervisory Board can be provided by specialized committees.

As an obligatory board, an Audit Committee is appointed.

Audit Committee

The Audit Committee provides expert assistance to the Bank's Supervisory Board in supervising the Bank's operations and the work of the Bank's Management Board.

The Audit Committee has five members who are appointed for a period of four years, with the possibility of appointment for two consecutive terms.

A member of the Audit Committee may not be a member of the Supervisory Board, a member of the Bank's Management Board or a person employed by the Bank, nor may he have a direct or indirect financial interest in the Bank, except for any remuneration.

In the period from 01.01.2021. to 31.12.2021. year, the Audit Committee consisted of five members, as follows:

- Hajrudin Hadžović, Chairman of the Audit Committee
- Lejla Demirović, member
- Nermin Šahinović, member
- Damir Šapina, member
- Marko Čule, member

In 2021, 5 meetings of the Audit Committee were held, at which issues related to the Bank's operations in the domain of the Audit Committee were discussed.

Management Board

The Bank's Management Board organizes its work, conducts business and represents the Bank.

The Bank's Management Board is responsible for the Bank's operations in accordance with the law, bylaws and decisions of the FBiH Banking Agency.

The Management Board of the Bank consists of three members, one of whom is appointed the President of the Management Board. The President and members of the Bank's Management Board are appointed by the Supervisory Board.

The President and members of the Management Board of the Bank are appointed for a period of four years with the possibility of re-election.

The Bank's Management Board manages the Bank independently and at its own risk and has the full powers necessary for its purpose in accordance with the Banking Law, the Articles of Association and other internal acts of the Bank. Decisions of the Bank's Management Board must be independent of external factors and adopted in the interest of the Bank.

In the period from 01.01.2021. to 31.12.2021. The Management Board consisted of three members:

• Vedran Hadžiahmetović, President of the Management Board

• Leon Begić, Member of the Operations Management Board

• Edin Mujagić, member of the Risk Management Board

Members of the Management Board do not own shares in the Bank.

12. CONCLUDING REMARKS

Report is published publicy on website of Union Banka d.d. Sarajevo (https://www.unionbank.ba/).