

PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

Financial statements for the year ended
31 December 2020 prepared in accordance with
International Financial Reporting Standards and
Independent Auditor's Report

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Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of Privredna Banka Sarajevo d.d. Sarajevo (the "Bank") for that period.

After making enquiries, the Management Board expects that the Bank has adequate resources to continue in operational existence for the foreseeable future. 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 are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Accounting and Audit Law 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

Hamid Pršeš

President of the Management Board



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Obala Kulina bana br. 18
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Bosnia and Herzegovina

10 February 2021

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Independent Auditor's Report

To the shareholders of Privredna banka Sarajevo d.d. Sarajevo

Opinion

We have audited the accompanying financial statements of Privredna banka Sarajevo d.d. Sarajevo (the "Bank"), which comprise the balance sheet as at 31 December 2020, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Decision on Credit Risk Management and Determination of Expected Credit Losses, issued by the Banking Agency of the 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' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in 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.

Emphasis of matter

We draw attention to Note 4 to the financial statements "Significant accounting estimates and key sources of estimation uncertainty", which describes the impact of the "COVID-19" corona virus pandemic on the Bank's operations. Our opinion is not modified on this matter.

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.

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Key Audit Matters:

1. Estimate of impairment for loan losses and receivables from customers

For the accounting policies refer to the Note "Impairment of financial assets" in *Section 3, Basis for presentation and summary of significant accounting policies*. For additional information on Key Audit Matters refer to Note Impairment for loan losses and receivables in *Section 4. Critical accounting judgments and key sources of estimation uncertainty*.

As at 31 December 2020, the gross carrying amount of loans to customers amounted to KM 301,151 thousand. The associated provisions for impairment amounted to KM 50,459 thousand.

Credit risk is one of the most important financial risks to which the Bank is exposed in its operations. The establishment of appropriate methods and models for measuring and managing credit risk, by the Management Board, with special emphasis on the effects of the Covid - 19 pandemic on economic conditions, is therefore one of the most important areas in preserving the Bank 's capital. As part of the credit risk management process, the recognition of appropriate impairment provisions for expected credit losses on loans to customers are key considerations for the Bank's Management Board.

In determining the time and amount of impairment for expected credit losses on loans to customers, the Bank's Management uses statistical models and makes estimates in the following areas:

- Use of historical data in the process of determining risk parameters;
- Credit risk assessment of exposure;
- Assessment of credit risk level allocation;
- Success of the "Program of Special Measures" adopted in accordance with the bylaws of the regulator in response to the Covid-19 pandemic, in order to recover from the negative economic consequences caused by the pandemic;
- Assessment of the significance of subsequent changes in credit risk in order to determine a significant increase in credit risk, which leads to changes in risk levels and the necessary measurement of expected credit losses over the life time;
- Expected future cash flows from operating activities;
- Evaluation of collateral and assessment of the realization period.

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

How our audit addressed the Key Audit Matter

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on:

- Models applied in stage allocation;
- Assumptions used by the Management in the expected credit loss measurement models;
- Criteria used for determination of significant increase in credit risk;
- Assumptions applied to calculate lifetime probability of default;
- Methods applied to calculate loss given default;
- Methods applied to calculate loss given default;

How our audit addressed the Key Audit Matter (continued)

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included:

- Assessment of borrower's financial position and performance following latest financial reports and available information;
- Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance;

Reviewing and critically assessing estimated value of collateral and estimated realisation period, discount rates used in the estimation of the expected cash flows from operations and/or collateral, re-performing calculation of expected credit losses by applying our own judgment and assumptions on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Bank.

2. Impact of the Covid - 19 pandemic on the Bank 's operations

The Covid - 19 disease pandemic had negative effects on most economies in the world, and thus on the economy of the Federation of Bosnia and Herzegovina. Legal entities have lost markets, key customers and suppliers, the liquidity of many business activities has been significantly jeopardized, there have been disruptions in supply and demand for certain products and services, and a significant decline in the value of cash-generating assets. Given the above, there is significant uncertainty in terms of the duration of the pandemic, the ultimate effects on economic factors such as interest rates and exchange rate fluctuations, macroeconomic indicators, significantly increased credit risk, availability of funding sources to maintain liquidity, availability of government assistance programs and etc. In response to the above, in order to adequately assess the going concern base of business, the management of legal entities are required to periodically make an analysis and assessment of current circumstances, revenue and budget projections, cash flow projections, introduction of new products and services that enable uninterrupted business (cyber business), changes in the fair values of assets, the availability of an educated workforce and other.

The aforementioned facts influenced our conclusion that the impact of the Covid-19 pandemic on the Bank's operations and on the appropriateness of judgments regarding going concern is a key audit matter during our audit of the Bank's financial statements for the year ended 31 December 2020.

How our audit addressed the Key Audit Matter

Performing substantive testing on the plans and projections of the Bank's Management Board by reviewing:

- consistency and validity of assumptions used in projecting cash flows and business plans,
- reliability of information sources, ie whether the information has been analyzed from the aspect of sensitivity test,
- future forecasts regarding market developments,
- how the Bank's management assesses the collection and recovery of assets,
- long-term solvency and liquidity projections, fulfillment of legal and by-law requirements,
- results of stress tests,
- checking the formal - legal basis of long - term arrangements related to the availability of funding sources.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of the 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 going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process, which was established by the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error that are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of those financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatements 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 material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misinterpretations or the override of internal controls.
- 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 controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of the 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.

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

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

RSM BH d.o.o.


Berna Šljokić, Director and Certified Auditor

Sarajevo, 10 February 2021




Lejla Kaknjo, Partner and Certified Auditor

Income statement
for the year ended 31 December 2020
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2020	2019
Interest income	5	12,180	11,852
Interest expense	6	(3,219)	(3,048)
Net interest income		8,961	8,804
Fee and commission income	7	6,981	7,082
Fee and commission expense	-	(1,458)	(1,317)
Net fee and commission income		5,523	5,765
Other gains	8	551	999
Other operating income	9	823	657
Income from operating activities		15,858	16,225
Personnel expenses	10	(5,914)	(5,580)
Depreciation expenses	22	(1,296)	(1,317)
Other administrative expenses	11	(4,477)	(5,175)
Operating expenses		(11,687)	(12,072)
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		4,171	4,153
Impairment losses and provisions, net	12	(388)	(486)
Collected written-off receivables	-	1,119	412
PROFIT BEFORE TAXATION		4,902	4,079
Income tax	13	-	(481)
Deferred tax expenses		(134)	(142)
PROFIT AFTER TAXATION		4,768	3,456
Earnings per share – basic and diluted (in KM)	14	14,16	10,46

The accompanying notes form an integral part of these financial statement.

Statement of comprehensive income
for the year ended 31 December 2020

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

	Notes	2020	2019
Net profit		4,768	3,456
Other comprehensive profit:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net (losses)/gains from debt investment securities at fair value through other comprehensive income	19	(39)	160
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Net losses from equity investment securities at fair value through other comprehensive income	19	(28)	(49)
TOTAL COMPREHENSIVE INCOME		4,701	3,567

The accompanying notes form an integral part of these financial statement.


Balance sheet
as at 31 December 2020

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


	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	15	212,757	178,089
Obligatory reserve with Central bank B&H	16	46,301	45,403
Placements with other banks	17	20,809	23,472
Loans and receivables at amortized cost	18	249,744	252,589
Debt securities at fair value through other comprehensive income	19	13,165	12,792
Financial assets at amortized cost	20	-	1,894
Other assets and receivables, net	21	1,888	1,346
Tangible and intangible assets	22	29,441	29,545
TOTAL ASSETS		574,105	545,130
LIABILITIES			
Due to financial institutions	23	-	302
Due to the Government of FBiH	24	35,686	35,445
Liabilities for received deposits	25	484,441	444,995
Provisions	26	1,806	2,166
Lease liabilities	27	1,010	580
Other liabilities	28	3,251	3,663
Deferred tax liabilities	-	276	142
Total liabilities		526,470	487,293
EQUITY			
Share capital	29	37,041	37,041
Share premium		4,629	4,629
Regulatory reserves		6,706	6,803
Revaluation reserves – financial assets at fair value through other comprehensive income		131	198
Retained earnings		(872)	9,166
Total equity		47,635	57,837
TOTAL LIABILITIES AND EQUITY		574,105	545,130

The accompanying notes form an integral part of these financial statement.

Signed on behalf of Bank on 10 February 2021


Hamid Pršeš
President of the Management Board




Bedita Jusičić – Musa
Member of the Management Board

Statement of cash flows
for the year ended 31 December 2020

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

	<u>2020</u>	<u>2019</u>
Operating Activities		
Profit before taxation	4,902	4,079
<i>Adjustments:</i>		
Depreciation	1,296	1,317
Impairment losses and provisions, net	388	486
Gains on disposal of property and equipment, net	(412)	(826)
Foreign exchange gains, net	(131)	(166)
Adjustment of income tax liability from previous period	23	-
Interest income recognized in the income statement	(12,180)	(11,852)
Interest expense recognized in the income statement	3,219	3,048
<i>Changes in assets and liabilities:</i>		
Increase in receivables from Central bank BH	(898)	(12,475)
Net decrease/(increase) of placements with other banks	2,642	(3,130)
Net increase in loans to customers, before allowance	(12,922)	(24,790)
Net increase in other assets, before allowance	(583)	(230)
Net increase in due to customers	39,446	58,259
Net (decrease)/increase in other liabilities	(122)	972
Payments from litigation	-	(802)
	<u>24,668</u>	<u>13,890</u>
Interest paid	(3,276)	(3,042)
Interest received	12,234	11,849
Income tax paid	(290)	(191)
NET CASH FROM OPERATING ACTIVITIES	<u>33,336</u>	<u>22,506</u>
Investing activities		
Purchase of tangible and intangible assets	(1,318)	(743)
Increase in financial assets at fair value through other comprehensive income	(401)	(9,445)
Proceeds from sale of property and equipment	1,292	2,000
Proceeds from sale of financial assets at amortized cost	1,948	-
NET CASH GENERATED/(USED) IN INVESTMENT ACTIVITIES	<u>1,521</u>	<u>(8,188)</u>
Financial activities		
Repayment of liabilities to financial institutions, net	(302)	(302)
Increase/(decrease) in liabilities to the Government of FBiH	241	(123)
Lease repayment	(324)	(224)
NET CASH USED IN FINANCIAL ACTIVITIES	<u>(385)</u>	<u>(649)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>34,472</u>	<u>13,669</u>
CASH AND CASH EQUIVALENTS AT THE YEAR START	<u>178,534</u>	<u>164,865</u>
CASH AND CASH EQUIVALENTS AT THE YEAR END	<u>213,006</u>	<u>178,534</u>

The accompanying form an integral part of these financial statement.

Statement of changes in equity
for the year ended 31 December 2020

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

	Share capital	Share premium	Regulatory reserves	Revaluation reserves for properties	Revaluation reserves for financial assets through other comprehensive income	Retained earnings/(losses)	Total
Balance as of 31 December 2019	37.041	4.629	1.476	6.899	87	4.138	54.270
Net profit	-	-	-	-	-	3.456	3.456
Other comprehensive income	-	-	-	-	111	-	111
Total comprehensive income	-	-	-	-	198	3.456	3.567
Transfer from/to	-	-	(1.476)	-	-	1.476	-
Transfer revaluation reserves to retained earnings (IAS 16.41)	-	-	-	(96)	-	96	-
Balance as of 31 December 2019	37.041	4.629	-	6.803	198	9.166	57.837
First-time Adoption of FBA Decision – effects (Notes 15, 17, 18, 20, 21, 26)	-	-	-	-	-	(14.926)	(14.926)
Net profit	-	-	-	-	-	4.768	4.768
Other comprehensive income	-	-	-	-	(67)	-	(67)
Total comprehensive income	-	-	-	-	(67)	(10.158)	(10.225)
Transfer revaluation reserves to retained earnings (IAS 16.41)	-	-	-	(97)	-	97	-
Adjustment of income tax liability from previous period	-	-	-	-	-	23	23
Balance as of 31 December 2020	37.041	4.629	-	6.706	131	(872)	47.635

The accompanying notes form an integral part of these financial statement.

Notes to the financial statements for the year ended 31 December 2020

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

1. GENERAL

Privredna banka Sarajevo d.d. Sarajevo (the "Bank") is registered at the Municipality court in Sarajevo, registration No. UFI/1 2609/95 dated 27 December 1995, under name Banka za obnovu i razvoj Bosne i Hercegovine. Based on the court registration No. UFI/I-3730/00, dated 9 January 2007, the Bank has changed name into BOR banka d.d. Sarajevo.

As at 30 September 2016, BOR banka d.d. Sarajevo acquired Privredna banka Sarajevo d.d. Sarajevo. Municipality Court in Sarajevo issued the Decision no. 065-0-Reg-16-004985, dated 21 December 2016, which registered the status change, and the Decision no. 065-0-Reg-16-004986, dated 21 December 2016, based on which Privredna banka Sarajevo d.d. Sarajevo was deleted from the court registry due to acquisition. Based on the Decision of the Municipality Court in Sarajevo on data change, no. 065-0-Reg-16-005588, dated 24 February 2016, data on change of Bank's name were recorded (from BOR banka d.d. to Privredna banka Sarajevo d.d.).

Principal activities of the Bank are:

1. receiving and placing of deposits;
2. purchase and selling of securities;
3. receiving of term and demand deposits;
4. making and purchasing of loans;
5. buying and selling foreign currencies;
6. cash transactions in interbank market;
7. cash payment and transfer both national and abroad; and
8. debit/credit card operations.

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

The registered address of the Bank is Obala Kulina Bana 18, 71000 Sarajevo. As at 31 December 2020, the Bank had 177 employees (31 December 2019: 166 employees).

Supervisory and Management Board

Supervisory Board

Aziz Šunje	President
Ademir Abdić	Member
Mehmet Siner	Member
Almir Badnjević	Member
Zdravko Rajić	Member

Notes to the financial statements
for the year ended 31 December 2020

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

1. GENERAL (CONTINUED)

Supervisory and Management Board (continued)

Management Board

Hamid Pršeš	President of the Management Board
Bedina Jusičić Musa	Member of the Management Board
Edin Kreštalica	Member of the Management Board
Kemal Džabija	Member of the Management Board

Audit Committee

Muhamed Hubanić	President
Hasan Đozo	Member
Dragan Prusina	Member
Midhat Oković	Member
Rehad Deljo	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretation effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- Amendments to IFRS 3: „Business combination“ – Amendments resulting from Definition of Business (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 7 „Financial Instruments: Disclosures“, IFRS 9 „Financial Instruments“ and IAS 39 „Financial Instruments: Recognition and Measurement“– Changes regarding issues in the context of IBORs reform (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 16 „Leases“: - COVID-19-Related Rent Concessions: Amendment providing lessees with an exemption from assessing whether a COVID19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification (annual periods beginning on or after 1 June 2020)
- Amendments to IAS 1 „Presentation of Financial Statements“ and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors“ – changes regarding to Definition of Material (annual periods beginning on or after 1 January 2020.);
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement“ - Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. (annual periods beginning on or after 1 January 2020).

Notes to the financial statements
for the year ended 31 December 2020

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- IFRS 17: „Insurance contracts“ (annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 1 „First-time Adoption of International Financial Reporting Standards“ - Amendments resulting from annual Improvements to IFRS Standards 2018–2020 (annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 „Business Combinations“ - Reference to the Conceptual Framework (annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 4 „Insurance Contracts“ - Extension of the Temporary Exemption from Applying IFRS 9 defers the fixed expiry date of the following temporary exemptions from applying IFRS 9 to annual periods beginning on or after 1 January 2023 (annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 9 „Financial Instruments“ Annual Improvements to IFRS Standards 2018–2020: The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in assessing whether to derecognise a financial liability (annual periods beginning on or after 1 January 2022);
- IFRS 17 „Insurance contracts“ - IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS (annual periods beginning on or after 1 January 2023);
- IAS 1 „Presentation of Financial Statements“ - Classification of Liabilities as Current or Noncurrent: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current (annual periods beginning on or after 1 January 2022)
- IAS 16 „Property Plant and Equipment“ - Property, Plant and Equipment: Proceeds before Intended Use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss (annual periods beginning on or after 1 January 2022)
- IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ - Onerous Contracts—Cost of Fulfilling a Contract: The amendments specify which costs should be included in an entity’s assessment whether a contract will be loss-making (annual periods beginning on or after 1 January 2022)
- IAS 41 „Agriculture“ - Annual Improvements to IFRS Standards 2018–2020: The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique (annual periods beginning on or after 1 January 2022)

The Bank has selected not to adopt these standards, amendments and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank.

Notes to the financial statements
for the year ended 31 December 2020

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision on credit risk management and determination of expected credit losses

During 2019, Banking Agency of the Federation B&H issued new Decision on credit risk management and determination of expected credit losses, (Official Gazette of Federation BIH no. 44/19 dated 26 June 2019), whose implementation is obligatory for all banks starting from 1 January 2020. Accordingly, banks were obliged to calculate the effects of first-time adoption of this decision on 31 December 2019, and recognize effects as of 1 January 2020 in the capital accounts and report them in Common Equity Tier 1. The effects of first-time adoption represent difference between expected credit losses determined under this Decision's provisions and those determined and accounted for by the bank under its internal methodology, in the case where expected credit losses determined in such manner are lower.

In accordance with abovementioned decision, the banks are required to establish an appropriate process for allocating exposures to credit risk levels which are directly affect on establishment of expected credit losses.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

Financial statements are prepared under the going concern basis which assumes that the Bank will be able to realise the assets and settle the liabilities in the normal course of business.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received for sale or be paid for the transfer of duties in a regular transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other valuation techniques. In estimating the fair value of assets or liabilities, the Bank takes into account the characteristics of the asset or liability which would be taken into account by market participants when determining the price of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use in IAS 36.

In addition to financial reporting, fair value indicators are classified at levels 1, 2 or 3 based on the degree to which the evaluation of the fair value can be seen and of the importance of evaluating the fair value in a whole, as follows:

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets;
- Level 2 inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are not observable inputs for the asset or liability.

Notes to the financial statements
for the year ended 31 December 2020

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

The financial statements are presented in convertible marks (KM), since that is the currency in which the majority of the Bank's business events is expressed. Convertible Mark is officially tied to the euro (EUR 1 = KM 1.95583)

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, income and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are changed, and eventually in future periods, if they have an impact on them.

Information on areas with significant uncertainty in the estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts and disclosures in the financial statements, are disclosed in Note 4.

Accounting policies are adequately adopted and implemented for all periods presented in these financial statements.

Interest income and expense

Interest income / expense is recognized in the income statement for the period that belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts / payments (including all fees on points 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. Interest income is calculated on the gross book value of the financial instrument for Stage 1 and Stage 2, while for Stage 3 the Bank calculates interest on the net amortized amount of the financial instrument.

For the POCI assets, interest income is calculated using the adjusted effective interest rate on the net amortized amount.

Calculation of the effective interest rate includes all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate. Transaction costs include all incremental costs incurred directly in connection with the issuance or acquisition of financial assets or financial liabilities.

Fee and commission income and expense

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Notes to the financial statements
for the year ended 31 December 2020

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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 it 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.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central bank of Bosnia and Herzegovina ("CBBH"), current accounts with other banks and cash at hand.

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

Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments, i.e. when funds are transferred to the customers' accounts, or when funds from balances due to customers are transferred to the Bank.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial assets and financial liabilities are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at amortised cost

Bank measures financial assets at amortised costs using the effective interest method, if both of the following conditions are met:

- a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on management's intentions for an individual instrument. Thus, this condition is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. However, a single entity may have more than one business model for managing its financial instruments.

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Consequently, this assessment is performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model (i.e. those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test. For the purpose of this test, definitions of principal and interest are presented below:

- a) principal is fair value of the financial asset at initial recognition.
- b) interest is consisted of consideration for the time value of money, for credit risk associated with outstanding amount of principal over a certain period of time and other basic risks and borrowing costs, as well as a profit margin.

Debt instruments at fair value through other comprehensive income (FVOCI)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- a) the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- b) contractual terms of a financial asset arise, on a specific date, cash flows that are solely payments of principal and interest on the principal outstanding.

These instruments had previously been classified as financial instruments available for - sale.

Notes to the financial statements
for the year ended 31 December 2020

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

FVOCI debt instruments are subsequently measured at fair value. Gains and losses arising due to changes in fair value of instrument should be presented in other comprehensive income until the financial assets are derecognised or their reclassification in other categories of financial assets.

Interest income are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

Upon initial recognition, the Bank can make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of particular investments in equity instrument that is not held for trading and it is not contingent consideration granted in a business combination within the scope of MSFI 3.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets at fair value through profit or loss (FVPL)

Financial assets should be measured at fair value through profit and loss unless it is measured at amortized cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable election for certain investments in equity instruments, that should be measured at fair value through profit and loss, to reflect fair value adjustments in other comprehensive income.

Impairment of financial assets

Recognition of expected credit losses

The Bank recognizes provisions for the impairment of expected credit losses of financial assets measured at amortized cost and fair value through other comprehensive income, lease receivables, contractual assets or lease obligations and a financial guarantee contract.

The Bank is required to apply impairment requirements for the recognition and measurement of provisions for financial assets measured at fair value through other comprehensive income. However, impairment provisions should be recognized in other comprehensive income and may not reduce the carrying amount of financial assets in the balance sheet.

At each reporting date, the Bank is required to measure impairment provisions for a financial instrument in the amount equal to the duration of expected loan losses if the credit risk for that financial instrument has increased significantly from initial recognition.

Lifetime expected credit losses (LTECL) are credit losses arising from all possible unfulfilled obligations during the expected life of a financial instrument.

12-month expected credit losses (12m ECL) are a portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date

According to the Internal Methodology for loan impairment which is updated in accordance with the requirements of the Decision on credit risk management and determination of expected credit losses, the Bank has defined the minimum criteria for measuring expected credit losses described below:

Notes to the financial statements
for the year ended 31 December 2020

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Recognition of expected credit losses (continued)

In accordance with the schedule of exposures to credit risk levels, the Bank is required to apply the following minimum rates for expected credit losses:

1. Level 1: if the Bank does not have an adequate time series, and/or quantity or quality of historical relevant data and is unable to determine a value of PD parameter using its model in an adequate and documented manner, the Bank cannot determine expected credit losses for other exposures which are allocated to the credit level risk 1 less than 1 % of the exposure.
2. Level 2: For exposure allocated to credit risk level 2, the Bank is required to determine and record expected credit losses in the amount greater than two:
 - a) 5% exposures,
 - b) amount determined in accordance with internal methodology of the Bank
3. Level 3: The minimum rates of expected credit losses allocated to Level 3 depend on the fact that the exposure is secured by acceptable collateral or not, and accordingly the minimum rates are as follows:
 - a) exposures secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 66 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	Over 1460 days	100%

- b) exposures not secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	from 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 465 days	100%

Minimum rates of expected credit losses for trade receivables, factoring and financial leasing receivables, and other receivables, are applied according to the table as follows:

Ordinal number	Day of delay	Minimum expected credit loss
1.	from 0 to 30 days	2%
2.	from 31 to 90 days	10%
3.	from 91 to 180 days	50%
4.	from 181 to 365 days	75%
5.	over 365 days	100%

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Parameters of credit risk

Credit loss for exposures on individual basis is determined as positive differences between gross carrying amount of exposures and the estimated future cash flows (from operating income and/or realization of collateral) during expected useful life of the financial asset item, discounted at the effective interest rate which is valid at the reporting date. The Bank may use a number of different scenarios (from operating income and/or realization of collateral) when assessing certainty of future cash flows with a probability of their realization.

The Bank determine expected credit loss for exposures on group basis in accordance with the following general formula:

$$ECL=PD \times LGD \times EaD$$

Probability of default status (PD parameter)

The Bank determined the value of PD parameter on the basis on defined segments of credit exposures or PD of homogeneous group, which are appropriately (in accordance with its internal methodology) assigned the value of the PD parameter. The PD parameter for homogeneous group is estimated as the ratio of the number of placements at which default status occurred during the observation period (historical data for 3 years) and the total number of placements that were not in default at the beginning of the observed period.

Loss given default (LGD parameter)

Loss given default (LGD parameter) represents the banks internal estimate of the level of expected loss related to exposure in the event of default status. LGD parameter is also calculated at the level of the relevant homogenous group, based on historical data on collections from collateral or other sources after the occurrence of default status for identified homogenous groups for a period of a least recent five years. If the Bank does not have adequate time series, and/or quantity or quality of historical relevant data, and is unable to determine a value of PD parameter using its model in an adequate and documented manner, then the Bank uses fixed values of this parameter based on conservative estimates, which cannot be lower than:

- a. 45% for exposures secured by acceptable collateral,
- b. 75% for exposures not secured by acceptable collateral.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset in the case of transfers of financial assets that meet the definition of derecognition:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset.
- The Bank retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows to one or more recipients.

When the bank transfers the financial assets, it is obliged to assess the extent to which it retains the risks and rewards the asset. In this case:

- if the Bank has transferred substantially all the risks and rewards of the assets, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

Notes to the financial statements
for the year ended 31 December 2020

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition of financial assets (continued)

- if the Bank has retained substantially all the risks and rewards of the assets, it is obliged to continue to recognize the financial assets.

- If the Bank has neither transferred nor retained substantially all the risks and rewards of the assets, it is obliged to determine whether it has retained control over financial assets. In this case:

(i) if the Bank has not retained the control, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

(ii) if the Bank retained the control, it is obliged to continue to recognize the financial assets in the amount of its part in financial assets, net for eventual impairment. Interest income is recognized using the effective interest rate, except for short-term receivables when interest would be immaterial.

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 evidences 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 direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values 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 at above.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL", or "other financial liabilities".

Other financial liabilities

Other financial liabilities, including liabilities to banks, customers and subordinated debt, are initially recognized at fair value less transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the financial statements
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(all amounts are expressed in thousands of KM, unless otherwise stated)

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Derecognition of financial liabilities

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

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments, less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank adjusts the value of the lease liability determined by remeasurement and recognises it as an adjustment to the right-of-use of asset using the effective interest method.

The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee. Asset with the right-of-use is subsequently measure at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment

Property is stated in the balance sheet at its revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such property is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

Notes to the financial statements
for the year ended 31 December 2020

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3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

A decrease in the carrying amount arising on the revaluation of such property is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for properties relating to a previous revaluation of that asset.

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use.

Assets under construction, built for the purpose of providing services or for administrative purposes, are stated at cost less any impairment loss. The cost of procurement includes professional fees, and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such assets are reclassified to appropriate categories of property and equipment after being completed and ready for intended use.

Depreciation is charged from the moment the asset is ready for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets.

Estimated useful lives were as follows:

	2020	2019
Buildings	1,3% - 1,74%	1,3% - 1,74%
Computers	33,3%	33,3%
Vehicles	15%	15%
Furniture and other office equipment	15%	15%

The gain and loss arising on the disposal or retirement of an asset is recognized in the statement of profit and loss in the period they occur.

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 (if any).

Recoverable amount is the greater of the net selling price and value in use. 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. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or building other than investment property carried at a revalued amount, in which case the impairment loss is 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 recognised for the asset in prior years. Reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives using rate of 33%.

Notes to the financial statements
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(all amounts are expressed in thousands of KM, unless otherwise stated)

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels).

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

Foreign currency translation

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

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

31 December 2020	1 EUR = 1,95583 KM	1 USD = 1.592566 KM	1 CHF = 1.801446 KM
31 December 2019	1 EUR = 1,95583 KM	1 USD = 1.747994 KM	1 CHF = 1.799126 KM

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event. it is probable that the Bank will be required to settle the obligation. and a reliable estimate can be made of the amount of 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. it 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 reversed.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition construction or production of qualifying assets. which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. are included in the cost of procurement of assets. until the assets are substantially ready for its intended use or sale.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity and reserves

Share capital

Share capital includes paid ordinary shares and is expressed in KM at nominal value.

Regulatory reserves for credit losses

Revaluation reserve for properties includes the cumulative effects of increase in the carrying amount of properties arising on the revaluation of them.

Revaluation reserve for investments

Revaluation reserve for investments comprises changes in fair value of financial assets through other comprehensive income.

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2020 and 2019 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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.

Impact of the Coronavirus Pandemic (COVID-19)

The Bank's management has made estimates related to consideration of the impact of Coronavirus pandemic (COVID-19) on current and future operation based on available information. This consideration relates to the nature of the products and services offered, customers, the lending and deposit collection process, employees and the geographical regions in which the Bank operates. Except as described in certain notes to the financial statements, there are currently no indicators that there is a material impact on the financial statements or any material uncertainties regarding events or conditions that may adversely affect the Bank at the reporting date or subsequently as a result of the Coronavirus pandemic (COVID-19).

Notes to the financial statements
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(all amounts are expressed in thousands of KM, unless otherwise stated)

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)**

Impact of the Coronavirus Pandemic (COVID-19) (continued)

On March 20, 2020 and August 24, 2020, the Banking Agency of the Federation of Bosnia and Herzegovina adopted bylaws, ie measures enabling the granting of benefits to bank clients affected by the negative effects of the Covid-19 pandemic, as well as creating a framework for preservation stability of the financial sector in the Federation of Bosnia and Herzegovina. The decision on temporary measures applied by banks for recovery from the negative economic consequences caused by the viral disease "COVID-19", adopted on August 24, 2020, provides for the following special measures:

- moratorium, as a cessation in repayment of loan obligations for a maximum of 6 months,
- introduction of a "grace" period of 12 months for repayment of the principal of loan obligations in the case of loans that are repaid in annuity,
- extension of the maturity for repayment of annuity loans,
- extension of the maturity of single-maturity loans, including revolving loans and overdrafts on bank transaction accounts for a maximum period of 12 months, whereby the bank's client could use the part of the exposure that was unused on the day of modification, during that period,
- approving an additional amount of exposure for the purpose of overcoming the client's current liquidity difficulties,
- adjusting the repayment schedule in proportion to the reduction in income or some other relevant parameter determined by the bank and
- other measures taken by the bank in order to facilitate the servicing of the client's loan obligations and the establishment of sustainable business of the client.

Banks are left with the possibility to opt for other forms of customer support, ie other modalities of facilities, with the obligation to carry out all necessary activities in order to adequately manage credit risk. During the contracting of special measures, the bank cannot charge additional fees related to the modification of the exposure, ie during the moratorium no default interest is calculated on overdue receivables. Also, the aforementioned Decision defines the segment of clients for whom special measures are available, level of credit risk 1 and 2, and level of credit risk 3 if the client is in the recovery period in accordance with Article 22, paragraph (3), item b) of the Decision on credit risk management and where there is regular repayment in the last 3 months until the date of application. Clients could submit requests for the application of the aforementioned measures to banks until December 31, 2020.

On April 9, 2020, the Bank's Management Board adopted the internal act "Program of Temporary Measures for Recovery from Negative Economic Consequences Caused by the COVID-19 Virus", which served as the basis for the activities that followed until December 31, 2020. As a result of changes in regulatory framework, the Bank as of 21 October 2020, adopted adjusted "Program of Temporary Measures for Recovery from Negative Economic Consequences Caused by the COVID-19 Virus".

At 31 December 2020, the Bank had in its loan portfolio 287 contracts of individuals covered by special measures, and whose balance sheet gross exposure was KM 10,629 thousand, ie net balance sheet exposure of KM 10,319 thousand. In the segment of the portfolio related to legal entities, the number of parties covered by special measures was 154, with a gross balance exposure of KM 58,233 thousand, or a net balance exposure of KM 53,218 thousand.

Notes to the financial statements
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(all amounts are expressed in thousands of KM, unless otherwise stated)

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)**

Useful lives of property and equipment

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

Impairment losses on 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 and provisions for off-balance exposure

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on-and off-balance credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers. mainly in the form of unused loan facilities and guarantees. Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value. where the primary risk of impairment is not credit risk.

With regard to the financial assets carried at amortised cost. the Bank first assesses whether objective evidence of impairment exists 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 homogeneous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- criteria for assessing a significant increase in credit risk and measurement of losses on LTECL basis;
- information on historical loss rates are applied consistently to defined homogeneous segments/groups;
- historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- methodology and assumptions used to estimate future cash flows are regularly revised. and updated as necessary.

As explained further below. the Bank calculates provisions under FBA rules. as well as estimating impairment allowances under IFRS.

During 2020, the Bank validated the methodology, and in accordance with the validation, on October 28, 2020, it adopted the amended Impairment Methodology according to IFRS 9.

Fair value of financial instruments

As described in Note 33, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported. where possible. by observable market prices or rates.

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5. INTEREST INCOME

	<u>2020</u>	<u>2019</u>
Interest on corporate loans	6,913	7,923
Interest on retail loans	5,105	3,755
Financial assets at amortised cost (Note 20)	46	48
Interest on placements with other banks	-	1
Other interest income	116	125
	<u>12,180</u>	<u>11,852</u>

6. INTEREST EXPENSES

	<u>2020</u>	<u>2019</u>
Interest on retail deposits	818	922
Interest on corporate deposits	807	953
Interest on the Government of FBiH funds	657	659
Interest on borrowings from financial institutions (Note 22 and 27)	14	11
Other interest expenses	923	503
	<u>3,219</u>	<u>3,048</u>

7. FEE AND COMMISSION INCOME

	<u>2020</u>	<u>2019</u>
Fees from payment transactions	5,274	5,155
Fees from conversion transactions	486	634
Fees from off-balance sheet transactions	349	351
Fees from managed funds (default interest of Malaysian fund)	88	122
Fees from managed funds	-	187
Other fee and commission income	784	633
	<u>6,981</u>	<u>7,082</u>

8. OTHER GAINS / (LOSSES), NET

	<u>2020</u>	<u>2019</u>
Gains on disposal of fixed assets	412	826
Foreign exchange gains/(losses). net	131	166
Other gains	8	7
	<u>551</u>	<u>999</u>

9. OTHER OPERATING INCOME

	<u>2020.</u>	<u>2019.</u>
Rent income	351	367
Deferred income	77	76
Other income	395	214
	<u>823</u>	<u>657</u>

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10. PERSONNEL EXPENSES

	<u>2020</u>	<u>2019</u>
Net salaries	2,870	2,680
Taxes and contributions	2,264	2,130
Meal allowance and transport	429	408
Other	351	362
	<u>5,914</u>	<u>5,580</u>

The average number of personnel employed by the Bank during the year ended 31 December 2020 and 2019 was 160 and 164, respectively.

11. OTHER ADMINISTRATIVE EXPENSES

	<u>2020</u>	<u>2019</u>
Service costs	1,625	1,520
Memberships	633	590
Maintenance	415	431
Advertising and entertainment	389	395
Energy costs	325	391
Taxes and contributions	235	218
Telecommunication	208	261
Material costs	166	174
Fees to the members of Supervisory Board and Audit Committee	105	105
Insurance	77	78
Other costs	299	1,012
	<u>4,477</u>	<u>5,175</u>

12. IMPAIRMENT LOSSES AND PROVISIONS

	Note	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	15	35	(426)
Placements with other banks	17	(1)	(9)
Loans to customers	18	732	593
Financial assets at FVOCI	19	(31)	160
Financial assets at amortised cost	20	(19)	(40)
Other assets	21	34	4
Commitments and contingencies	26	(362)	204
		<u>388</u>	<u>486</u>

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13. INCOME TAX

Total income tax recognised in income statement may be presented as follows:

	<u>2020</u>	<u>2019</u>
Current income tax	-	481
Deferred income tax	<u>134</u>	<u>142</u>
	<u>134</u>	<u>623</u>

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	<u>2020</u>	<u>2019</u>
Profit before income tax	4,902	4,079
Income tax expense, at the statutory rate of 10%	490	408
Effects of non-deductible expenses	46	105
Effects of non-deductible income	(34)	(38)
Effects of tax-deductible depreciation	(134)	(142)
Effects of capital gains and losses	<u>(927)</u>	<u>148</u>
Current income tax	-	481
Effective income tax rate	-	11,79

Changes in temporary differences of deferred tax liabilities in income statement are presented below:

	Odgođena porezna obaveza
At 1 January 2019	-
Increase / decrease	<u>142</u>
At 31 December 2019	142
Increase of deferred tax liabilities based on depreciation	<u>134</u>
At 31 December 2020	276

14. EARNINGS PER SHARE

	<u>2020</u>	<u>2019</u>
Net profit	4,768	3,456
Weighted average number of shares for the purpose of basic earnings per share	<u>336,738</u>	<u>330,327</u>
Basic earnings per share (in KM)	14,16	10,46

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

15. CASH AND CASH EQUIVALENTS

	31 December 2020				31 December 2019
	Stage 1	Stage 2	Stage 3	Total	
Current account in domestic currency with the Central Bank of BH	202,692	-	-	202,692	169,336
Cash at hand in domestic currency	4,805	-	-	4,805	4,293
Cash at hand in foreign currencies	3,485	-	-	3,485	3,332
Cash at ATMs	2,024	-	-	2,024	1,573
Impairment based on group assessment	(249)	-	-	(249)	(445)
	212,757	-	-	212,757	178,089

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	178,534	-	-	178,534
New financial assets	34,472	-	-	34,472
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2020	213,006	-	-	213,006
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	164,865	-	-	164,865
New financial assets	13,655	-	-	13,655
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange, net	14	-	-	14
At 31 December 2019	178,534	-	-	178,534

Changes in related impairments are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	445	-	-	445
First-time adoption of the FBA Decision	(231)	-	-	(231)
Release in provisions from changes in risk parameters (Note 12)	35	-	-	35
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2020	249	-	-	249
	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	871	-	-	871
Reduction in provisions due to changes in risk parameters (Note 12)	(426)	-	-	(426)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2019	445	-	-	445

Cash and cash equivalents are expected to be repaid within 12 months after the reporting date.

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

	31 December 2020	31 December 2019
Obligatory reserve with CBBH	46,301	45,403
	46,301	45,403

Base for the calculation of mandatory reserve is deposits and loaned funds, regardless of the currency. Also, it is determined unified rate of 10% that CBBiH applies in calculation of the obligatory reserve.

The CBBH does not charge a fee for the obligatory reserve amount. For the amount of assets over the obligatory reserve, CBBH calculates fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on commercial bank's deposits.

17. PLACEMENTS WITH OTHER BANKS

	31 December 2020	31 December 2019
<i>A vista placements in foreign currencies:</i>		
Raiffeisen Bank International AG Vienna	7,171	8,322
Landesbank Baden-Wuerttemberg Stuttgart	6,248	5,839
Zagrebačka banka d.d. Zagreb	2,726	3,382
Unicredit Bank Austria Vienna	2,220	4,034
Unicredit Spa Milano, Italy	1,673	1,198
Nordea Bank AB Stockholm Sweden	144	123
	20,182	22,898
<i>A vista placements in domestic currency:</i>		
Sparkasse bank d.d. BH	234	143
Bobar Banka a.d. Bijeljina	-	2,000
	234	2,143
<i>Term placements in foreign currencies:</i>		
Union bank of Switzerland	391	408
	391	408
<i>Term placements in domestic currency:</i>		
Sparkasse bank d.d. BH	25	25
	25	25
Total placements before allowance for impairment losses	20,832	25,474
Less: Impairment		
Bobar banka a.d. Bijeljina	-	(2,000)
Landesbank Baden-Wuerttemberg Stuttgart	(6)	-
Zagrebačka banka d.d., Hrvatska	(3)	(1)
Raiffeisen Bank International AG Vienna	(7)	(1)
Sparkasse bank dd B&H	(3)	-
Unicredit Bank Austria Vienna	(2)	-
Unicredit Spa Milano, Italy	(2)	-
	(23)	(2,002)
	20,809	23,472

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17. PLACEMENTS WITH OTHER BANKS (CONTINUED)

	31 December 2020	31 December 2019
Maturity:		
no more than twelve months after the reporting period	20,441	25,066
more than twelve months after the reporting period	391	408
Less: Allowance for impairment losses	(23)	(2,002)
	20,809	23,472

Annual interest rates for foreign currency placements may be presented as follows:

	2020	2019
	% p.a.	% p.a.
Placements EUR	(0.60) to 0.01	(0.50) to 0
Placements SEK	(0.55) to (0.15)	(0.15) to (0.52)
Placements CHF	(0.55) to 0.01	(0.55)
Placements NOK	(0.60) to 0.01	-

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	2	-	2,000	2,002
First-time adoption of the FBA Decision	22	-	-	22
Decrease in impairment due to changes in risk parameters (Note 12)	(1)	-	-	(1)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-off	-	-	(2,000)	(2,000)
At 31 December 2020	23	-	-	23

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	11	-	2,000	2,011
Decrease in impairment due to changes in risk parameters (Note 12)	(9)	-	-	(9)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2019	2	-	2,000	2,002

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18. LOANS AND RECEIVABLES

	31 December 2020	31 December 2019
<i>Short-term loans:</i>		
Corporate	52,619	60,119
Retail	2,529	2,210
Current portion of short-term loans	<u>68,900</u>	<u>74,437</u>
	<u>124,048</u>	<u>136,766</u>
<i>Long-term loans:</i>		
Corporate	135,458	144,216
Retail	110,545	93,125
Current portion of long-term loans	<u>(68,900)</u>	<u>(74,437)</u>
	<u>177,103</u>	<u>162,904</u>
Total loans before allowance for impairment	301,151	299,670
Less: Long-term accrued income	(948)	(1,025)
Less: Allowance for impairment losses based on individual assessment	(39,164)	(42,538)
Less: Allowance for impairment losses based on group assessment	<u>(11,295)</u>	<u>(3,518)</u>
	<u>249,744</u>	<u>252,589</u>

The Bank is approving the both short-term and long-term loans. Majority of short-term loans has been approved to customers for working capital. Long-term loans mostly have been approved to legal entities for different investment activities, as well as for working capital.

Long-term accrued income

The Bank signed contracts with Ministry of Finance of the Federation of Bosnia and Herzegovina on the purchase of loan receivables. Discount that represents difference between nominal value of portfolio and purchase price is recognized as interest income at maturity, based on individual repayment of separate loans.

	31 December 2020	31 December 2019
Ministry of Finance of FB&H	<u>948</u>	<u>1,025</u>
	<u>948</u>	<u>1,025</u>

Below is the overview of loans given to customers by segment and level of credit risk as at December 31, 2020 and 2019:

	Stage 1	Stage 2	Stage 3		Total
	Collective assessment	Collective assessment	Individually assessed	Collective assessment	
31 December 2020					
<i>Loans to individuals</i>					
Housing loan	20,345	110	713	45	21,213
Other loans to individuals	87,074	2,416	780	1,591	91,861
	<u>107,419</u>	<u>2,526</u>	<u>1,493</u>	<u>1,636</u>	<u>113,074</u>
<i>Loans to corporate</i>					
Public companies	858	-	-	-	858
Private companies	120,083	24,641	42,171	324	187,219
	<u>120,941</u>	<u>24,641</u>	<u>42,171</u>	<u>324</u>	<u>188,077</u>
Less: Impairment	(5,480)	(4,200)	(39,164)	(1,615)	(50,459)
Less: Long-term accrued income	(948)	-	-	-	(948)
	<u>221,932</u>	<u>22,967</u>	<u>4,500</u>	<u>345</u>	<u>249,744</u>

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18. LOANS AND RECEIVABLES (CONTINUED)

31 December 2019	Stage 1	Stage 2	Stage 3		Total
	Collective assessment	Collective assessment	Individually assessed	Collective assessment	
Loans to individuals					
Housing loan	14,289	95	712	127	15,223
Other loans to individuals	74,589	1,954	1,608	1,961	80,112
	88,878	2,049	2,320	2,088	95,335
Loans to corporate					
Public companies	1,195	-	-	-	1,195
Private companies	120,520	21,540	60,234	846	203,140
	121,715	21,540	60,234	846	204,335
Less: Impairment	(2,109)	(1,409)	(39,768)	(2,770)	(46,056)
Less: Long-term accrued income	(1,025)	-	-	-	(1,025)
	207,459	22,180	22,786	164	252,589

Changes in gross carrying amount for loans in 2020 and 2019 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	210,594	23,589	65,487	299,670
New financial assets	103,025	11,766	1,873	116,664
Derecognition or proceeds from collection (excluding write off)	(79,149)	(11,639)	(13,828)	(104,616)
Increase exposure under existing contracts	749	125	-	874
Transfer to Stage 1	1,905	(1,774)	(131)	-
Transfer to Stage 2	(5,544)	5,560	(16)	-
Transfer to Stage 3	(3,220)	(460)	3,680	-
Write off	-	-	(11,441)	(11,441)
At 31 December 2020	228,360	27,167	45,624	301,151
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	177,566	26,509	72,778	276,853
New financial assets	113,466	6,158	528	120,152
Derecognition or proceeds from collection (excluding write off)	(74,534)	(9,656)	(11,248)	(95,438)
Transfer to Stage 1	2,371	(2,178)	(193)	-
Transfer to Stage 2	(5,201)	5,520	(319)	-
Transfer to Stage 3	(3,074)	(2,764)	5,838	-
Write off	-	-	(1,897)	(1,897)
At 31 December 2019	210,594	23,589	65,487	299,670

Changes in impairment for loans in 2020 and 2019 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	2,109	1,409	42,538	46,056
First-time adoption of the FBA Decision	3,023	2,831	9,258	15,112
Increase, net (Note 12)	3,148	(413)	(2,003)	732
Transfer to Stage 1	27	(25)	(2)	-
Transfer to Stage 2	(727)	728	(1)	-
Transfer to Stage 3	(2,100)	(330)	2,430	-
Write off and transfer to assets available for sale	-	-	(11,441)	(11,441)
At 31 December 2020	5,480	4,200	40,779	50,459

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18. LOANS AND RECEIVABLES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
<i>Impairments as at 1 January 2019</i>	2,699	2,906	41,755	47,360
Increase in impairment, net (Note 12)	1,263	(613)	(57)	593
Transfer to Stage 1	19	(18)	(1)	-
Transfer to Stage 2	(330)	361	(31)	-
Transfer to Stage 3	(1,542)	(1,227)	2,769	-
Write off and transfer to assets available for sale	-	-	(1,897)	(1,897)
At 31 December 2019	2,109	1,409	42,538	46,056

Weighted average interest rate can be presented as follows:

	31 December 2020	31 December 2019
Corporate	2.88% - 6.00%	3.03% - 8.45%
Retails	2.70% - 5.30%	2.53% - 14%

An overview of the average parameters used to calculate impairments can be shown as follows:

31 December 2020	Average PD%		Average LGD%	
	Stage 2	Stage 2	Stage 1	Stage 2
Corporate	0.005	0.006	0.625	0.645
Retails	0.003	0.003	0.739	0.730
31 December 2019				
Corporate	0.006	0.006	0.550	0.550
Retails	0.003	0.003	0.546	0.546

Analysis of loans before allowance for impairment losses by industry:

	31 December 2020	31 December 2019
Citizens	115,508	95,347
Agriculture, forestry, mining and industry	73,123	74,812
Construction industry	38,412	23,545
Trade	38,102	44,070
Services, finance, sport and tourism	13,421	49,614
Transport and communications	10,205	878
Administration and other public institutions	3,394	2,678
Other	7,181	7,602
Interest	1,805	1,124
	301,151	299,670

Reprograms and restructuring

Restructuring measures include a "concession" to the debtor as a result of the deterioration in the economic and financial position of the client and the impossibility of repaying the debt under the initially agreed terms. The "concession" may be change in terms of the original contract (annex) or a new contract (refinancing). Restructuring of the liabilities aims to enable the client to repay the obligations according to his real possibilities, with the provision of more efficient and secure collection of the Bank's receivables. According to this, restructuring of the liabilities represents a change in the terms and conditions agreed in the moment of loan approving (e.g. extension of repayment deadlines, changes of repayment schedule etc.). Decision on restructuring of the liabilities make authorized body of the Bank. Restructured exposures can be identified both in the non-performing and performing parts of the portfolio.

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18. LOANS AND RECEIVABLES (CONTINUED)

31 December 2020	Number of reprogramed loans	Gross credit exposure	Stage 1	Stage 2	Stage 3
Corporate	45	16,505	1,405	725	14,375
Retail	2	15	-	-	15
	47	16,520	1,405	725	14,390
31 December 2019					
Corporate	68	25,266	2,325	83	22,858
Retail	1	1	1	-	-
	69	25,267	2,326	83	22,858

Portfolio under special measures

At 31 December 2020, the Bank had in its loan portfolio 287 contracts of individuals covered by special measures, and whose balance sheet gross exposure was KM 10,629 thousand, ie net balance sheet exposure of KM 10,319 thousand. In the segment of the portfolio related to legal entities, the number of parties covered by special measures was 154, with a gross balance exposure of KM 58,233 thousand, or a net balance exposure of KM 53,218 thousand.

Syndicated loan

During 2020, the Bank approved 4 syndicated loans to the clients (2019: 6 syndicated loans) together with ASA Bank d.d. Sarajevo. On this basis, the participation of ASA Bank d.d. as at 31 December 2020 was in amount of KM 679 thousand (2019: KM 889 thousand). The Bank bears risks only for its portion of syndicated loans. Total amount of loans based on syndicated loans as at 31 December 2030 is KM 3,904 thousand (2019: KM 5,414 thousand).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Debt securities:		
Bonds of FBiH Government	11,802	11,801
Treasury bills of FBiH Government	1,001	601
Bonds of Sarajevo Canton	200	200
	13,003	12,602
Equity securities:		
JUBMES Banka a.d. Beograd, Srbija	71	99
Securities' Register of FBiH d.d.	57	57
Bosna Reosiguranje d.d. Sarajevo	32	32
Bamcard d.d. Sarajevo	2	2
	162	190
	13,165	12,792

Changes in gross carrying amount in 2020 and 2019 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	12,792	-	-	12,792
Increase / decrease, net	401	-	-	401
Unrealized gain from fair value adjustment, net	(28)	-	-	(28)
At 31 December 2020	13,165	-	-	13,165

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	545	-	-	545
Increase / decrease, net	9,445	-	-	9,445
Reclassification from financial assets measured at amortisation cost	2,691			2,691
Unrealized gain from fair value adjustment, net	111	-	-	111
At 31 December 2019	12,792			12,792

20. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2020	31 December 2019
Bonds:		
JP Autoceste FBiH	-	1,001
Sarajevo Canton	-	898
	-	1,899
Less: Impairment, net	-	(5)
	-	1,894

Changes in gross carrying amount are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	1,899	-	-	1,899
Interest (Note 5)	46	-	-	46
Billed during the year	(1,945)	-	-	(1,945)
At 31 December 2020	-	-	-	-
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	4,587	-	-	4,587
Reclassification on financial assets through OCI (Note 19)	(2,691)	-	-	(2,691)
Interest (Note 5)	48	-	-	48
Interest unwinding	3	-	-	3
Billed during the year	(48)	-	-	(48)
At 31 December 2019	1,899	-	-	1,899

Changes in impairment are shown below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	5	-	-	5
First-time adoption of the FBA Decision	14	-	-	14
Changes in models / parameters for credit risk assessment	(19)	-	-	(19)
At 31 December 2020	-	-	-	-

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20. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	45	-	-	45
Changes in impairment based on reclassification assets on assets measured at FVTOCI	(23)	-	-	(23)
Changes in models / parameters for credit risk assessment	(17)	-	-	(17)
At 31 December 2019	5	-	-	5

21. OTHER ASSETS AND RECEIVABLES, NET

	31 December 2020	31 December 2019
Precious metals	656	568
Prepaid income tax	324	135
Advance income tax and tax credit	317	-
Fees receivables	247	174
Advances for fixed assets	27	68
Receivables from FBiH Government for paid guarantee	-	368
Other	448	577
	2,019	1,890
Less: Impairment, net	(131)	(544)
	1,888	1,346

Changes in impairment of other assets and receivables can be presented as follows:

	2020	2019
Balance at 1 January	544	555
First-time adoption of the FBA Decision	7	-
Increase of impairment (Note 12)	34	4
Write off	(454)	(15)
Balance at 31 December	131	544

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22. TANGIBLE AND INTANGIBLE ASSETS

	Assets with right of use (IFRS 16)					Investments in progress	Total
	Land	Buildings	Computer and other equipment	Intangible assets			
COST							
At 31 December 2018	715	44,955	-	3,736	1,281	56,439	
Additions	-	-	804	10	733	1,547	
Transfer (from)/ to	-	941	17	220	(1,235)	-	
Disposals	-	(959)	-	(408)	(395)	(2,127)	
At 31 December 2019	715	44,937	821	3,428	384	55,859	
Additions	-	-	754	-	1,318	2,072	
Transfer (from)/ to	-	670	124	422	(1,360)	-	
Disposals	(91)	(1,020)	(118)	(100)	-	(1,329)	
At 31 December 2020	624	44,587	1,581	5,896	342	56,602	
ACCUMULATED DEPRECIATION							
At 31 December 2018	-	17,672	-	4,749	-	25,950	
Depreciation	-	640	231	311	-	1,317	
Disposals	-	(181)	-	(407)	-	(953)	
At 31 December 2019	-	18,131	231	4,653	-	26,314	
Depreciation	-	638	305	255	-	1,296	
Disposals	-	(268)	(85)	(96)	-	(449)	
At 31 December 2020	-	18,501	451	4,812	-	27,161	
NET BOOK VALUE							
At 31 December 2020	624	26,086	1,130	1,084	342	29,441	
At 31 December 2019	715	26,806	590	921	384	29,545	

The Bank's land and building are state at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The latest fair value measurements of the Bank's land and building was performed as at 30 June 2015.

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22. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

Assets with right of use in accordance with International financial reporting standard 16 „Leases“ are presented in below:

	<u>Property</u>	<u>Vehicles</u>
Net book value at 31 December 2020 (KM 000)	1,130	299
New investment in assets with right of use (KM 000)	124	-
Depreciation rate	10%-33.33%	25%
Number of lease contracts	9	5
Period of right of use	from 3 to 10 years	4 years

23. DUE TO FINANCIAL INSTITUTIONS

	<u>31 December 2020</u>	<u>31 December 2019</u>
Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany	-	302
	-	302
<i>Maturity analysis:</i>		
Within one year	-	302
In the second year	-	-
Third to fifth year	-	-
After five years	-	-
	-	302

On 5 September 2002, former Privredna banka Sarajevo d.d. Sarajevo, i.e. the Bank before merger, signed the agreement with Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany (“CVA”), based on which LVA assumes Bank’s liabilities toward German pension institutions for April and May 1992 in the total amount of EUR 2,315,311. The Bank should refund the amount before 31 December 2020. Principal repayment started on 1 January 2006, and will be completed through 30 equal semi-annual instalments in the amount of EUR 77,177 (repayment on 1 January and 1 July each year). LVA calculates annual interest rate on this debt in the amount equal to six-month EURIBOR. Obaveze su otplaćene tokom 2020. godine. Liabilities were repaid during 2020.

24. LIABILITIES TOWARD GOVERNMENT OF FBIH

	<u>31 December 2020</u>	<u>31 December 2019</u>
Liabilities toward Government of FBIH – available funds	21,833	18,486
Liabilities toward Government of FBIH – invested funds	12,335	15,275
Liabilities toward Government of FBIH – interest	1,518	1,684
	35,686	35,445
<i>Amount of approved resources through years:</i>		
Long term loans to corporates at year interest rate from 4.7%(2019: interest rate from 4.5% to 6% p.a.)	200	2,376
Short term loans to corporates at year interest rate to 4.5% (2019: interest rate from 4.5% to 6% p.a.)	-	110
	200	2,486

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24. LIABILITIES TOWARD GOVERNMENT OF FBH (CONTINUED)

Based on agreement dated 1 March 2005, between Council of Ministry of Bosnia and Herzegovina and the Government of the Federation of Bosnia and Herzegovina, on 22 August 2005 the Bank signed "Agreement for Permanent Fund Management" (the "Agreement") with the Ministry of Finance of the Federation of Bosnia and Herzegovina. In accordance with the Agreement, Bank accepts credit risk for loans granted from this fund and charges interest payable of 2% p.a. No actual interest payments are made - the credit balance is increased on 28 February every year by the amount of annual interest accrued. The Agreement is valid as long as the Bank possesses the banking license from FBA and is performing its regular banking procedures. On 18 January 2012, the Government of the Federation of Bosnia and Herzegovina paid into the Fund the amount of KM 3 million (Japanese grant). On 11 March 2013 the Government of the Federation of Bosnia and Herzegovina made additional payment in the amount of KM 4 million (Japanese grant — 2 KR). In November 2016, the Bank signed Annex 2 to the Agreement for fund management of Japanese Grant for Federation of Bosnia and Herzegovina (PVF), dated 18 August 2005. The annex approved use of free monetary funds from Japanese grants, which were placed in three commission loans with counter value of KM 8,100 thousand. There were no changes in 2017 that would require new annexes to the Agreement for Fund Management of Japanese grant for Federation of Bosnia and Herzegovina (PVF). Annex 3 was signed on April 16, 2018 which anticipates that the interest rate on commission credits will amount to 4.75% p.a., of which the fund's income is 4% and 0.75% represents the Bank's income. Conditions of financing are not changed through 2020.

25. DUE TO CUSTOMERS

	<u>31 December 2020</u>	<u>31 December 2019</u>
<i>Demand deposits</i>		
<i>Retail:</i>		
In domestic currency	48,391	44,262
In foreign currencies	42,478	40,968
	<u>90,869</u>	<u>85,230</u>
<i>Corporate:</i>		
In domestic currency	187,288	198,082
In foreign currencies	20,521	2,442
	<u>207,809</u>	<u>200,524</u>
	298,678	285,754
<i>Term deposits:</i>		
<i>Retail:</i>		
In domestic currency	24,148	23,425
In foreign currencies	42,747	44,624
	<u>66,895</u>	<u>68,049</u>
<i>Corporate:</i>		
In domestic currency	108,502	78,345
In foreign currencies	10,366	12,847
	<u>118,868</u>	<u>91,192</u>
	<u>185,763</u>	<u>159,241</u>
	484,441	444,995

Interest rate during the year can be presented as follows:

	<u>2020</u>	<u>2019</u>
Demand deposits in KM and foreign currencies	0.00% - 0.01%	0.00% - 0.20%
Short-term deposits	0.22% - 0.42%	0.00% - 0.25%
Long-term deposits	<u>0.74% - 1.17%</u>	<u>0.00% - 5.10%</u>

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26. PROVISIONS

Changes in provisions can be presented as follows:

	Commitments and contingencies	Employee benefits	Court proceedings	Other provisions	Total
Balance as of 1 January 2019	430	306	1,870	158	2,764
Release of provisions (Note 12)	(229)	40	393	-	204
Decrease due to payment	-	-	(802)	-	(802)
Balance as of 31 December 2019	201	346	1,461	158	2,166
First-time adoption of the FBA Decision	2	-	-	-	2
Release of provisions (Note 12)	(22)	32	(214)	(158)	(362)
Balance as of 31 December 2020	181	378	1,247	-	1,806

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 primarily include guarantees and undrawn commitments.

	31 December 2020	31 December 2019
Performance guarantees	8,641	12,560
Unused approved loans	5,589	4,662
Payment guarantees	2,855	3,460
Bidding guarantees	867	418
	17,952	21,100

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	20,216	866	18	21,100
New financial instrument	13,135	93	14	13,242
Derecognition or proceeds from collection (excluding write off)	(16,105)	(268)	(17)	(16,390)
Transfer to Stage 1	197	(197)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	(1)	-	1	-
Balance as of 31 December 2020	17,441	495	16	17,952
	16,630	1,586	69	18,285
Gross carrying amount as at 1 January 2019	16,630	1,586	69	18,285
New financial instrument	14,674	382	6	15,062
Derecognition or proceeds from collection (excluding write off)	(11,184)	(1,007)	(56)	(12,247)
Transfer to Stage 1	178	(176)	(2)	-
Transfer to Stage 2	(70)	81	(11)	-
Transfer to Stage 3	(12)	-	12	-
Balance as of 31 December 2019	20,216	866	18	21,100

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26. PROVISIONS (CONTINUED)

Changes in impairments are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	130	55	16	201
First-time adoption of the FBA Decision	2	-	-	2
Derecognition or proceeds from collection (Note 12)	36	(43)	(15)	(22)
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(1)	-	1	-
Balance as of 31 December 2020	168	11	2	181
	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	189	173	68	430
Derecognition or proceeds from collection (Note 12)	(48)	(117)	(64)	(229)
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	(12)	-	12	-
Balance as of 31 December 2019	130	55	16	201

27. LEASE LIABILITIES

	31 December 2020	31 December 2019
Long term liabilities	675	310
Short term liabilities	335	270
	1,010	580
Maturity analysis:		
Within one year	335	270
In the second year	154	273
In third year	137	37
In the fourth year	88	-
Nakon pet godina	296	-
After five years	1,010	580

Lease contracts are signed on period from 3 to 10 years. The bank used incremental borrowing rate of 2% p.a.

28. OTHER LIABILITIES

	31 December 2020	31 December 2019
Liabilities for paid funds for loans and cards	1,386	1,161
Transitional account for forced collection	591	261
Liabilities for unallocated proceeds	321	693
Liabilities toward suppliers	295	255
Liabilities for retirements earned abroad	295	96
Liabilities for managed funds (Note 31)	255	686
Liabilities for tax income	-	290
Other	108	221
	3,251	3,663

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29. SHARE CAPITAL

Share capital as of 31 December 2020 consists of 336,738 ordinary shares at nominal value of 110 KM..

	31 December 2020			31 December 2019		
	000	Number of shares	%	000	Number of shares	%
Ordinary shares:						
Pobjeda - Rudet d.d. Goražde	4,699	42,713	12.68%	3,692	33,565	9.97%
Hamid Pršeš	4,100	37,276	11.07%	3,703	33,660	10.00%
Halil Oković	4,005	36,410	10.81%	3,703	33,665	10.00%
ASA Finance d.d. Sarajevo	3,476	31,598	9.38%	3,476	31,598	9.38%
Zijad Deljo	2,829	25,720	7.64%	2,829	25,720	7.64%
Hasan Đozo	2,348	21,346	6.34%	2,348	21,346	6.34%
Okac d.o.o. Goražde	2,228	20,258	6.02%	2,228	20,258	6.02%
Enver Pršeš	1,755	15,955	4.74%	1,755	15,955	4.74%
ZIF CROBIH FOND d.d. Mostar	1,226	11,146	3.31%	1,364	12,400	3.68%
Rijad Raščić	1,005	9,139	2.71%	1,005	9,139	2.71%
Goraždeputevi d.d. Goražde	922	8,377	2.49%	853	7,750	2.30%
Unigradnja d.d. Sarajevo	898	8,162	2.42%	898	8,162	2.42%
Others shareholders	7,550	68,638	20.39%	9,187	83,520	24.80%
	37,041	336,738	100.00%	37,041	336,738	100.00%

30. RELATED PARTY TRANSACTIONS

In accordance with the requirements of the International Accounting Standard 24 "Related Party Disclosures" A related party is a person or entity that is related to the entity that is preparing its financial statements:

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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30. RELATED PARTY TRANSACTIONS (CONTINUED)

All of the transactions stated above have been made under commercial and banking terms and conditions:

	2020		2019	
	Income	Expense	Income	Expense
Shareholders	257	64	332	49
Member of Management Board and their family members	22	30	19	30
Member of Supervisory Board and their family members	10	7	10	12
	289	101	361	91

	31 December 2020		31 December 2019	
	Receivables	Liabilities	Receivables	Liabilities
Shareholders	5,073	10,858	5,429	7,532
Member of Management Board and their family members	376	380	469	358
Member of Supervisory Board and their family members	201	145	193	124
	5,650	11,383	6,091	8,014

Management Board and Supervisory Board remuneration

The remuneration of the members of Management Board and Supervisory Board during the year ended 31 December 2020 and the year ended 31 December 2019 was as follows:

	2020	2019
Gross salaries of the members of Management Board	709	642
Other benefits of the members of Management Board	12	11
Fees to the members of Supervisory Board	61	61
	782	714

31. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet. The table below provides analysis of the funds managed on behalf of customers:

	31 December 2020	31 December 2019
LOANS		
Corporate	18,370	18,922
Individuals	829	849
	19,199	19,771
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	18,133	18,989
Non-profit and non-bank organizations	773	903
Government of Bosnia and Herzegovina (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina)	500	500
Construction Institute of Sarajevo Canton	48	65
	19,454	20,457
Current liabilities from managed funds activities (Note 28)	(255)	(686)

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

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32. 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 continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

	31 December 2020	31 December 2019
Debt	521,137	481,322
Equity	47,635	57,837
Net debt to capital ratio	10.94	8.32

Debt is defined as due to financial institutions, due to the Government of the Federation of Bosnia and Herzegovina and due to customers as presented in detail in Notes 23, 24, 25 and 27. Capital includes total share capital, share premium, other reserves, revaluation reserves and retained earnings.

The regulatory capital of the Bank consists of core capital.

The core capital of the Bank (fully equal to ordinary core equity) consists of paid shares, own treasury shares, share premium, retained unallocated profit and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), net of the amount of treasury shares, intangible assets and deferred tax assets.

The minimum capital requirements are as follows:

- regular core capital rate 6.75%
- core capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection layer for capital preservation that is to be maintained in the form of regular core capital in the amount of 2.5% of the total exposure amount.

The total weighted risk used to calculate capital adequacy includes:

- the risk of weighted assets and credit equivalents,
- position, currency, commodity risk and
- operational risk.

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32. RISK MANAGEMENT (CONTINUED)

a) Capital risk management (continued)

One of the basic processes that the Bank implements in the context of strategic risk management is the internal capital adequacy assessment process ("ICAAP"). The main objective of this process is to determine the positive level of capital that is sufficient to cover all risks that the Bank is exposed to and that are assessed as material. ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital. At 31 December 2020, the rates and levels of capital were as follows:

The rate of ordinary core capital	14.65%
The rate of core capital	14.65%
The rate of regulatory capital	14.65%
The rate of core capital including adjustments from Pillar 2	8.18%
The rate of core capital including adjustments from Pillar 2	10.91%
The rate of regulatory capital including adjustments from Pillar 2	14.55%

The table below shows the capital structure and capital indicators as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Regulatory capital	40,469	42,577
Core capital	40,469	42,577
Regular core capital	40,469	42,577
Paid capital instruments	37,041	37,041
Share premium	4,629	4,629
Accumulated income	(895)	5,711
Other comprehensive income – revaluation reserves	132	3,599
Deductions from regular core capital		
intangible assets	(438)	(342)
deductions from regular core capital – missing reserves	-	(8,061)
Total regular core capital	40,469	42,577
Additional core capital	-	-
Core capital	40,469	42,577
Supplementary capital	-	-
General credit risk allowances	-	3,240
Deductions from supplementary capital – missing provision	-	(3,240)
Total regulatory capital	40,469	42,577
Risk weighted assets (unaudited)	276,314	290,413
Capital adequacy ratio	14.65%	14.66%

As of 31 December 2020, the ratio "tangible assets / Core capital" amounted to 71.67% (31 December 2019 68.59%) which is not in accordance with Article 94 of the Law on Banks, which stipulates that Bank's total investments in fixed assets cannot exceed 40% of recognized core capital. During 2020, the Bank undertook activities on public announcement of the sale of the facility in Alipašina Street without successful implementation. The sale of this facility is a key precondition for harmonizing the ratio of fixed assets and recognized capital with the provisions of the Law on Banks. Accordingly, these activities will continue in the coming periods.

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32. RISK MANAGEMENT (CONTINUED)

a) Capital risk management (continued)

The Bank is obliged to ensure and maintain the financial leverage ratio in amount of at least 6%.

The Bank's financial leverage ratio is the ratio of the amount of the core capital to the total risk exposure of the Bank as at the reporting date, expressed as a percentage. The financial leverage ratio as at 31 December 2020 amounted to 6,88% (2019 7.73%)

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

c) Categories of financial instruments

	31 December 2020	31 December 2019
Categories of financial instruments		
Loans and receivables:	530,858	500,767
<i>Cash and cash equivalents (including Obligatory reserves with the CBBH)</i>	259,058	223,492
<i>Placements with other banks</i>	20,809	23,472
<i>Loans and receivables, net</i>	249,744	252,589
<i>Other receivables</i>	1,247	1,214
Debt instruments at fair value through other comprehensive income	13,165	12,792
Financial assets at amortized cost	-	1,894
	544,023	515,453
Financial liabilities		
At amortized cost:		
<i>Due to financial institutions</i>	-	302
<i>Due to the Government of FBiH</i>	35,686	35,445
<i>Due to customers</i>	484,441	444,995
<i>Lease liabilities</i>	1,010	580
<i>Other liabilities</i>	1,839	3,188
	522,976	484,510

d) Financial risk management objectives

The Bank's Treasury and Assets Management function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse 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.

e) 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 points f and g).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

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32. RISK MANAGEMENT (CONTINUED)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	KM	EUR	USD	CHF	Other	Total
As of 31 December 2019						
ASSETS						
Cash and cash equivalents	209,272	1,845	208	977	455	212,757
Obligatory reserve with Central bank B&H	46,301	-	-	-	-	46,301
Placements with other banks	257	12,993	2,915	3,954	690	20,809
Loans to customers, net	145,629	103,738	377	-	-	249,744
Debt instruments at fair value through other comprehensive income	12,794	300	-	-	71	13,165
Other receivables	530	61	-	-	656	1,247
Total	414,783	118,937	3,500	4,931	1,872	544,023
LIABILITIES						
Due to the Government of FBiH	35,686	-	-	-	-	35,686
Due to customers	357,139	117,900	3,488	4,942	972	484,441
Lease liabilities	1,010	-	-	-	-	1,010
Other financial liabilities	607	1,144	-	2	86	1,839
Total	394,442	119,044	3,488	4,944	1,058	522,976
As of 31 December 2019						
Total monetary assets	392,817	112,957	3,886	4,509	1,284	515,453
Total monetary liabilities	362,603	112,403	3,893	4,524	1,087	484,510

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and CHF. Since Convertible Mark (KM) 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 KM against USD and CHF, 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 rates. 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 KM strengthens 10% against USD. For a 10% weakening of KM against USD and CHF, there would be an equal and opposite impact on the profit, and the balances below would be negative. As of 31 December 2020, the effects are minimal, considering that the Bank had adjusted receivables and liabilities.

	USD Effect		CHF Effect	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Profit/(loss)	1	2	1	2

32. RISK MANAGEMENT (CONTINUED)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the reporting period date. The analysis is prepared assuming the amount of financial instruments outstanding at the reporting period date was outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2020 would decrease / increase by KM 62 thousand (2019: KM 105 thousand).

h) 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 dealing 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.

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

Except stated below in table, the carrying amount of financial asset presented in financial statements, decreased for losses based on impairments, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Notes to the financial statements
for the year ended 31 December 2020

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

32. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
As of 31 December 2020						
Cash and cash equivalents	213,006	10,314	202,692	-	(249)	212,757
Obligatory reserve with Central bank B&H	46,301	46,301	-	-	-	46,301
Placements with other banks	20,832	-	20,832	-	(23)	20,809
Loans to customers, net	300,203	1,078	299,125	(39,164)	(11,295)	249,744
Debt instruments at FVTOCI	13,165	13,165	-	-	-	13,165
Other receivables	1,378	656	722	(118)	(13)	1,247
	594,885	71,514	523,371	(39,282)	(11,580)	544,023
As of 31 December 2019						
Cash and cash equivalents	178,534	9,198	169,336	-	(445)	178,089
Obligatory reserve with Central bank B&H	45,403	45,403	-	-	-	45,403
Placements with other banks	25,474	408	25,066	(2,000)	(2)	23,472
Loans to customers, net	298,645	842	297,803	(42,538)	(3,518)	252,589
Debt instruments at FVTOCI	12,793	12,793	-	-	-	12,792
Financial assets at amortized cost	1,899	-	1,899	-	(5)	1,894
Other receivables	1,758	568	1,190	(470)	(74)	1,214
	564,506	69,212	495,294	(45,008)	(4,044)	515,453

Notes to the financial statements
for the year ended 31 December 2020

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

32. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / Guarantees	Net exposure
As of 31 December 2020			
Cash and cash equivalents	212,757	-	-
Obligatory reserve with Central bank B&H	46,301	-	-
Placements with other banks	20,809	-	-
Loans to customers, net	249,744	17,952	401,124
Debt instruments at FVTOCI	13,165	-	-
Other receivables	1,247	-	-
	544,023	17,952	401,124
As of 31 December 2019			
Cash and cash equivalents	178,089	-	-
Obligatory reserve with Central bank B&H	45,403	-	-
Placements with other banks	23,472	-	-
Loans to customers, net	252,589	21,100	448,122
Debt instruments at FVTOCI	12,792	-	-
Financial assets at amortized cost	1,894	-	-
Other receivables	1,214	-	-
	515,453	21,100	448,122

Fair value of the collaterals

	31 December 2020	31 December 2019
Real estate and movable properties	399,007	445,907
Deposits	1,984	2,057
Other	133	158
Total	401,124	448,122

Arrears

	Total gross loans to clients	Impairment	Not due	Up to 30 days	31 to 90 days	91 to 180 days	181 to 270 days	Over 270 days
31 December 2020								
Corporate	188,077	(45,808)	146,287	1,735	392	770	740	38,153
Retail	113,074	(4,651)	111,057	746	193	100	53	925
Total	301,151	(50,459)	257,344	2,481	585	870	793	39,078
31 December 2019								
Corporate	204,335	(41,130)	148,216	2,670	1,734	837	2,016	48,862
Retail	95,335	(4,926)	91,960	453	34	42	79	2,767
Total	299,670	(46,056)	240,176	3,123	1,768	879	2,095	51,629

Notes to the financial statements
for the year ended 31 December 2020

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

32. RISK MANAGEMENT (CONTINUED)

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves and other financing sources, by continuously monitoring forecast and actual cash flows and matching the 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 contractual maturities of the financial assets including interest that will be earned on those assets.

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2020							
Non-interest bearing	-	260,305	-	-	-	-	260,305
Fixed interest rate instruments	4.66%	32,671	38,736	33,836	111,885	66,355	283,483
Variable interest rate instruments	8.92%	15,556	435	560	1,574	598	18,723
		308,532	39,171	34,396	113,459	66,953	562,511
31 December 2019							
Non-interest bearing	-	247,674	-	-	-	-	247,674
Fixed interest rate instruments	8.34%	41,496	35,723	34,843	98,090	61,862	272,014
Variable interest rate instruments	11.18%	21,346	722	883	3,128	886	26,965
		310,516	36,445	35,726	101,218	62,748	546,653

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 for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2019							
Non-interest bearing	-	155,234	693	384	459	633	157,403
Fixed interest rate instruments	0.50%	163,651	43,678	76,009	41,091	35,061	359,490
Variable interest rate instruments	1.14%	419	1,186	2,253	2,299	47	6,204
		319,304	45,557	78,646	43,849	35,741	523,097
31 December 2018							
Non-interest bearing	0.00%	140,008	22	462	283	626	141,401
Fixed interest rate instruments	0.56%	164,273	13,016	77,919	43,267	333	298,808
Variable interest rate instruments	1.47%	1,068	1,264	3,632	3,047	39,035	48,046
		305,349	14,302	82,013	46,597	39,994	488,255

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

**Napomene uz finansijske izvještaje
za godinu koja je završila 31. decembra 2020.**

(svi iznosi su iskazani u hiljadama KM, osim ukoliko nije drugačije naznačeno)

33. FAIR VALUE MEASUREMENT

33.1 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

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	31 December 2020	31 December 2019	Fair value hierarchy	Valuation techniques and key inputs
1) Financial assets at FVTOCI	<p>Equity securities listed on a stock exchange in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> • Bamcard d.d. Sarajevo – KM 2 thousand • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand <p>Equity securities listed on stock exchange in other countries:</p> <ul style="list-style-type: none"> • JUBMES BANKA A.D. Belgrade, Serbia - KM 71 thousand <p>Debt securities listed on the stock exchange in Bosnia and Herzegovina without trading:</p> <ul style="list-style-type: none"> • Securities register FBiH d.d. Sarajevo - KM 57 thousand KM <p>Debt securities listed on the stock exchange in BiH:</p> <ul style="list-style-type: none"> • FBiH Government - KM 12,803 thousand • Sarajevo Canton – KM 200 thousand 	<p>Equity securities listed on a stock exchange in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> • Bamcard d.d. Sarajevo – KM 2 thousand • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand <p>Equity securities listed on stock exchange in other countries:</p> <ul style="list-style-type: none"> • JUBMES BANKA A.D. Belgrade, Serbia - KM 99 thousand <p>Debt securities listed on the Stock exchange in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> • FBiH Government - KM 12,402 thousand • Kanton Sarajevo – KM 200 thousand <p>Equity securities listed on the Stock exchange in Bosnia and Herzegovina without trading:</p> <ul style="list-style-type: none"> • Securities register FBiH d.d. Sarajevo - KM 57 thousand KM 	<p>Level 1</p>	<p>Quoted bid prices in an active market.</p> <p>Prices derived from prices of other similar assets quoted on active market</p> <p>Discounted cash flow method</p>

Napomene uz finansijske izvještaje
za godinu koja je završila 31. decembra 2020.

(svi iznosi su iskazani u hiljadama KM, osim ukoliko nije drugačije naznačeno)

33. FAIR VALUE MEASUREMENT (CONTINUED)

33.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis (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 recognised in the financial statements approximate their fair values.

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
<i>Loans and receivables:</i>				
- Loans to customers	249,744	260,283	252,589	270,207
- Financial assets at AC	-	-	1,894	1,894
- Debt instruments at FVTOCI	13,165	13,165	12,792	12,792
Financial liabilities				
<i>At amortised cost:</i>				
- Due to customers, other banks and financial institutions	484,441	482,374	445,297	441,216

	Fair value hierarchy as of 31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Loans and receivables:</i>				
- Loans to customers	-	260,283	-	260,283
- Debt instruments at FVTOCI	-	-	13,165	13,165
	-	260,283	13,165	273,448
Financial liabilities				
<i>At amortised cost:</i>				
- Due to customers, other banks and financial institutions	-	441,216	-	441,216
	-	441,216	-	441,216


The fair value of financial assets and liabilities included in the above categories of Level 2 were determined according to generally accepted models of assessment based on an analysis of discounted cash flows, the discount rate as most important input data, which reflects the credit risk of counterparties. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

Napomene uz finansijske izvještaje
za godinu koja je završila 31. decembra 2020.

(svi iznosi su iskazani u hiljadama KM, osim ukoliko nije drugačije naznačeno)

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management as of 10 February 2021:



Hamid Pršeš
President of the Management Board



Bedina Jusčić - Musa
Member of the Management Board