SPARKASSE BANK DD BIH

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

Contents

Responsibility for the financial statements

Responsibilities of the Management Board and Supervisory Board for the preparation and approval of the annual financial statements

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

The Management Board is responsible for selecting suitable accounting policies which conform to applicable legal requirements and apply them consistently; for making judgements and estimates which are reasonable and prudent; and for preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission of annual report to the Supervisory Board together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly for adoption.

The financial statements set out on pages 8 to 96 were authorised by the Management Board on 9 April 2021 for issuance to the Supervisory Board, and are signed below to signify this on behalf of the Bank:

For and on behalf of Sparkasse bank d.d. BiH :

Amir Softić	**Igor Bilandžija**
President of the Management Board	Member of the Management Board

Independent Auditor's Report

To the Shareholder of Sparkasse Bank d.d. Bosna i Hercegovina:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sparkasse Bank d.d. Bosna i Hercegovina (the "Bank") as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on accounting and auditing in the Federation of Bosnia and Herzegovina that are relevant to our audit of the financial statements in the Federation of Bosnia and Herzegovina. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on accounting and auditing in the Federation of Bosnia and Herzegovina.

Our audit approach

Overview

Materiality	• Overall materiality: Bosnia and Herzegovina's Convertible Marks ("BAM") 1,736 thousand, which represents 0.8% of net assets of the Bank
Key audit matters	• Estimate of credit loss allowances for loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	BAM 1,736 thousand
How we determined it	0.8% of net assets of the Bank 0.8% of net assets was estimated at the planning stage of the audit. Reassessment of the materiality level performed during the audit did not identify a requirement to update the materiality level due to lack of significant influence on the audit plan.
Rationale for the materiality benchmark applied	In the context of the shareholding structure of the Bank, which is wholly owned by an international group, and taking into account the interest of the other key stakeholders, who are regulators, depositors, debt holders and others, whose primary focus are the Bank's capital adequacy and ability to fulfil its obligations, we considered it appropriate to determine the materiality by reference to the capital resources of the Bank, using net assets as a proxy for capital for the purpose of materiality determination. We chose 0.8% which we believe is within the range of acceptable quantitative materiality thresholds for this benchmark in the circumstances.

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.

Key audit matter	How our audit addressed the key audit matter
Estimate of credit loss allowances for loans and advances to customers Refer to Note 33 "Risk Management", Note 4 "Critical accounting judgments and key sources of estimation uncertainty", Note 25 "Impairment loss on financial instruments" and Note 8 "Financial assets at amortized cost" to the financial statements for detailed information on the expected credit losses ("ECL") for loans and advances to customers. As at 31 December 2020, gross loans and advances to customers and credit loss allowances amounted to BAM 1,241,448 thousand and BAM 83,337 thousand, respectively. We focused on this area during the audit due to the significance of the amounts involved for the financial statements and also because the management makes complex and subjective judgements over both the timing and size of ECL, which makes it a complex area of accounting. For loans in stage 1 ECL are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime ECL. For defaulted loans that are considered not to be individually significant, ECL are collectively assessed. In all of the cases above, the ECL is determined by using the key assumptions being the probability of an account falling into arrears and subsequently defaulting ("PD"), definition of significant increase in credit risk, exposure at the moment of default ("EAD") and the estimated losses from defaulted loans ("LGD"). Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios. For defaulted loans considered to be significant at customer level, ECL is determined on an individual basis. In these cases, ECL is determined by using key assumptions being the scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). The Banking Agency of the Federation of Bosnia and Herzegovina ("FBA") has issued the Decision on Credit Risk Management and Determining Expected Credit Losses (the "Decision"), prescribing the minimum impairment rates in the calculation of ECL. This Decision became effective from 1 January 2020 onward. The rates prescribed by the Decision override the results of the estimates of the statistical models as explained above in those cases where the rates given by the Decision give rise to higher ECL levels. Also, in 2020, due to the Covid-19 pandemic, following the criteria set by the FBA, the Bank approved moratoria on repayments of loans by the customers which, together with the general impact of the Covid-19 pandemic on market and macroeconomic forecasts, significantly influenced the key assumptions made by the management in estimating the ECL.	Our audit approach included the following procedures: • We obtained an in-depth understanding of the ECL calculation methodology applied by the Bank and the adjustments made to the model as a result of the implementation of the Decision. We also obtained understanding of the adjustments made to the model as a result of the management's assessment of the Covid-19 impact and we assessed their compliance with the applicable requirements. We engaged our credit risk specialists to assist us in completing this assessment. • We evaluated control activities in credit risk management and lending business processes and tested controls that we considered relevant for our audit approach, as appropriate. • We evaluated control activities and tested selected controls in the area of critical data, including the process of allocating loans and advances to customers to proper ECL stages and valuation of collaterals, and also assessed the independent PD and LGD model validation framework, risk parameter validation results and overall model governance for ECL calculation. • We tested the accuracy of the critical data in the source systems and their input in the ECL calculation engine (PD, LGD and customers ratings). • We assessed the process of incorporating the forward-looking information in the ECL estimate. • We tested the statistical models used by the management to determine key assumptions (PD, LGD, EAD) to assess whether the calculation process was consistent with our expectations. • We analysed the sensitivity analysis for PD in order to understand and discuss this driver of estimation uncertainties underlying the ECL model. • We tested, on a sample basis, the appropriateness of loans staging allocation in accordance with the Bank's internal methodologies. • We tested, on a sample basis, moratoria approvals and staging of exposures under the moratoria, including the stage overlay. • We verified the calculation of modification losses for the exposures under the moratoria. • We verified the reconciliation of the output of the ECL calculation engine with the accounting records. • We tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows. • We tested, on a sample bases, the implementation of the Decision with regard to the application of the minimum impairment rates.

Responsibilities of management and Supervisory Board for the financial statements

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

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

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

The licensed auditor, engaged as a key partner on the on the audit resulting in this independent auditor's report, is Mirza Bihorac.

For and on behalf of PricewaterhouseCoopers d.o.o.

Refer to the original signed Bosnian version	Refer to the original signed Bosnian version
PricewaterhouseCoopers d.o.o. Sarajevo, Bosnia and Herzegovina	Mirza Bihorac Director and licensed auditor

9 April 2021

Statement of financial position
for the year ended 31 December 2020

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

	Notes	31 December 2019	31 December 2020
Assets			
Cash and cash balances	5	248,957	331,519
Financial assets at fair value through profit or loss	6	111	111
Equity instruments	*6*	*111*	*111*
Financial assets at fair value through other comprehensive income	7	159,179	163,137
Debt securities	*7*	*159,179*	*163,137*
Financial assets at amortised cost	8	1,121,611	1,158,111
Loans and advances to banks		*73,895*	*64,269*
Loans and advances to customers		*1,047,716*	*1,093,842*
Property and equipment	9	33,959	35,641
Investment property	9	3,497	1,025
Intangible assets	9	3,582	5,031
Investments in joint ventures and associates	10	595	607
Current tax assets		1,226	1,467
Deferred tax assets	28	629	1,829
Other assets	11	6,928	6,142
Total assets		**1,580,274**	**1,704,620**
Liabilities and equity			
Financial liabilities measured at amortised cost		1,336,813	1,459,245
Deposits from banks	*12*	*136,903*	*146,649*
Borrowings	*13*	*51,044*	*38,836*
Deposits from customers	*14*	*1,148,866*	*1,273,760*
Lease liabilities	15	2,325	3,145
Provisions	16	5,820	9,084
Current tax liabilities	28	-	-
Other liabilities	17	11,976	10,544
Total liabilities		**1,356,934**	**1,482,018**
Share capital	18	86,473	86,473
Share premium		3,000	3,000
Accumulated earnings		130,026	128,937
Fair value reserves		3,841	4,192
Total equity		**223,340**	**222,602**
Total liabilities and equity		**1,580,274**	**1,704,620**

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

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

	Notes	2019	2020
Net interest income	19	46,219	44,908
Interest income		55,656	54,705
Interest expense		-9,527	-9,797
Net fee and commission income	20	20,283	20,062
Fee and commission income		26,272	25,755
Fee and commission expense		-5,989	-5,693
Other similar expense		-893	-439
Dividend income	21	373	286
Net trading result	22	4,110	2,854
Rental income from investment properties & other operating leases	23	430	327
Personnel expenses	24	-20,774	-20,750
Other administrative expenses	24	-16,227	-16,391
Depreciation and amortisation	24	-5,189	-5,356
Impairment loss on financial instruments	25	-2,681	-13,438
Other operating income	26	9,360	13,536
Other operating expenses	27	-9,123	-12,604
Pre-tax result		**25,798**	**12,995**
Income tax	28	-2,312	-987
Net result for the period		**23,486**	**12,008**
Other comprehensive income		**2,424**	**351**
Items that may be reclassified to profit or loss		*2,424*	*351*
Debt instruments at fair value through other comprehensive income		2,693	-228
Deferred taxes relating to items that may be reclassified		-269	579
Items that will not be reclassified to profit or loss		-	-
Total comprehensive income		**25,910**	**12,359**
Earnings per share			
Basic and diluted earnings	29	27.16	13.89

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

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

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

	Share capital	Capital reserves and capital earnings	Retained earning	Revaluation reserves	Total
1 January 2019	**86,473**	**3,000**	**106,539**	**1,418**	**197,430**
Total comprehensive income	-	-	23,487	2,423	25,910
Net profit for the year	-	-	*23,487*	-	*23,487*
Other comprehensive income	-	-	-	*2,423*	*2,423*
31 December 2019	**86,473**	**3,000**	**130,026**	**3,841**	**223,340**
31 December 2019	**86,473**	**3,000**	**130,026**	**3,841**	**223,340**
Adoption of regulatory requirements - Decision on Credit Risk Management and Determining Expected Credit Losses (Note 2a)	-	-	-13,097	-	-13,097
1 January 2020	**86,473**	**3,000**	**116,929**	**3,841**	**210,243**
Total comprehensive income	-	-	12,008	351	12,359
Net profit for the year	-	-	*12,008*	-	*12,008*
Other comprehensive income	-	-	-	*351*	*351*
31 December 2020	**86,473**	**3,000**	**128,937**	**4,192**	**222,602**

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

Statement of cash flows
for the year ending 31 December 2020

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

	2019	2020
Operating activities		
Profit before taxation	**25,799**	**12,995**
Adjustments:		
Depreciation and amortization (Note 24)	5,189	5,356
Impairment losses and provisions	6,829	14,164
Gain on sale of tangible and intangible assets, net	-143	90
Other expenses per lease agrements	-2,250	244
Interest expense from IFRS 16 recognized in the statement of profit or loss	265	44
Interest income on financial instruments recognized at FVOCI	-2,022	-1,795
Dividend income recognized in statement of profit and loss (Note 21)	-373	-286
Cash flow before changes in operating assets and liabilities:	*33,294*	*30,812*
Increase / (decrease) in placements with other banks, before allowance, net	-38,238	9,620
Increase in loans and advances to customers, before allowance, net	-76,520	-69,005
Increase / (decrease) in other assets, before allowance, net	-11,445	-2,920
Increase in due to customers, net	95,998	124,894
Decrease in due to other banks, net	-6,171	-2,462
Decrease / (increase) in provisions, net	-285	392
Increase / (decrease) in other liabilities, net	2,827	-1,500
Cash (used) / generated in operating activities	*-540*	*89,831*
Income tax paid	-2,647	-987
NET CASH (USED) / GENERATED IN OPERATING ACTIVITIES	**-3,187**	**88,844**
Investing activities		
Purchase of financial assets FVOCI	-31,123	-996
Purchase of tangible and intangible assets	-4,486	-4,093
Proceeds from disposal of tangible and intangible assets	1,550	2
Dividend received	373	286
NET CASH USED IN INVESTING ACTIVITIES	**-33,686**	**-4,801**
Financing activities		
Repayment of lease principal	-1,026	-1,437
Repayment of lease interest	-265	-44
NET CASH USED IN FINANCING ACTIVITIES	**-1,291**	**-1,481**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**-38,164**	**82,562**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**287,121**	**248,957**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**248,957**	**331,519**

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

1. GENERAL

History and incorporation

SPARKASSE Bank d.d. BiH („Bank") has been registered on 9 July 1999 with the relevant court in Sarajevo, under the number U/I-1291/99. On 28 July 1999, the Bank obtained the permit to conduct its business from Federal Banking Agency (hereinafter the "FBA"), number 01-376/99. The Bank's headquarter is in Sarajevo, Zmaja od Bosne 7.

The majority shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria its share amounting 100%. The ultimate owner is Erste Group Bank AG Vienna, Austria ("Erste Group"). The Erste Group consolidated financial statements can be found on the following address: Am Belvedere 1, Vienna, Austria.

Principal activities of the Bank

The Bank offers banking services through a developed branch network in Bosnia and Herzegovina:

1. accepting all types of cash deposits and other monetary assets;
2. receiving and taking loans and finance lease;
3. giving all types of financial guarantees;
4. participation, purchase and sale of instruments on cash and capital market for own purposes and on behalf of other parties;
5. payment transactions and money transfer services;
6. purchase and sale of foreign currencies;
7. issuance and management of payment instruments (including credit cards, travel and bank checks);
8. storing and managing securities and other valuables;
9. financial management services;
10. purchase and sale of securities;
11. factoring and forfeiting services;
12. insurance intermediation services in accordance with relevant legislation;
13. other operations arising from points 1-12 of this paragraph and other operations as a joint stock company.

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

1. GENERAL

Managing bodies of the Bank

Supervisory Board:

Gerhard Maier	President
Renate Ferlitz	Member
Maximilian Clary und Aldringen	Member
Ismeta Čardaković	Independent member
Željko Šain	Independent member

Management Board:

Amir Softić	Chairman of the Management Board from 1 February 2021, Member of the Management Board until 31 January 2021
Sanel Kusturica	Chairman of the Management Board until 31 January 2021
Igor Bilandžija	Member of the Management Board, from 18 October 2020, acting member of the Management Board from 26 August 2020, until 17 October 2020
Amer Hadžikadić	Member of the Management Board from 1 February 2021
Nedim Alihodžić	Member of the Management Board until 20 August 2020

Audit Board:

Zlatan Jašarević	President
Sandra Petrcizek – Mahr	Member
Aida Sivro – Rahimić	Member
Damir Sokolović	Member
Andrea Rainer	Member

2. BASIS OF PREPARATION

a) Basis of preparation

The financial statements of the Bank have been prepared in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina (hereinafter "FBiH"), which are based on the Law on Accounting and Auditing in the FBiH, Law on Banks of FBiH, and bylaws of the Banking Agency of FBiH, passed based on aforementioned laws.

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

In accordance with the provisions of the Decision, as at 31 December 2020, the Bank created higher allowances for credit losses in the amount of 11,258 thousand compared to the amount calculated by using the Bank's internal model in line with the requirements of IFRS 9. This difference arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 642 thousand (for both allowances and provision for ECL),
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 2,919 thousand (for both allowances and provision for ECL),
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of BAM 7,687 thousand, of which amount of BAM 6,108 thousand refers to exposures not secured by acceptable collateral, the amount of BAM 1,579 thousand refers to exposures secured by acceptable collateral or partly secured by collateral (for both allowances and provision for ECL),
- application of minimum impairment rates stipulated by the Article 26 of the Decision for trade receivables, factoring and other receivables – difference in the amount of BAM 10 thousand.

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

2. BASIS OF PREPARATION (CONTINUED)

a) Basis of preparation (continued)

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

	1 January 2020	31 December 2020
Decrease of assets	-11,717	-10,343
Increase of liabilites	1,380	915
Decrease of equity	-13,097	-11,258
Net result for the year ended	-	**2,677**

** Note: positive number represents an increase and negative number represents a decrease*

BAM 2,677 thousand represents decrease of difference between local regulation and IFRS 9.

b) Basis of preparation and measurement basis

These financial statements have been prepared on a 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 to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing 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 leasing transactions that are within the scope of IFRS 16 and measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are 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 unobservable inputs for the asset or liability.

The estimates and underlying assumptions are reviewed on an ongoing 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 revision and future periods if the revision affects both current and future periods.

2. BASIS OF PREPARATION (CONTINUED)

b) Basis of preparation and measurement basis (continued)

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 4.

These financial statements are separate standalone financial statements of the Bank.

The Bank is not required to present consolidated financial statements as all of the following conditions are met (as prescribed by IAS 27.10):

- the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- the parent's debt or equity instruments are not traded in a public market;
- the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;
- the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

c) Functional and presentation currency

The financial statements are presented in Bosnian convertible marks ("BAM"), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise noted).

The Central Bank of Bosnia and Herzegovina ("Central Bank" or "CBBH") has implemented an exchange rate based on "currency board" according to which BAM is exchanged to EUR at 1:1.95583 ratio (this rate was used in 2020 and 2019). It is expected that this exchange rate will continue in the foreseeable future.

d) Use of estimates and judgments

The preparation of financial statements in accordance with accounting regulations applicable to banks in FBiH (including IFRS requirements) requires management to make judgments, estimates and assumptions that affect the application of accounting policies in use and the amounts of disclosed assets, liabilities, income and expenses. Actual results may differ from these 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 possibly in future periods if they are affected. Information on areas with significant uncertainties in estimates, and information on critical judgments in application of accounting policies which have most significant effect on the amounts disclosed in these financial statements of the Bank are presented in Note 4.

e) Going concern

Financial statements are prepared under the assumption of going concern.

2. BASIS OF PREPARATION (CONTINUED)

f) Operating environment of the Bank

Bosnia and Herzegovina displays certain characteristics of an emerging market. On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Bosnian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. The above measures were gradualy relaxed during 2020 and 2021. These measures have, among other things, severely restricted economic activity in BiH and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Bank, as well as the BiH and global economy for an unknown period of time.

It is estimated that the total economic activity in Bosnia and Herzegovina in 2020, measured by the real movement of gross domestic product (GDP), recorded a decline of 4.2% compared to 2019. The annual inflation rate was -1.4% and the unemployement rate was 17.11%.

Management is taking necessary measures to ensure sustainability of the Bank's operations and support its customers and employees, such as:

- Maintenance of operations (closed offices, employees working from home, etc.);
- Increase in the capability of digital services (increase in transactions performed without offices visits);
- Offering payment holidays on consumer loans of up to 12 months;

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

In March 2020, the International Accounting Standards Board (the IASB) emphasised in its educational materials that an appropriate judgment has to be applied when determining the effects of COVID-19 on expected credit losses under IFRS 9, given the significant uncertainty that exists, in particular when assessing future macroeconomic conditions. Deteriorating economic forecasts have caused and are likely to continue to cause an increase in expected credit losses and hence greater volatility of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

Except for changes in accounting policies resulting from the regulatory requirements prescribed by the Banking Agency of FBiH, effective from 1 January 2020, the accounting policies set out below have been consistently applied for all years presented in these financial statements.

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Measurement and recognition of investments in associates in the financial statements

Investment in associate in the financial statements are stated at cost less any impairment in the value of individual investments if needed.

Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Interest charged on deposits is added to the principal where this is foreseen by the agreement, Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

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 recognised in the period when services are rendered

Taxation

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

Current income tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss and other comprehensive income because it 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax

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

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 realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, 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. The Bank is subject to various indirect taxes which are included in administrative expenses.

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 (the "CBBH") and current accounts with other banks.

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

Financial instruments

Recognition

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Classification and measurement

Under IFRS 9, all financial assets and liabilities should be recognized in the statement of financial position and measured in accordance with the assigned measurement categories.

The classification of a financial asset at initial recognition depends on:

i. the business model of the Bank for financial asset management – is determined on the basis of the business purpose of financial asset management, i.e. the assessment of whether financial assets are held for the purpose of collecting contractual cash flows, collecting contractual cash flows and selling financial assets or for sale only

ii. the contractual cash flow characteristics of financial assets – is determined on the basis of an assessment of whether the contractual cash flows of a financial asset only pay principal and interest ("SPPI") on the remaining amount of principal

The application of these criteria leads to the classification of financial assets in three measurement categories.

Financial assets measured at amortised cost

Financial assets are measured at amortized cost if they are held in a business model whose purpose is to collect contractual cash flows and their contractual cash flows are SPPI.

In the balance sheet, these assets are stated at amortized cost, i.e. gross book value less any impairment loss. They are presented under "Loans and advances to customers", "Other assets", "Placements with other banks", "Obligatory reserve with the Central Bank" and "Cash and accounts at banks", Cash and balances with other banks include only receivables (deposits) from central banks and credit institutions that are paid on demand. Payable on demand means that they can be withdrawn at any time or with a one work-day term or 24-hour term.

Interest income on these assets is calculated using the effective interest method and is included in the item "Interest and similar income" under "Net interest income" in the statement of profit or loss. Gains or losses on impairment are included under "Impairment losses and provisions". Gains and losses arising from derecognition (such as sale) of assets are stated under Other operating income.

In the Bank, financial assets at amortized cost represent the largest category of measurement, which includes a large majority of loans to clients, interbank credit operations, deposits with central banks, amounts settled, trade and other receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets of a debt instrument are measured at fair value through other comprehensive income (FVOCI) if the contractual cash flows are in accordance with the SPPI and are held within a business model whose objective is achieved by collecting contractual cash flows and selling assets. In the balance sheet, they are included as "financial assets at FVOCI".

Interest income on these assets is calculated using the effective interest rate method and is included in the item "Interest income" under "Net interest income" in the statement of profit or loss. Gains and losses on impairment are recognized in the statement of profit or loss as "Impairment losses and provisions" while in the balance sheet are presented through equity (OCI), As a result, the impact on the statement of profit or loss is the same as for financial assets measured at amortized cost.

The difference between the fair value at which the asset is stated in the balance sheet and the component of the amortized cost is recognized as accumulated other comprehensive income, especially within the revaluation reserve in the statement of changes in equity. The change for the period is reported as an OCI in the statement of comprehensive income as "Revaluation reserve". When a financial asset is derecognised, the amount previously accumulated in the OCI is reclassified to profit or loss and is recognized as "Other operating income".

The Bank classifies investments in debt securities measured at FVOCI. They are part of the "holding up to collection and selling" business model. They relate to different business objectives, such as meeting internal / external liquidity risk conditions and effectively placing excess structural liquidity, strategic positions decided by the management board, initiating and encouraging customer relationships, replacing credit operations or other yield improvement activities. The common feature of investing in debt instruments at FVOCI is that the active optimization of yield through sales is integral to achieving the goals. Sales are made to optimize the liquidity position or generate gains / losses at fair value. As a result, business goals are also achieved by collecting contractual cash flows and selling securities.

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

There are various reasons for the allocation of fair value through financial assets (FVTPL):

Financial assets whose contractual cash flows are not considered SPPI are automatically measured at FVTPL. In the Bank's business this does not apply to loans to clients and debt securities. The main reason for the failure to estimate SPPI is that they have critical interest clauses that do not pass the quantitative testing required by IFRS 9.

Classification and subsequent measurement of financial liabilities

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

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are presented in the statement of financial position under 'Financial liabilities measured at amortized cost'. Under this position are included 'Deposits of banks', 'Deposits of clients', 'Loans' and 'Other financial liabilities'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities measured at amortized cost (continued)

For subsequent measurement of financial liabilities at amortized cost, interest expense is recognized in the statement of profit or loss using the effective interest rate method and is presented in the 'Interest expense' item under 'Net interest income' in the statement of profit or loss. Gains or losses arising from the derecognition of a financial liability are recognized in the statement of profit or loss and are presented in the 'Other gains or losses from derecognition of financial instruments that are not measured at fair value through profit or loss'.

Impairment of financial assets

IFRS 9 expected credit loss model includes three stages, i.e. three levels of credit risk, whereby the financial asset moves through stages as it changes its credit quality,.

	Stage 1	**Stage 2**	**Stage 3**
Expected loss	12-month period	Lifetime period	Lifetime period
Criterion for grouping and determining risk levels	Delay ≤30 days Client is not in default on any basis	Delay ≥31 days ≤90 days Deterioration of client's position Client is not in default on any basis Significant increase in credit risk (SICR)	Delay >90 days i.e. Client is in default on any basis

Derecognition of financial assets

Financial assets are derecognised if the following criteria are met:

i. Contractual rights to cash flows of financial assets expire, or

ii. The Bank transfers financial assets under conditions that meet the criteria for derecognition.

When transferring a financial asset, it is necessary to estimate the extent to which the risks and repossession of ownership of that financial asset are maintained, In that case:

iii. If substantially all the risks and rewards of ownership of the financial asset are transferred, financial assets are derecognised.

iv. If all the risks and rewards of ownership of the financial asset are not transferred or retained substantially, the financial asset is derecognised if the control over such financial asset is also transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Termination of recognition of financial assets due to significant changes in contractual terms

Bank's credit operations may change the contractual terms of a financial asset either as a result of negotiations to adapt to changed market conditions or to prevent financial difficulties of a client, i.e. to maximize the ability to pay if the client is already in financial difficulties.

As a result of the change in the terms or modification of the contractual cash flows of a financial asset, the derecognition of that financial asset and recognition of new, changed financial assets may occur. The Bank has defined a number of derecognition criteria that qualitatively or quantitatively determine whether a change in contractual terms of financial assets is sufficient to meet the conditions for derecognition.

Significant modifications result in derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include the following events:

a) Change of contractual conditions leading to change of the other party to the contract

b) Change of the currency of the contract (unless the change is a result of using the embedded option in the original contract with the pre-agreed terms of the change, or if the new currency is linked to the original currency);

c) the introduction of contracts that do not meet non-SPPI; and eliminating contractual characteristics other than SPPI.

Some criteria for derecognition differ depending on whether contract modifiers are applied to debtors facing financial difficulties. The application of certain modifications to debtors in financial difficulties is not considered significant because it is aimed at improving the bank's prospect of recovering claims by adjusting the repayment schedule under certain financial conditions of those debtors. On the other hand, such contractual modifications that apply to executive debtors may be considered sufficiently important to justify derecognition, as explained in more detail below.

From this perspective, the following criteria lead to derecognition, unless considered to be forbearance measures, they are applied to clients in default or trigger for default:

- the repayment plan has been revised in such a way that the weighted residual maturity of assets is changed by more than 100% and not less than two years in relation to the original asset;

- change in the time / amount of contractual cash flows resulting in the present value of modified cash flows (discounted at the effective interest rate before modification) of more than 2% of the gross book value of the asset immediately before the change (cumulative assessment taking into account all modifications happened in the last twelve months); or

- commercial bargaining initiated by debtors seeking better terms as an alternative to refinancing, while there is an option for early repayment / early termination and a sufficiently competitive refinancing market. Furthermore, the costs the borrower would have had in case of early repayment / early termination of the contract should be considered as low enough to refuse it. This cancellation period is rarely applied for credits at Stage 2 and never in Stage 3.

If contractual modifications deemed to be forbearance measures apply to clients in the default status or the triggers for the default status so significant that they qualitatively estimate as abolishing original contractual rights, result in derecognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Termination of recognition of financial assets due to significant changes in contractual terms (continued)

Examples of such changes are:

- a new contract with substantially different terms was signed as part of the restructuring;

- consolidation of multiple original loans into one with substantially different conditions; or transforming revolving loans in non-revolving.

Amendments to contracts that result in the termination of recognition of original funds result in initial recognition of new financial resources. If the borrower is late or if significant modification leads to default, then the new asset will be treated as POCI.

If the borrower is not in delay or if a significant modification does not result in default, the new asset recognized after the derecognition of the original asset will be in Stage 1, For loans measured at amortized cost, the non-amortized amount of fees / rates are shown as 'Net interest income' on the date of derecognition.

For financial assets measured at FVTPL, regardless of whether they are in delay, gains and losses from derecognition are included in the same items of statement of profit or loss as their measurement result.

For debt instrument assets that are not measured at FVTPL and which are the subject of contractual modifications that do not result in derecognition, the gross carrying amount of the asset is reconciled with the recognition of profit or loss from a change in profit or loss. Gain or loss of change is equal to the difference between the gross book value before the change and the present value of cash flows based on the modified terms discounted at the original effective interest rate, In the statement of profit or loss, gain or loss on the modification is presented as "Interest income" if the change relates to financial assets at Stage 1. For financial assets at Stage 2 and 3 and POCI financial assets, gains or losses are presented as "Impairment losses provisions".

Financial assets – modification

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Payment holidays granted by the Bank in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances. Their impact on the gross carrying amount (modification loss) is presented in profit or loss within Interest income (Note 19) and impairment loss on financial instruments (Note 25).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets – modification (continued)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

Derecogniton of financial liabilities

The Bank derecognizes a financial liability when, and only when, the Bank's obligations have been released, canceled or terminated.

Tangible and intangible assets

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

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

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

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

Estimated useful lives were as follows:

	2019	**2020**
Buildings	33 – 50 years	33 – 50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5 – 10 years	5 – 10 years
Intangible assets	5 years	5 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible and intangible assets (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income in the period 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 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 recognized as an expense immediately, unless the relevant asset is land or buildings 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Repossessed collaterals

Repossessed collaterals are financial and non-financial assets that the Bank acquires in the process of loan repayment. These collaterals are initially recognized at lower value of net book value of respective receivables or estimated value (valuation performed by external appraiser) less expected costs to sell. If the net book value of the respective receivable at the time of repossession is zero, repossessed collaterals are recognized at the amount of BAM 1.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Repossessed collaterals (continued)

These assets have to be subsequently regularly assessed by external appraisers, except when its book value equals BAM 1. In case these assets are not sold in the period of 3 years following repossession, their book value has to be decreased to the amount of 1 BAM, as prescribed by the FBA.

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

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 6 average salaries of the employee disbursed by the Bank or 6 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

Foreign currency translation

Transactions in currencies other than Bosnia and Herzegovina BAM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the 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 statement of profit or loss and other comprehensive income for the period.

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

31 December 2020	1 EUR = BAM 1,95583	1 USD = BAM 1,592566
31 December 2019	1 EUR = BAM 1,95583	1 USD = BAM 1,747994

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception, If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Equity and reserves

Share capital

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

Fair value reserve

Fair value reserves comprises changes in fair value of financial assets at fair value through other comprehensive income.

Retained earnings

Profit for the period after appropriations to owners and allocations to other reserves are transferred to retained earnings.

Dividends

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

There were no dilution effects during 2019 and 2020.

New and amended standards adopted by the Bank

The Bank has applied the following new and revised standards and amendments, and interpretations, for the first time for their annual reporting period commencing 1 January 2020:

- Amendments to the Conceptual Framework for Financial Reporting
- Definition of a business – Amendments to IFRS 3
- Definition of materiality – Amendments to IAS 1 and IAS 8
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7.

The amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Bank:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- IFRS 17: "Insurance Contracts" (issued on 18 May 2017) and Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020) – all effective for annual periods beginning on or after 1 January 2023
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023)
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020)
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

These standards are not expected to have a material impact on the Bank in current or future reporting periods and on foreseeable future transactions.

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 judgments, estimates and make 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 ongoing 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.

SPPI assessment

The assessment of whether the contractual cash flows of financial assets lead to cash flows that are solely payments of principal and interest (SPPI) are subject to the application of significant judgments based on IFRS 9 guidance. These judgments are crucial to the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVTPL or, depending on the business model estimate, at amortized cost or at FVOCI. When taking into account the specificities of loans in the Bank's business, significant areas of judgement are early repayment fees, project financing loans, and benchmark credit tests with critical interest rate clauses.

The most critical area of estimation of SPPI in the Bank's operations are loans with critical interest rate clauses. Interest rate measurement refers to floating rate financial instruments where:

- the reference rate (such as Euribor) differs from the rate of conversion rates
- the interest rate is fixed before the start of the interest period
- time lags arise from average rates in previous periods
- or a combination of the above

To this end, the Bank has developed what is called benchmark test to assess whether a critical interest rate clause could result in contractual (undiscounted) cash flows that are significantly different from the initial contract. In addition to the characteristics of critical interest clauses, the conditions of this benchmark test correspond to the assets in the test.

For funds with critical interest rate clauses that arise only from previous and average rates (i.e. no discrepancy stemming from a period that differs from the frequency of conversion), the SPPI compliance is considered to be fulfilled on the basis of a qualitative estimate if the time gap between fixing the rate and beginning of the interest rate period does not exceed one month.

A quantitative benchmark test is performed on the initial recognition of the contract. The threshold of importance for the cumulative cash flow ratio, the quantitative threshold of materiality is set at 5%. If the materiality thresholds are exceeded, the benchmark test is not passed and the financial asset must be measured at fair value through profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

SPPI assessment (continued)

Following transition to IFRS 9 for loans and debt securities, a benchmark test was carried out in relation to the interest rates at their initial recognition. All loans with the characteristics of the critical interest rate clauses have passed the test and therefore there was no need to measure the loan at FVTPL. No significant margin is expected for new contracts with critical interest rate clauses that failed to meet the benchmark test as a result of the preventive activities undertaken during the project implementation of IFRS 9 with the aim of reducing the amount of loans to be measured by FVTPL.

Business model assessment

For each financial asset that is matched with SPPI at initial recognition, the Bank must assess whether it is part of the business model in which the asset is held for the purpose of collecting contractual cash flows, collecting contractual cash flows and sales, or being held in other business models. As a consequence, the critical aspect in differentiating business models is the frequency and importance of selling property in the appropriate business model. Since asset allocation to business models is based on an initial estimate, cash flows may occur differently than originally expected in subsequent periods, and it may seem that a different measurement method is applicable. In accordance with IFRS 9, such subsequent changes generally do not lead to reclassification or correction of previous period errors in relation to existing financial assets. New information on how to make cash flows can, however, point to the fact that the business model, and thus the measurement method, are changing for new property.

In the Bank, sales due to increased credit risk, short-term assets, short-term sales caused by a non-performing event (such as changes in regulatory or tax environment, large internal reorganization or business combinations, severe liquidity crises, etc,) contrary to the business model of contractual cash flows. Other types of sales conducted in the business model that are held for collection are evaluated retroactively, and if they exceed certain quantitative thresholds or, when deemed necessary due to new expectations, the Bank conducts a prospective test. If the result was that the book value of assets expected to be sold in the expected term of the current business model portfolio, for reasons other than those above, exceeds 10% of the book value of the portfolio, any new acquisitions would have been classified into another business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on the estimate, as it requires an assessment of significant credit risk increases and measurement of expected credit losses without providing detailed guidance. With regard to a significant increase in credit risk, the Bank has established special valuation rules that consist of qualitative information and quantitative thresholds. Another area of complexity relates to the establishment of groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at the level of an individual instrument. Measuring expected credit losses involves complex models relying on historical statistics of probability of default and loss rate in case of default, extrapolation in case of lack of data, individual cash flow estimates and probabilities of different scenarios including future information.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

Impairment of financial instruments (continued)

Detailed explanations on the identification of significant increases in credit risk, including collective estimation, estimation techniques used to measure 12-month and expected credit losses and expectations, as well as the definition of default, are disclosed in Note 32 Risk Management, section h, Credit risk.

ECL measurement

Due to significant and rapid changes in the economic environment, the Bank decided to adjust the approach to measure ECL for the loans issued to micro, corporate and retail clients. The management performed a comprehensive portfolio analysis and had identified groups of borrowers, for which sufficient reasonable and supportable information for the ECL measurement is available on the industry basis.

Following criteria for stage overlay were applied:

- „heat-map“ criteria (industry heat-maps),
- the values of 1Y probability of default and the client's request for COVID relief measures.

Industry heat-map:

- Critical industries - Clothing & Footwear, Cyclical Services, Hotels, Leisure, Passenger Transportation – Air, Transportation manufacturers (Air),
- High risk industries – Electrical, Gaming, Mechanical, Metals, OES, Oil & Gas, Passenger Transportation - Rail & Other, Repair, Wholesale & Rental, Wholesale, Repair & Dealers,
- Moderate risk industries – Agriculture, Chemicals, Consumer Electronics, Education, F&B production, Freight Transportation, Furniture, Healthcare & Social, Infrastructure, Media, OEM, Packaging, Pulp & Paper, Technology, Transportation manufacturers (Rail),
- Low risk industries - Building materials, Buildings construction, DIY, Engineering, Finishing, Logistics, Telecommunication, Utilities, Wood.

In more details, the folowing rules and/or combination of rules were applied when significant increase of credit risk was assessed on industry, PD and moratoria status basis and exposures transferred to Stage 2:

- Critical industry based on the heat-map
- High risk industry and the application for COVID relief measures,
- High risk industry, no application for COVID relief measures, but 1YPD higher than 250 bp,
- Moderate risk industry, application for COVID relief measures and 1YPD higher than 250 bp,
- For PI portfolio, the criteria is the application for COVID relief measure nd 1YPD higher than 250 bp.

As of 31 december 2020, 127 mio BAM of exposure (both on balance and off-balance) was in Stage 2 as a result of the above mentioned criteria.

Such approach applied by the management resulted in the increase of ECL for the clients of BAM 5,550 thousand BAM, out of which BAM 4,215 thousands for corporate portfolio, BAM 892 thousand for retail portfolio and BAM 443 thousand for micro portfolio.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

Customer relief measures

The Bank implemented relief measures stipulated in the decisions passed in 2020 by the Federal Banking Agency in response to the spread of COVID-19.

The last decision was issued on 31 August 2020 based on which borrowers that are negatively affected by the pandemic and meet ceratin conditions can continue applying for reliefs in the form of reprogramming and refinancing with approval of grace period of six months and corresponding extension of maturity so that the debtor's montly installments do not exceed those from original annuity plan. The Bank concluded that generally such applications, provide evidence of a significant increase in credit risk of the loan, unless observable mitigating factors are identified. Generally, all loans granted within the industry heat map were subject to stage overlay criteria which, if met, were considered as loans with significant increase in credit risk. Loans to individuals and legal entites who applied and were approved for the COVID relief measure as of 31 December 2020 amounted to BAM 165,848 thousand, out of which BAM 53,732 thousand has still active measures as of December 2020, while BAM 8,607 thousand was recognized as exposures with significant increase in credit risk. On 31 December 2020, out of active COVID relief measures, BAM thousand 32,915 refers to moratorium, whereas BAM 12,988 thousand refers to exposures for which grace period was approved and BAM 7,892 thousand refers to exposures for which other relief measures was approved.

From above mentioned, loans to individuals who applied for the relief and were approved during the year amounted to BAM 47,945 thousand as of 31 December 2020, out of which BAM 6,591 thousand with active relief measures while BAM 1,899 thousand was recognized as exposures with significant increase in credit risk. On 31 December 2020, out of active COVID relief measures for loans to individuals, BAM thousand 6,521 refers to moratorium, whereas BAM 70 thousand refers to exposures for which other relief measures was approved.

Loans to legal entities who applied for the relief and were approved during the year amounted to BAM 117,903 thousand as of 31 December 2020, out of which BAM 6,708 thousand with active relief measures was recognized as exposure for which significant increase in credit risk occurred as of 31 December 2020. On 31 December 2020, out of active COVID relief measures for loans to legal entites, BAM thousand 26,394 refers to moratorium, whereas BAM 12,988 thousand refers to for which grace period was approved and BAM 7,759 thousand to exposures for which other relief measures was approved.

Out of the COVID portfolio (portfolio of clients which are using or which have used relief measures during the year), as of 31 December 2020, BAM 67,389 thousand of exposures was transferred to Stage 2, which created BAM 3,486 thousand additional allocation of ECL. Out of the COVID portfolio, as of 31 December 2020, BAM 2,740 thousand of exposures was transferred to Stage 3, which created BAM 1,691 thousand additional allocation of ECL.

The highest volume of exposure for which COVID relief measures were applied was on 31st August 2020, when the exposure of clients which applied for COVID relief measures BAM 207,073 thousand. Exposure of legal entities which applied for COVID relief measures at that time amounted to BAM 156,567 thousand and exposure of individuals which applied for COVID relief measures at that time amounted to BAM 50,506 thousand. Moreover, at that time, BAM 38,158 thousand was already recognized as exposure for which significant increase in credit risk was observed.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

Customer relief measures (continued)

Below is the representation of COVID-19 portfolio as of 31 December 2020.

Name of industry / product according to local regulatory segmentation (value of Gross loan according to local regulations in 000 BAM)	Total gross bank loans	Share of COVID portfolio in total Gross loans	COVID 19 portfolio											CLA (principal change)	
			Active measures							Expired approved measures		Out of which - Gross loans - Credit risk level 2 (active measures)	Out of which - Gross loans - Credit risk level 3 and POCI (active measures)		
			Number of debtors	Gross loan amount											
					of which: "moratorium"	of which: "grace"	of which: combination of "moratorium" and "grace"	of which: additional loan amount	of which: other	Number of debtors	Gross loan amount			CLA coverage %	monthly change %
1. Legal entities (1.1. to 1.19.)	585,536	20.1%	33	47,141	26,394	12,988	0	0	7,759	191	70,762	6,708	0	4.6%	25.8%
1.1. A Agriculture, forestry and fishing	7,228	3.3%	0	0	0	0	0	0	0	2	235	0	0	5.1%	200.0%
1.2. B Mining and quarrying	12,244	2.9%	0	300	0	0	0	0	300	2	51	0	0	5.1%	-30.8%
1.3. C Manufacturing industry	157,651	27.1%	6	12,142	4,897	3,194	0	0	4,051	51	30,590	1,397	0	3.2%	7.4%
1.4. D Production and supply of electricity, gas	12,291	27.3%	0	0	0	0	0	0	0	1	3,352	0	0	4.7%	0.0%
1.5. E Water supply, wastewater disposal	1,992	1.1%	0	0	0	0	0	0	0	1	22	0	0	0.0%	0.0%
1.6. F Construction	56,801	5.1%	2	411	90	306	0	0	15	6	2,494	205	0	2.3%	-5.6%
1.7. G Wholesale and retail trade; repair of motor vehicles	229,533	14.1%	7	13,269	3,400	7,642	0	0	2,227	64	19,176	2,751	0	2.9%	-4.1%
1.8. H Transport and storage	40,255	29.1%	6	5,680	3,152	1,524	0	0	1,004	37	6,032	971	0	8.3%	112.7%
1.9. I Accommodation and food service activities	11,455	78.0%	2	8,505	8,505	0	0	0	0	5	433	602	0	9.3%	144.3%
1.10. J Information and communication	13,525	30.0%	0	4,044	4,044	0	0	0	0	2	15	0	0	0.8%	-40.4%
1.11. K Financial and insurance activities	8,517	0.0%	0	0	0	0	0	0	0	0	0	0	0	0.0%	0.0%
1.12. L Real estate business	7,679	69.9%	0	0	0	0	0	0	0	2	5,369	0	0	10.6%	-1.6%
1.13. M Professional, scientific and technical activities	11,651	15.6%	2	100	81	0	0	0	19	5	1,722	75	0	12.6%	7.5%
1.14. N Administrative and support service activities	3,754	67.0%	6	1,978	1,518	322	0	0	138	8	536	0	0	5.3%	148.1%
1.15. O Public administration and defense; social insurance	6,000	0.0%	0	0	0	0	0	0	0	0	0	0	0	0.0%	0.0%
1.16. P Education	73	21.9%	1	5	0	0	0	0	5	1	11	0	0	6.3%	0.0%
1.17. Q Health and social work activities	1,920	68.0%	1	707	707	0	0	0	0	1	599	707	0	5.0%	-21.7%
1.18. R Arts, entertainment and recreation	1,513	8.3%	0	0	0	0	0	0	0	3	125	0	0	6.4%	300.0%
1.19. S Other service activities	1,454	0.0%	0	0	0	0	0	0	0	0	0	0	0	0.0%	0.0%
2. Retail (2.1 + 2.2 + 2.3)	579,126	8.3%	69	6,591	6,521	0	0	0	70	1,536	41,354	1,899	165	7.2%	25.4%
2.1. Consumer loans	474,476	8.0%	55	4,856	4,856	0	0	0	0	1,383	33,280	1,595	97	7.4%	23.7%
2.2. Housing / Mortgage loans	98,013	9.0%	8	1,531	1,531	0	0	0	0	124	7,328	304	68	6.9%	30.1%
2.3. Entrepreneurs (Micro)	6,637	14.3%	6	204	134	0	0	0	70	29	746	0	0	5.8%	77.4%
3. Total (1. + 2.)	1,164,662	14.2%	102	53,732	32,915	12,988	0	0	7,829	1,727	112,116	8,607	165	5.4%	25.6%

When the Bank provides the customers with payment holidays, the Bank stops to count days past due during the holiday period granted, if the customers are reliefed from making payments. After the end of the holiday period granted, the Bank continues the count of days overdue starting from zero.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

IFRS 16

The Bank determines incremental borrowing rate ("IBR") based on the rates that the Bank can obtain financing if the Bank decides to buy the property. When recognizing a new contract, the Bank always take the latest interest rate in accordance with the duration of the lease. In determining IBR the Bank adds 0,30% on the determinated variable interest in order to reach to fix interest rate which is used for discounting the future cashflows.

Currently Bank does not have contracts that have an indefinite duration and to treat them in accordance with IFRS16.

Litigations

Bank's Legal Department makes individual assessment of all court cases and makes provisions on a portfolio basis.

As stated in Note 16, the Bank has reserved BAM 1,400 thousand (2019: BAM 1,283 thousand), which Management estimates as sufficient.

Legal cases are classified on the basis of a reasoned assessment by lawyers and / or Bank's Legal Department on the success of the dispute in question, in accordance with the criteria set out in the Instruction on Litigation.

All passive court proceedings are classified into the following categories or risk groups:

- No risk - includes passive litigation in which it is determined that there is no risk of loss on the part of the Bank
- Low level of risk
- Medium degree of risk
- High level of risk

Provisions for employee benefits

As described in Note 3, in the paragraph named Employee benefits, provision for employee benefits are calculated on the basis of an independent actuarial report on the implementation of IAS 19 – Employee benefits.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

Deffered tax assets and liabilites

Deffered tax assets and liabilities are recognized in cases when income or expense is included in accounting profit in one period, and in taxable profit in another period - in accordance with the Law on Corporate Income Tax ("CPT") Law (Article 14) and the Rulebook of the CPT Law FBiH. The most significant deferred tax assets or liabilities are non-tax deductible expenses / revenues based on the value adjustment of balance sheet assets (regulatory provisions on credit risk levels 1 and 2). In this case, the Bank also refers to the CPT Law of FBiH, making adjustments to the tax balance on a net basis, ie. Increase the tax base in case of higher expenses, ie reduce the tax base in case of higher income, while at the same time recognizing tax assets / liabilities as 10% of these amounts.

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, other than loans and receivables, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

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

5. CASH AND CASH BALANCES

	2019	2020
Cash on hand	76,667	127,419
Cash balances at central banks	151,697	173,724
Of which obligatory reserve with the CBBH	*131,876*	*138,219*
Impairment (Note 25)	-1,217	-174
Cash balances at central banks after impairment	150,480	173,550
Other demand deposits to credit institutions	21,847	30,633
Impairment (Note 25)	-37	-83
Other demand deposits to credit institutions after impairement	21,810	30,550
Cash and cash balances	**248,957**	**331,519**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2020
Equity instruments	111	111
Cash and cash balances	**111**	**111**

Investments in equity securities, except for investments in associates, are classified at fair value through profit or loss (FVTPL). The Bank has investments in SWIFT, Belgium in form of stakes. Fair value is calculated at the level of the Erste Group and for there were no changes in fair value in 2020.

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Gross carrying amount				Impairment allowance					
31 December 2020	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated other fair value changes	Carrying amount
Debt securities	167,018	-	-	167,018	-159	-	-	-159	-3,881	163,137
Total	**167,018**	**-**	**-**	**167,018**	**-159**	**-**	**-**	**-159**	**-3,881**	**163,137**

	Gross carrying amount				Impairment allowance					
31 December 2019	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated other fair value changes	Carrying amount
Debt securities	155,873	-	-	155,873	-962	-	-	-962	3,306	159,179
Total	**155,873**	**-**	**-**	**155,873**	**-962**	**-**	**-**	**-962**	**3,306**	**159,179**

Movement of impairment of financial assets measured at fair value through other comprehensive income

	From	Adoption of regulatory requirements - Decision on Credit Risk Management and Determining Expected Credit Losses (Note 2a)	Alocation (increase in provision)	Derecognition (release of provision)	Transfer between stages	Release of provision, net (not resulted from derecognition)	To
	1 January 2020						31 december 2020
Stage 1	-962	-61	-33	5	-	892	-159
Total	**-962**	**-61**	**-33**	**5**	**-**	**892**	**-159**

	From	Adoption of regulatory requirements - Decision on Credit Risk Management and Determining Expected Credit Losses (Note 2a)	Alocation (increase in provision)	Derecognition (release of provision)	Transfer between stages	Release of provision, net (not resulted from derecognition)	To
	1 January 2019						31 december 2019
Stage 1	-855	-	-237	23	-	107	-962
Total	**-855**	**-**	**-237**	**23**	**-**	**107**	**-962**

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

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

	2019	2020
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	82,245	85,294
Government of Republic of Austria – bonds	23,498	23,660
Republic of France - bonds	10,021	10,171
Republic of Slovenia - bonds	18,376	18,911
Kingdom of Belgium - bonds	15,062	15,180
Government of Republic of Croatia – bonds	9,977	9,921
Total debt securities	**159,179**	**163,137**

The Bank did not invest in treasury notes in 2020, Interest rate (yield to maturity) on bonds ranged from 0,05% to 4,50% p.a. during 2020.

Expected Maturity:

	2019	2020
- no more than 12 months after the reporting period	22,633	5,167
- more than 12 months after the reporting period	136,546	157,970
Total debt securities	**159,179**	**163,137**

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

8. FINANCIAL ASSETS AT AMORTISED COST

	Gross carrying amount					Impairment					Carrying amount
2020	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	31 December
Loans and receivables from credit institutions	**64,342**	-	-	-	**64,342**	**-73**	-	-	-	**-73**	**64,269**
Credit institutions	64,342	-	-	-	64,342	-73	-	-	-	-73	64,269
Loans and receivables from clients	**939,060**	**176,624**	**59,770**	**1,652**	**1,177,106**	**-9,549**	**-19,316**	**-53,889**	**-510**	**-83,264**	**1,093,842**
Credit institutions	9	-	-	-	9	-	-	-	-	-	9
General governments	6,002	-	-	-	6,002	-30	-	-	-	-30	5,972
Other financial institutions	8,062	-	-	-	8,062	-284	-	-	-	-284	7,778
Non-financial institutions	445,451	116,164	14,847	928	577,390	-5,549	-9,425	-12,291	-333	-27,598	549,792
Households	479,536	60,460	44,923	724	585,643	-3,686	-9,891	-41,598	-177	-55,352	530,291
Total	**1,003,402**	**176,624**	**59,770**	**1,652**	**1,241,448**	**-9,622**	**-19,316**	**-53,889**	**-510**	**-83,337**	**1,158,111**

	Gross carrying amount					Impairment					Carrying amount
2019	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	31 December
Loans and receivables from credit institutions	**73.992**	-	-	-	**73.992**	**-97**	-	-	-	**-97**	**73.895**
Credit institutions	73.992	-	-	-	73.992	-97	-	-	-	-97	73.895
Loans and receivables from clients	**999.035**	**51.067**	**75.571**	**1.277**	**1.126.950**	**-8.570**	**-8.765**	**-61.875**	**-24**	**-79.234**	**1.047.716**
Credit institutions	9	-	-	-	9	-	-	-	-	-	9
General governments	1.552	-	-	-	1.552	-1	-	-	-	-1	1.551
Other financial institutions	3.431	-	280	-	3.711	-68	-	-280	-	-348	3.363
Non-financial institutions	499.976	24.173	36.478	889	561.516	-5.275	-1.830	-33.597	-24	-40.726	520.790
Households	494.067	26.894	38.813	388	560.162	-3.226	-6.935	-27.998	0	-38.159	522.003
Total	**1.073.027**	**51.067**	**75.571**	**1.277**	**1.200.942**	**-8.667**	**-8.765**	**-61.875**	**-24**	**-79.331**	**1.121.611**

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

8. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Movement of impairment:

	31 December 2019	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Alocation (new assets originated or purchased)	Derecognition (assets derecognised or repaid)	Transfer betwean stages	Release of provision, net (not resulted from derecognition)	Write-offs	Other	31 December 2020
Loans and receivables from credit institutions									
Stage 1	**-97**	**-30**	**-601**	**655**	-	-	-	-	**-73**
Credit institutions	-97	-30	-601	655	-	-	-	-	-73
Total impairment for loans and receivables from credit institutions	**-97**	**-30**	**-601**	**655**	-	-	-	-	**-73**
Loans and receivables from clients									
Stage 1	**-8,570**	**-3,529**	**-8,240**	**3,241**	**3,868**	**3,681**	-	-	**-9,549**
General governments	-1	-	-	-	-	-14	-	-15	-30
Other financial institutions	-68	-	-221	4	-	2	-	-1	-284
Non-financial institutions	-5,275	-1,413	-6,016	2,548	2,522	2,007	-	16	-5,611
Households	-3,226	-2,116	-2,003	689	1,346	1,686	-	-	-3,624
Stage 2	**-8,765**	**-498**	**73**	**2,481**	**-22,378**	**9,775**	-	**-4**	**-19,316**
Non-financial institutions	-1,830	-439	28	1,638	-8,764	-286	-	-16	-9,669
Households	-6,935	-59	45	843	-13,614	10,061	-	12	-9,647
Stage 3	**-61,875**	**-8,110**	**15**	**3,532**	**-911**	**-5,281**	**18,685**	**56**	**-53,889**
Other financial institutions	-280	-	-	-	-	-	280	-	-
Non-financial institutions	-33,597	-130	9	2,480	-518	1,949	16,355	59	-13,393
Households	-27,998	-7,980	6	1,052	-393	-7,230	2,050	-3	-40,496
POCI	**-24**	**-245**	**-13**	**44**	-	**-269**	**39**	**-42**	**-510**
Non-financial institutions	-24	-249	-11	41	-	-129	38	-7	-341
Households	-	4	-2	3	-	-140	1	-35	-169
Total impairment for loans and receivable	**-79,234**	**-12,382**	**-8,165**	**9,298**	**-19,421**	**7,906**	**18,724**	**10**	**-83,264**

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

8. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Impairement changes

	1 January 2019	Alocation (new assets originated or purchased)	Derecognition (assets derecognised or repaid)	Transfer between stages	Release of provision, net (not resulted from derecognition	Write-offs	Other	31 December 2019
Loans and receivables from credit institutions								
Stage 1	**-27**	**-1,034**	**964**	**-**	**-**	**-**	**-**	**-97**
Credit institutions	-27	-1,034	964	-	-	-	-	-97
Total impairment for loans and receivables from credit institutions	**-27**	**-1,034**	**964**	**-**	**-**	**-**	**-**	**-97**
Loans and receivables from clients								
Stage 1	**-10,631**	**-7,395**	**3,232**	**990**	**5,214**	**-**	**19**	**-8,570**
General governments	-19	-1	-	-	19	-	-	-1
Other financial institutions	-168	-50	11	-	212	-	-73	-68
Non-financial institutions	-7,792	-6,216	2,807	495	5,397	-	33	-5,275
Households	-2,652	-1,128	414	495	-414	-	59	-3,226
Stage 2	**-6,732**	**-**	**1,719**	**-1,814**	**-1,964**	**-**	**25**	**-8,765**
Non-financial institutions	-3,270	-	1,238	-907	1,437	-	-329	-1,830
Households	-3,462	-	481	-907	-3,401	-	352	-6,935
Stage 3	**-59,130**	**-**	**5,004**	**-317**	**-7,236**	**505**	**-71**	**-61,875**
Other financial institutions	-316	-	-	-	36	-	-	-280
Non-financial institutions	-33,478	-	3,844	-317	-3,629	129	-147	-33,597
Households	-25,336	-	1,160	-	-3,643	376	76	-27,998
POCI	**-8,973**	**-**	**1,827**	**-**	**5,890**	**1,217**	**15**	**-24**
Non-financial institutions	-8,488	-	1,822	-	5,837	1,217	-412	-24
Households	-485	-	5	-	53	-	427	-
Total impairment for loans and receivable	**-85,466**	**-7,395**	**11,782**	**-1,141**	**1,904**	**1,722**	**-12**	**-79,234**

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

8. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Movement of gross carrying amount of financial assets at amortised cost

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances at amortised cost					
Gross carrying amount as at 31 Decembar 2019	**1,073,027**	**51,067**	**75,571**	**1,277**	**1,200,942**
New assets originated or purchased	412,907	-	-	444	413,351
Assets derecognised or repaid (excluding write off)	-269,978	-11,034	-6,058	-224	-287,294
Transfer from Stage 1 to Stage 2	-156,297	156,297	-	-	-
Transfer from Stage 1 to Stage 3	-8,127	-	8,127	-	-
Transfer from Stage 2 to Stage 3	-	-5,971	5,971	-	-
Transfer from Stage 3 to Stage 2	-	-592	592	-	-
Transfer from Stage 2 to Stage 1	6,478	-6,478	-	-	-
Amount written off	-	-	-18,685	-39	-18,724
Changes to contracts that did not change the stage	-54,609	-6,664	-5,748	194	-66,827
At 31 December 2020	**1,003,402**	**176,624**	**59,770**	**1,652**	**1,241,448**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances at amortised cost					
Gross carrying amount as at 1 January 2019	919,094	52,511	72,559	9,801	1,053,965
New assets originated or purchased	450,747	-	-	343	451,090
Assets derecognised or repaid (excluding write off)	-256,301	-19,530	-7,144	-3,289	-286,264
Transfer from Stage 1 to Stage 2	-35,827	35,827	-	-	-
Transfer from Stage 1 to Stage 3	-10,122	-	10,122	-	-
Transfer from Stage 2 to Stage 3	-	-4,221	4,221	-	-
Transfer from Stage 3 to Stage 2	-	591	-591	-	-
Transfer from Stage 2 to Stage 1	7,562	-7,562	-	-	-
Amount written off	-	-	-505	-1,217	-1,722
Changes to contracts that did not change the stage	-2,126	-6,549	-3,092	-4,361	-16,127
At 31 December 2019	**1,073,027**	**51,067**	**75,571**	**1,277**	**1,200,942**

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

9. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

Tangible assets

a) Purchase value

	Property and equipment and Investment properties					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Asset under constraction (AUC)	Property and equipment	Investment property
1 January 2019	**31,624**	**14,686**	**3,675**	-	**49,985**	**4,268**
Additions (+)	173	721	1,190	-	2,084	-
Sales and expenses (-)	-597	-1,270	-	-	-1,867	-
Reclassification (+/-)	60	-137	-	-	-77	-
Balance at 31 December 2019	**31,260**	**14,000**	**4,865**	-	**50,125**	**4,268**
Additions (+)	-	-	-	1,127	1,127	-
Sales and expenses (-)	-	-767	-310	-	-1,077	-
Transfer from AUC (+/-)	9	783	197	-989	-	-
Reclassification (+/-)	2,979	-	-	-	2,979	-2,979
Balance at 31 December 2020	**34,248**	**14,016**	**4,752**	**138**	**53,154**	**1,289**

b) Accumulated depreciation

	Property and equipment and Investment properties					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Asset under constraction (AUC)	Property and equipment	Investment property
January 1, 2019	**-6,170**	**-8,539**	**-2,731**	-	**-17,440**	**-686**
Depreciation (-)	-798	-1,363	-515	-	-2,676	-85
Sales and expenses (+)	613	1,191	-	-	1,804	-
Impairments (-)	-181	-	-	-	-181	-
Balance at 31 December 2019	**-6,536**	**-8,711**	**-3,246**	-	**-18,493**	**-771**
Depreciation (-)	-804	-1,306	-543	-	-2,653	-86
Sales and expenses (+)	-	701	310	-	1,011	-
Reclassification (+/-)	-593	-	-	-	-593	593
Balance at 31 December 2020	**-7,933**	**-9,316**	**-3,479**	-	**-20,728**	**-264**

c) Book value

	Property and equipment and investment properties					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Asset under constraction (AUC)	Property and equipment	Investment property
Balance at 1 January 2019	**31,624**	**14,686**	**3,675**	-	**49,985**	**4,268**
Balance at 31 December 2019	**24,724**	**5,289**	**1,619**	-	**31,632**	**3,497**
Balance at 31 December 2020	**26,315**	**4,700**	**1,273**	**138**	**32,426**	**1,025**

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

9. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS (CONTINUED)

Investment property relates to business premises (floors) in the Central office building in Sarajevo rented and not used by the Bank. On the basis of an investment property, in 2020 the Bank generated a total income from rents in the amount of BAM 314 thousand – Note 29 (2019 – BAM 427 thousand), while the direct costs for the year amounted to BAM 13 thousand (2019 – BAM 3 thousand). Fair value of investment properties as at 31 December 2020 and 2019 does not significantly differ from the carrying value of the building during 2020 and 2019.

Intangible assets

a) Purchase value

	Acquired software	Other (licenses, patents, etc.)	Asset under constraction (AUC)	Total
1 January 2019	**7,532**	**5,350**	**-**	**12,882**
Additions (+)	431	665	85	1,181
Sales and expenses (-)	-	-	-	-
Reclassification (+/-)	77	-	-	77
Balance at 31 December 2019	**8,040**	**6,015**	**85**	**14,140**
Additions (+)	-	-	2,966	2,966
Sales and expenses (-)	-9	-	-26	-35
Transfer from AUC (+/-)	1,773	910	-2,683	-
Balance at 31 December 2020	**9,804**	**6,925**	**342**	**17,071**

b) Accumulated amortization

	Acquired software	Other (licenses, patents, etc.)	Asset under construction (AUC)	Total
1 January 2019	**-5,922**	**-3,216**	-	**-9,138**
Depreciation (-)	-658	-762	-	-1,420
Sales and expenses (+)	-	-	-	-
Reclassification (+/-)	-	-	-	-
Balance at 31 December 2019	**-6,580**	**-3,978**	-	**-10,558**
Depreciation (-)	-688	-803	-	-1,491
Sales and expenses (+)	9	-	-	9
Balance at 31 December 2020	**-7,259**	**-4,781**	-	**-12,040**

Book values

	Acquired software	Other (licenses, patents, etc.)	Asset under constraction (AUC)	Total
Balance at 1 January 2019	**7,532**	**5,359**	**-**	**12,882**
Balance at 31 December 2019	**1,460**	**2,037**	**85**	**3,582**
Balance at December 31, 2020	**2,545**	**2,144**	**342**	**5,031**

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

9. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (CONTINUED)

Right of use assets

a) Cost

	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2019	**2,698**	**-**	**-**	**2,698**	**-**
Additions (+)	522	-	-	522	-
Sales and expenses (+)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance at December 31, 2019	**3,220**	**-**	**-**	**3,220**	**-**
Additions (+)	2,337	-	-	2,337	-
Sales and expenses (+)	-908	-	-	-908	-
Reclassification (+/-)	-	-	-	-	-
Balance at December 31, 2020	**4,649**	**-**	**-**	**4,649**	**-**

b) Accumulated depreciation

	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2019	-	-	-	-1,007	**-**
Depreciation (-)	-892	-	-	-892	-
Sales and expenses (+)	-	-	-	-	-
Balance at December 31, 2019	-892	-	-	-892	-
Depreciation (-)	-1,126	-	-	-1,126	-
Sales and expenses (+)	584	-	-	584	-
Impairments (-)	-	-	-	-	
Balance at December 31, 2020	**-1,434**	**-**	**-**	**-1,434**	**-**

c) Book values

	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
Balance at December 31, 2019	**2,328**	**-**	**-**	**2,328**	**-**
Balance at December 31, 2020	**3,215**	**-**	**-**	**3,215**	**-**

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

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Bank's investments in associates are as follows:

Name of the company	2019	2020
Sparkasse Leasing doo Sarajevo (49%)	595	607
Total	**595**	**607**

For all associates the reporting date is 31 December. The summary of financial information on joint companies is presented below:

	2019	2020
Total assets	72,747	86,158
Total liabilities	-65,354	-78,410
Net assets	**7,393**	**7,748**

The changes in investments in associates can be presented as follows:

	Cost method	
	2019	2020
Balance at 1 January	**595**	**595**
Decrease / Increase in share	-	-
Decrease / Increase in risk provision	-	12
Balance at 31 December	**595**	**607**

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

11. OTHER ASSETS

	2019	2020
Repossessed collaterals	4,614	8,392
Authorized exchange office receivables	2,484	2,190
Domestic transactions receivables	1,196	706
Fees and commission receivables	3,609	3,620
Consumables	303	337
Western union receivables	92	95
Paid in advance expenses	676	625
Receivables from employees	198	93
Inventories	245	132
VAT receivables	1	-
Other assets	1,071	978
Total other assets before impairment losses	14,489	17,168
Less: Impairment losses	-7,561	-11,026
Net other asssets	**6,928**	**6,142**

Impairment of other assets

	From	Adoption of regulatory requirements - Decision on Credit Risk Management and Determining Expected Credit Losses (Note 2a)	Additions (increase in provision)	Derecognition (release of provision)	Write-off	To
	January 2020					December 2020
Other assets	-2,850	-52	-2,664	2,397	514	-2,655
Repossessed collaterals	-4,188	-	-4,474	-	763	-7,899
Small inventory	-523	-	-	51	-	-472
Total	**-7,561**	**-52**	**-7,138**	**2,448**	**1,277**	**-11,026**

	From	Adoption of regulatory requirements - Decision on Credit Risk Management and Determining Expected Credit Losses (Note 2a)	Additions (increase in provision)	Derecognition (release of provision)	Write-off	To
	January 2019					December 2019
Other assets	-2,671	-	-2,084	1,851	54	-2,850
Repossessed collaterals	-3,737	-	-3,110	-	2,659	-4,188
Small inventory	-488	-	-35	-	-	-523
Total	**-6,896**	**-**	**-5,229**	**1,851**	**2,713**	**-7,561**

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

12. DEPOSITS FROM BANKS

	2019	2020
Overnight deposits	2,288	23,730
Term deposits	134,615	122,919
Deposits from banks	**136,903**	**146,649**

13. BORROWINGS

	2019	2020
European Investment Bank (EIB) – average weighted interest rate per drawn instalment is 1,517%	20,297	11,075
European Bank for Reconstruction and Development (EBRD) – weighted average interest rate 0,815% p.a.	20,868	17,882
Liabilities for long-term loans – subordinated debt Steiermarkiche bank und Sparkassen AG, maturity on 29 March 2027 at the rate of 3,9%	9,879	9,879
Total	**51,044**	**38,836**

Expected Maturity:

	2019	2020
- no more than 12 months after the reporting period	7,004	13,096
- more than 12 months after the reporting period	44,040	25,740
Total	**51,044**	**38,836**

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

14. DEPOSITS FROM CUSTOMERS

	2019	2020
Current accounts / overnight deposits	**602,025**	**688,917**
Transaction accounts	**602,025**	**688,917**
General governments	41,273	50,319
Other financial corporations	12,509	16,373
Non-financial corporations	205,516	243,150
Households	342,727	379,075
Term deposits	**546,841**	**584,843**
Deposits with agreed maturity	**546,841**	**584,843**
Savings deposits	**536,109**	**501,824**
Other financial corporations	54,254	21,509
Non-financial corporations	134,947	155,447
Households	346,908	324,868
Transaction accounts	**10,732**	**83,019**
General governments	10,732	36,798
Other financial corporations	-	808
Non-financial corporations	-	18,926
Households	-	26,487
Deposits from customers	**1,148,866**	**1,273,760**
General governments	52,005	87,117
Other financial corporations	66,763	38,690
Non-financial corporations	340,464	417,523
Households	689,634	730,430

Average interest rates on total client deposits at the end of 2020 amounted to 0.62% p.a and are higher compared to the previous year (2019 0.60%) by 2 bp. Average interest rates on long-term client deposits increased from 1.33% (2019) to 1.34% in 2020, while average interest rates on short-term deposits had a decreasing trend from 0.90% (2019) to 0.75% (2020).

Most significant decrease of interest rates compared to previous years have been recorded in short-term deposits from commercial customers from 0,94% in 2019 to 0,59% in 2020, and slow decrease in citizens segment from 0.29% in 2019 to 0,26% in 2020.

15. LEASE LIABILITIES

	2019	2020
Lease liabilities	2,325	3,145

	2019	2020
Maturity analysis		
- less than one year	918	1,552
- one to five years	1,286	1,526
- more than five years	121	67
Total	2,325	3,145

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

15. LEASE LIABILITIES (CONTINUED)

Lease liabilites

	2019	2020
Current	918	1,552
Non-current	1,407	1,593

The bank rents - two types of real estate, business premises and land. Leases are negotiated on an individual basis and contain a wide range of different conditions (including cancellation and prolongation). Main characteristics of leases contracts:

- Right-of-use assets for owner-occupied contract last 5 years with a notice period of 3 months and with the option of drafting a contract if both parties agree. Lease payments is made monthly in a fixed amount defined by the contract.
- Right-of-use assets for buildings are contracted mainly for period of 5 years with option of prolongation. Lease payments are mostly made monthly in a fixed amount defined by the contract.

Leases do not impose any specific contractual provisions, but leased assets cannot be used as collateral for the purpose of borrowing funds. Future cash outflows to which the Bank as lessee is potentially exposed, and which are not reflected in the measurement of the lease liability, arise from the extension and cancellation options (Note 4).

The Bank does not provide any guaranteed residual value.

Interest expenses on lease liabilities for the year ended 31 December 2020 amounted to 44 thousand BAM.

Short-term leases

Short-term leases and expenses are recognized on a straight-line basis over the reporting period. Expenses relating to leases of low value items for which the recognition exemption is applied for 2020 is 650 thousand BAM, and in 2019 635 thousand BAM.

Amounts recognised for the reporting period

The following amounts are recognised in profit or loss:

	2019	2020
Interest expense on lease liabilities (included in finance expenses)	265	44
Expense relating to leases of low-value assets that are not short-term leases (included in personnel expenses, other administrative expenses and depreciation expenses)	636	650
	901	**694**

The following amounts are recognised in the statement of cash flows:

	2019	2020
Cash outflow for leases – within financing activities		
Principal	1,025	1,437
Interest	265	44
Termination penalty	-	243
Cash outflow for leases – within operating activities	636	650
	1,926	**2,374**

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

16. PROVISIONS

	2019	2020
Long-term employee provisions	**1,006**	**1,151**
Pending legal issues and tax litigation	**1,283**	**1,400**
Commitments and guarantees given	**1,070**	**2,168**
Allowance for credit losses for commitments and financial guarantees in Stage 1	813	1,141
Allowance for credit losses for commitments and financial guarantees in Stage 2	234	999
Allowance for credit losses for commitments and financial guarantees in Stage 3	23	28
Other provisions	2,461	4,365
Provisions	**5,820**	**9,084**

Long-term provisions for employees

	2019	2020
Present value of long-term provisions for employee benefits, 01 January	**981**	**1,006**
Cost of services (Note 24)	48	103
Interest expense	-	42
Payments	-23	-
Present value of long-term provisions for employee benefits, December 31	**1,006**	**1,151**
Provisions covered by provisions	1,006	1,151
Provisions on December 31st	**1,006**	**1,151**

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

16. PROVISIONS (CONTINUED)

Provisions for irrevocable credit commitments and financial guarantees

	From	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1 January 2020							**31 December 2020**
Stage 1	813	357	1,202	-666	-282	-281	-2	1,141
Stage 2	234	40	-	-149	968	-94	-	999
Stage 3	23	0	-	-11	15	1	-	28
Total	**1,070**	**397**	**1,202**	**-826**	**701**	**-374**	**-2**	**2,168**

	From	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1 January 2020							**31 December 2019**
Stage 1	3,498	-	3,110	-2,128	-154	-2,065	-1,448	813
Stage 2	401	-	-	-413	401	-38	-117	234
Stage 3	36	-	-	-209	118	974	-896	23
Total	**3,935**	**-**	**3,110**	**-2,750**	**365**	**-1,129**	**-2,461**	**1,070**

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

16. PROVISIONS (CONTINUED)

Other provisions (except long-term provisions for employees)

	From	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1 January 2020							**31 December 2020**
Pending Legal proceedings	1,283	-	118	-	-	-	-1	1,400
Other provision	2,461	983	8,103	-7,170	-	-	-12	4,365
Total	**3,744**	**983**	**8,221**	**-7,170**	**-**	**-**	**-13**	**5,765**

	From	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1 January 2019							**31 December 2019**
Pending Legal proceedings	1,189		217	-	-123	-	-	1,283
Commitments and guarantees given outside IFRS 9	-		380	-	-	-	2,081	2,461
Total	**1,189**		**598**	**-**	**-123**	**-**	**2,081**	**3,744**

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

16. PROVISIONS (CONTINUED)

Contingencies and commitments

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, letters of credit and undrawn loan commitments.

	2019	2020
Granted but undrawn loans	172,533	212,908
Performance guarantees	89,178	92,368
Payment guarantees	41,318	51,921
Acreditives	2,031	505
Total	**305,060**	**357,702**

As of 31 December 2020, the provisions for employee benefits represent unused vacation days and severance and retirement severance payments, and were determined using the projected credit unit. In order to make actuarial estimates, following assumptions were used:

- Demographic assumptions on future characteristics of employees (mortality, employee fluctuation rate):
  - Average mortality rate 0,98% (2019: 0,96%)
  - Average fluctuation rate 1,35% (2019: 1,45%)
- Financial assumptions (discount rate, wage levels, expected wage growth):
  - Discount rate 4,0% (2019: 4,0%)
  - Expected wage growth rate of 1,0% (wage growth rate is determined compared to the movements of average salaries in FBiH and RS, movement of salaries in the Bank and Bank's expectations about salaries in the future period. There were no changes in this assumption compared to the previous year).

17. OTHER LIABILITIES

	2019	2020
Liabilities towards suppliers	3,251	3,793
Liabilities towards employees	1,814	1,204
Liabilities to banks	803	1,133
Liabilities for unallocated payments	207	872
Deferred income and accrued expenses	603	513
Card business obligations	699	494
Operational risk commitments	610	469
Liabilities for taxes	168	72
Other liabilities	3,821	1,994
Total	**11,976**	**10,544**

18. SHARE CAPITAL

Shareholding structure as at 31 December 2020 and 2019 was as follows:

	No, of shares	**Amount in BAM '000**	**%**	**No, of shares**	**Amount in BAM '000**	**%**
Steiermarkische Bank und Sparkassen AG, Graz, Austrija	864,733	86,473	100	864,733	86,473	100
Total paid capital	**864,733**	**86,473**	**100**	**864,733**	**86,473**	**100**

Share capital is made up of 864,733 ordinary shares at nominal value of BAM 100.

Share premium represents accumulated positive difference between nominal value and amount received for issued shares.

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

19. NET INTEREST INCOME

	2019	2020
Interest and other similar income		
Financial assets at amortised cost	53,302	52,574
Credit institutions	369	117
General governments	12	108
Other financial corporations	194	215
Non-financial corporations	20,550	20,040
Households	32,177	32,094
of which unwinding (Note 8)	*175*	*-65*
Financial assets measured at fair value through other comprehensive income	2,354	2,131
Total interest and other similar income	55,656	54,705
Interest expenses and similar expenses		
Financial liabilities - held for trading	-9,527	-9,797
Interest expenses	-9,527	-9,797
Total interest expenses and similar expenses	**-9,527**	**-9,797**
Net interest income	**46,219**	**44,908**
Thereof: interest-income on credit impaired financial assets	1,832	2,478
Thereof: Modification gains/losses	62	-1,152

20. NET FEE AND COMMISSION INCOME

	2019		2020	
	Income	Expense	Income	Expense
Payment services	**22,291**	**-5,350**	**21,490**	**-5,165**
Card business	6,000	-3,999	5,553	-3,738
Other	16,291	-1,351	15,937	-1,427
Customer resources distributed but not managed	**929**	**-222**	**816**	**-209**
Collective investment	929	-	816	-
Other	-	-222	-	-209
Lending business	**2,738**	**-384**	**3,128**	**-256**
Guarantees given, guarantees received	2,140	-46	2,465	-23
Loan commitments given, loan commitments received	598	-338	663	-233
Other	**314**	**-33**	**321**	-63
Total fee and commission income and expenses	**26,272**	**-5,989**	**25,755**	**-5,693**
Net fee and commission income	**20,283**	**-**	**20,062**	**-**

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

21. DIVIDEND INCOME

	2019	2020
Income from investments in joint ventures and associates	373	286
Dividend income	**373**	**286**

22. NET TRADING RESULT

	2019	2020
Foreign exchange transactions income	107,520	54,805
Foreign exchange transactions expenses	-103,410	-51,951
Net Trading Result	**4,110**	**2,854**

23. RENTAL INCOME FROM INVESTMENT PROPERTIES & OTHER OPERATING LEASES

	2019	2020
Investment properties	427	314
Other operating leases	3	13
Rental income from investment properties & other operating leases	**430**	**327**

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

24. PERSONNEL EXPENSES, OTHER ADMINISTRATIVE EXPENSES AND DEPRECIATION

The average employee number of the Bank during the year ending 31 December 2020 was 520 (2019: 524).

	2019	2020
Personnel expenses	**-20,774**	**-20,750**
Wages and salaries	-19,052	-18,928
Compulsory social security	-1,674	-1,719
Long-term employee provisions (Note 16)	-48	-103
Other administrative expenses	**-16,227**	**-16,391**
IT expenses	-3,760	-4,616
Expenses for office space	-3,243	-3,223
Deposit insurance contribution	-2,563	-2,831
Office operating expenses	-2,617	-2,061
Legal and consulting costs	-1,905	-1,946
Advertising/marketing	-1,041	-947
Sundry administrative expenses	-1,098	-767
Depreciation and amortisation	**-5,189**	**-5,356**
Owner occupied real estate	-1,805	-1,929
Office furniture and equipment and sundry property and equipment	-1,878	-1,850
Software and other intangible assets	-1,420	-1,491
Investment properties	-85	-86
General administrative expenses	**-42,190**	**-42,497**

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

25. IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

	2019	2020
Financial assets at fair value through other comprehensive income (Note 7)	-107	864
Cash and cash balances (Note 5)	368	1,046
Financial assets at amortised cost (Note 8)	-3,726	-14,645
Net increase of credit loss allowances	4,278	-10,263
Foreclosed assets	-3,109	-4,474
POCI	-4,917	414
Recoveries recorded directly to the income statement	21	16
Modification gains or losses	1	-338
Net allocation of provisions for commitments and guarantees given (Note 16)	784	-703
Net impairment loss on financial instruments	-2,681	-13,438

26. OTHER OPERATING INCOME

	2019	2020
Release of other provisions (Note 16)	4,987	7,170
Release of provisions for other assets	1,851	2,397
Income from sale of property and foreclosed assets	1,751	1,328
Other operating income	771	2,641
Total	**9,360**	**13,536**

27. OTHER OPERATING EXPENSES

	2019	2020
Allocation to other provisions (Note 16)	-5,244	-8,103
Allocation to provisions for other assets (Note 11)	-2,082	-2,664
Other taxes	-708	-669
Expenses for foreclosed assets	-48	-592
Other operating expenses	-640	-353
Allocation to pending legal provisions	-217	-118
Loss from disposal of property, plant and equipment	-181	-90
Operating expenses (including repair and maintenance) for investment properties held for rental income	-3	-15
Total	**-9,123**	**-12,604**

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

28. INCOME TAX

Bank's tax liability is calculated based on accounting income taking into the account non-deductible expenses. Income tax rate for the years ended 31 December 2020 and 31 December 2019 was 10%.

Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

	2019	2020
Current income tax	-2,124	-1,608
Deferred income tax	-188	621
Deffered income tax assets	*13*	*902*
Deffered income tax liabilites	*-203*	*-281*
Income tax	**-2,312**	**-987**

Impact of components of financial assets measured at fair value through other comprehensive income related to tax

	Pre-tax amount	Tax amount	After tax amount	Pre-tax amount	Tax amount	After tax amount
		2019			2020	
Fair value loss allowance	2,693	-269	2,423	228	-23	205
Other comprehensive income	**2,693**	**-269**	**2,423**	**228**	**-23**	**205**

	2019	2020
Profit before tax	**25,799**	**12,955**
Income tax at the legal rate of 10%	2,579	1,299
Non-taxable income	-790	-838
The effect of tax deductible expenses	303	992
Temporary differences	188	-621
Effects of unrecognized portion of tax paid for other RS and BD	32	155
Income tax	**2,312**	**987**
Effective tax rate for the year	**8,96%**	**7,59%**

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

28. INCOME TAX (CONTINUED)

Movement in deferred tax assets can be presented as follows:

	2019	2020
Balance at 1 January	**1,298**	**1,092**
Increase/decrease in deferred tax assets – Impairment Stage 1; Stage 2	-150	802
Increase/decrease in deferred tax assets – FVOCI	-17	590
Increase/decrease in deferred tax assets – Other	-39	-180
Balance at 31 December	**1,092**	**2,304**

Movement in deferred tax liabilities can be presented as follows:

	2019	2020
Balance at 1 January	**-211**	**-463**
Increase/decrease in deferred tax liabilities – Impairment Stage 1; Stage 2	-	-
Increase/decrease in deferred tax liabilities – Fair value reserves FVOCI	-241	-92
Increase/decrease in deferred tax liabilities – Impairment FVOCI	-11	80
Balance at 31 December	**-463**	**-475**

Balance at 31 December	**629**	**1,829**

29. EARNINGS PER SHARE

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

	2019	2020
Profit attributable to shareholders, net	23,487	12,008
Average number of ordinary shares during the year	864,733	864,733
Basic earnings per share (BAM)	**27,16**	**13,89**

There were no dilution effects during 2020 and 2019.

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

30. RELATED PARTY TRANSACTIONS

In the normal course of business a number of banking transactions are entered into with related parties, These transactions were carried out on commercial terms and conditions and at market rates,

Transactions with the Parent company

	2019		2020	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Steiermarkische Bank und Sparkassen AG, Graz, Austria	2,940	157,782	1,014	163,545
Total	**2,940**	**157,782**	**1,014**	**163,545**

	2019		2020	
	Income	**Expense**	**Income**	**Expense**
Steiermarkische Bank und Sparkassen AG, Graz, Austria	1	3,097	35	2,651
Total	**1**	**3,097**	**35**	**2,651**

Transactions with Ultimate parent company

	2019		2020	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	15,012	828	25,242	1,175
Total	**15,012**	**828**	**25,242**	**1,175**

	2019		2020	
	Income	**Expense**	**Income**	**Expense**
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	86	176	24	197
Total	**86**	**176**	**24**	**197**

Transactions with Associate

	2019		2020	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Sparkasse Leasing d.o.o. Sarajevo, Bosnia and Herzegovina	-	1,628	631	2,588
Total	**-**	**1,628**	**631**	**2,588**

	2019		2020	
	Income	**Expense**	**Income**	**Expense**
Sparkasse Leasing d.o.o. Sarajevo, Bosnia and Herzegovina	460	-	331	-
Total	**460**	**-**	**331**	**-**

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

30. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with Other members

	2019		2020	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Erste and Steiermarkische bank d,d, Zagreb, Croatia	2,873	75	2,719	58
Sparkasse Bank a.d. Skopje, North Macedonia	4,109	-	268	-
S IT Solutions AT Spardat GmBH Vienna, Austria	-	-	-	859
Total	**6,982**	**74**	**2,987**	**917**

	2019		2020	
	Income	**Expense**	**Income**	**Expense**
Erste and Steiermarkische bank d,d, Zagreb, Croatia	26	9	21	17
Sparkasse Bank a.d. Skopje, North Macedonia	-	-	-	-
Erste Group Card Processor d,o,o, (vm,MBU)	-	891	-	838
S IT Solutions AT Spardat GmBH Vienna, Austria	-	761	-	1416
S IT Solutions HR d,o,o, Bjelovar, Croatia	-	68	-	-
Total	**26**	**1,729**	**21**	**2,271**

Management remunerations

The remunerations of Management Board and other members of key management were as follows:

	2019	2020
Gross salaries	985	990
Other benefits	109	275
Fees to Supervisory Board members	37	32
Total	**1,131**	**1,297**

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

31. MANAGED FUNDS

The funds managed by the Bank, where the Bank acts as a commissioner on behalf of individuals, trusts and other institutions, are not Banks funds, and therefore are not included in its balance sheet.

It the table below are shown the funds managed by the Bank in and for the name of its clients:

	2019	2020
Loans		
Corporate	14,304	14,189
Individuals	2,490	2,351
	16,794	**16,540**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	14,957	14,825
Ministry of war military invalids of Zenica–Doboj Canton	433	331
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica-Doboj Canton Government	46	30
Employment agency of Zenica-doboj Canton	114	110
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
	16,794	**16,540**
Liability, net	-	-

The Bank does not bear any risk in regard to this placement, and for its services charges a fee. Liabilities from commissioner business are invested in loans to companies and individuals on behalf of third parties.

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

32. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS

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:

	2019	2020
Debt	1,356,934	1,482,018
Equity	223,340	222,602
Debt to capital ratio	6,08	6,66

Capital adequacy and the use of net capital are monitored by the Bank's management, employing techniques based on the guidelines developed by FBA for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

The Bank, through its reporting, conducts regular monitoring of capital, achieved rate of adequacy as well as the impact of all methodological changes that have an impact on capital.

The regulatory capital of the Bank consists of basic and supplementary capital.

The basic capital of the Bank (fully equal to ordinary capital) consists of paid shares, treasury shares, share premium, retained unallocated earnings and other reserves formed from profit after taxation on the basis of the decision of the Bank's 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.

Supplementary capital consists of general impairment allowances for credit risk, calculated as 1,25% of the risk-weighted exposure amount, less any missing credit loss allowances based on the regulatory requirement. Missing credit loss allowances are calculated in accordance with FBA regulations. Bank calculates credit loss allowances by FBA methodology for each contract. A positive difference is shown as missing credit loss allowances.

The minimum required capital rates are as follows:

- regular basic capital rate 6,75%
- basic capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a hedging layer for capital preservation that must be maintained in the form of regular basic capital in the amount of 2,5% of the total amount of risk exposure.

The total weighted risk used to calculate capital adequacy includes:

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

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

32. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS (CONTINUED)

As of 31 December 2020 and 2019 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2020 the adequacy of the Bank's capital amounts to 18,9% (2019: 17,0%).

	2019	2020
Tier 1 capital		
Paid up capital instruments	86,473	86,473
Share premium	3,000	3,000
Other reserves	45,205	45,205
Retained earnings	61,271	71,660
Accumulated other comprehensive income	3,904	4,255
(-) Other intangible assets	-3,582	-5,031
(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-1,056	-1,677
(-) CET1 instruments of financial sector entities where the institution has a significant investment	-595	-607
(-) CET1 capital elements or deductions - other	-5,406	-
Total Tier 1 capital	**189,214**	**203,278**
Tier 2 capital		
SA General credit risk adjustments	12,162	-
Paid up capital instruments and subordinated loans	9,779	9,779
T2 capital elements or deductions - other	-21,941	-
Tier 2 capital	**-**	**9,779**
Regulatory capital	**189,214**	**213,057**
Risk weighted exposure amounts for credit risks (unaudited)	972,993	1,044,955
Risk exposure amount for position, foreign exchange and commodities risks (unaudited)	20,730	2,138
Risk exposure amount for operational risk (unaudited)	119,463	78,258
Total Risk Weighted asset	**1,113,186**	**1,125,351**
Total capital ratio (%)*	**17,0**	**18,9**

*Amounts of capital and other balance sheet positions in the table above are calculated in accordance with regulations of the Banking Agency of FBiH

33. RISK MANAGEMENT

a) Risk management policies and strategies

A key function of each bank is to consciously and selectively take risks and professionally manage such risks. Proactive risk management policy and strategy The Bank aims to establish a balanced ratio of assumed risks and returns in order to achieve sustainable and adequate returns on equity.

The Bank uses risk management and control functions that are proactive and tailored to their business profile and risk profile, based on a clear risk-taking strategy that is consistent with the Group's business strategy and focused on the early identification and management of risks and trends. In addition to meeting the internal objectives of effective and efficient risk management, risk management structures and control functions of the Bank have been developed to meet external and regulatory requirements.

In accordance with the Bank's business strategy, the key risks are credit, market, operational and liquidity risk. The Bank also focuses on managing macroeconomic risk as well as concentrations within and between different types of risk.

b) 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. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board, provided by reports from Risk management department.

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 the value of any collateral obtained.

Credit risk classification (internal rating)

The purpose of the internal rating is to ensure a correct presentation of credit risk in the Bank's portfolio and to ensure fulfilment of Basel II criteria, Internal rating plays a key role in the process of managing credit risk and making decisions. Rating is an important input for risk provisions, risk price, capital management and credit decision, Internal rating is a prerequisite for any credit request and / or approval.

All rating relevant clients and client groups (i.e. all debtors with debt or debt ratio in relation to relevant exposure to risks and losses) must be assessed.

33. RISK MANAGEMENT

b) Credit risk management (Continued)

The calculation of impairment on credit losses is carried out on a monthly basis, at the exposure level / asset level, in the exposure currency. To calculate the loss reserve, an expected credit loss (ECL) model is based on a three-stage approach that leads to a 12-month ECL or lifetime ECL.

A step-by-step approach means that if financial assets are not recognized as purchased or generated credit impaired financial assets (POCIs), i.e. financial assets impaired on initial recognition, then depending on the status of impairment and the estimate of credit risk increases, financial assets are allocated to one of the following stages:

1) Stage 1 includes:

a) Financial assets at initial recognition, except:

i) POCI assets

(ii) Assets whose initial recognition was initially induced by the obligatory credit obligations given to the other counterparty for which there was a significant deterioration in the credit status since initial recognition of that credit obligation, but which is not in default at the time of such first use

b) Financial assets that meet the requirements of low credit risk

c) Financial assets without significant credit risk increases from initial recognition regardless of its credit quality.

At Stage 1 credit risk loss allowances are calculated as a 12-month expected credit loss.

2) Stage 2 includes financial assets with a significant increase in credit risk but not impaired at the reporting date, including initial recognition of assets under 1) a) and ii) above.

At Stage 2 credit risk loss allowances are calculated as lifetime credit loss.

3) Stage 3 includes financial assets that are credit impaired on the reporting date. In this stage credit loss allowancesare calculated as the lifetime credit loss. Impairment is defined as the occurrence of one or more events that have a detrimental effect on the estimated future cash flows of a financial asset. All events included in the definition of credit impaired are considered in the definition of default used in the Bank.

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Definition of default and recovery status

The following default definition is applied in the Bank: Default is when one or both of the following events occur:

• The client is late for more than 90 days with any material loan liability, or

• It is considered unrealistic that the client will pay his credit liabilities in full without collateral realization.

When a client defaults, this means that his financial instrument has been credit impaired, i.e. in the status of default, and assigned the internal rating "R" on that occasion. This further means that all default client's financial instruments are credit impaired. If the client is upgraded to a non-default rating, then all of their financial assets will no longer be credit impaired.

The materiality of the due loan liability is assessed according to the threshold, which is defined by the relevant regulatory bodies. This threshold reflects the level of risk the competent authority considers reasonable.

PD assessment process

The process of PD assessment is done depending on the available data and the adequacy of data for a particular portfolio. Accordingly, the assessment of lifetime PDs is applied on the basis of the methodological concept of the parent group.

For the portfolio of legal entities, the method of analysing the average default rate is used. This method is based on counting all migrations from each default rating to default / non-default over a given period. The estimate of PDs for individuals is based on the same method.

EAD

EAD, Exposure at Default, is the total exposure (amount) that is subject to credit risk provisions in accordance with IFRS 9. The Bank's EAD calculation differs in the balance sheet and off-balance sheet. Generally, gross amortized cost (GCA) and potential future exposure are taken into account, which is the best estimate of the expenditure required in relation to the unconditional commitment of future borrowing or other off-balance items such as guarantees / letters of credit. Potential future exposure is estimated using a credit conversion factor (CCF), which can be defined as an indicator of utilization for off-balance sheet items such as guarantees, letters of credit and credit line instrument features (eg current debit or credit card), which is the uncertainty of the amount which is recognized as off-balance sheet reserve, which deals with various assets in accordance with the circumstances.

In assessing potential future exposure, the Bank estimates the time and amount of potential cash outflows. Where the effect of the time value of money is significant, the amount of the provisioning should be the present value of the costs that are expected to be required to settle the obligation.

The assessment of potential future exposure is differentiated for part of the portfolio that takes into account the expected cash flows from the repayment plan and that part of the portfolios for which it is not applicable.

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

LGD

A Loss Given Default (LGD) parameter describes the percentage of outstanding liabilities at the moment of default (EAD) in case of non-payment. The general approach is to estimate the Loss Given Default (LGD) parameter based on a migration matrix recovery indicator. The LGD used by the Bank to calculate impairment losses on loans and other receivables is based on regulatory rates for LGD, differentiated by LGD for secured and for unsecured exposures. In addition, for defaulted exposures the Bank is applying more stringent LGD values than are regulatory ones, for exposures which are in default more than 3 years, in order to overcome the potential underestimation of CLA in the future, with the tendency to increase with the increase in time in default.

Forward looking information

The Bank used supportable forward looking information for measurement of ECL. The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2020:

Weights applied per Indicator and Segment

	Corpo – SME	Micro	Retail
GDP growth	50%	60%	70%
Inflation	-	-	-
Unemployment	50%	60%	30%

Application of FLI shifts and new PDs produced estimated effect of BAM 0,5 million.

To incorporate different macro scenarios the Bank used three different scenarios (downside, base, upside). Those scenarios are received from Erste Group.

Scenarios	Scenario probabilites		
	Year 1	Year 2	Year 3
	2020	2021	2022
Downside	100%	50%	50%
Base	-	40%	40%
Upside	-	10%	10%

Scenarios	GDP GROWTH		
	Year 1	Year 2	Year 3
	2020	2021	2022
Downside	-4.26%	-1.80%	-0.35%
Base	-4.26%	3.00%	2.80%
Upside	-4.26%	4.36%	4.16%

Scenarios	INFLATION - CPI		
	Year 1	Year 2	Year 3
	2020	2021	2022
Downside	-1.42%	-1.80%	-0.01%
Base	-1.42%	0.90%	1.50%
Upside	-1.42%	2.06%	2.66%

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

	UNEMPLOYMENT		
Scenarios	Year 1	Year 2	Year 3
	2020	2021	2022
Downside	17.11%	28.37%	24.54%
Base	17.11%	16.40%	16.00%
Upside	17.11%	14.71%	14.31%

Forward looking information (continued)

For 2020 macrovariables used as received from Erste Group. Scenario probabilities for 2020 set to 100% just technically.

Probabilities of three scenarios (base, downside, upside) are calculated in corrdination with Erste Group. For 2020-2022 macrovariables used as received by Erste Group.

Grouping of financial assets measured on collective approach basis

The grouping of financial assets measured on collective approach basis is applied in the following cases:

- Where there is no objective evidence of impairment or
- When there is evidence of impairment, but exposure is not individually material.

Grouping of financial assets measured on individual approach basis

The grouping of financial assets measured on individual approach basis is made based on of valid regulatory guidelines that define the materiality threshold for exposures that are considered individually material.

In the case of Sparkasse Bank d,d, BiH, this threshold is BAM 150 thousand. Individually material exposure is individually tested for objective evidence of impairment.

Methodology for POCI

POCI assets are not part of the transfer in Stages regardless of the change in the client's credit risk after initial recognition of POCI assets, POCI assets are subject to expected lifetime credit losses from initial recognition to full derecognition. Further, expected lifetime credit losses, expected on the date of initial recognition of POCI assets, must be taken into account when calculating the fair value of the asset at that date and are not recognized as provisions for credit losses (while subsequent changes to those initial expectations only result in recognition of the provision for impairment losses only if it results in lower expectations compared to the start date, while those that result in better expectations than the recognition date are recognized as an increase in the gross book value of POCI assets). For all these reasons, POCI is defined as a “Stage” per se, as POCI assets have never fully behaved either as Stage 3 assets or as Stage 2 or 1 assets, regardless of changes in client's credit risk after initial recognition.

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Significant increase of credit risk (SICR)

The Bank based its estimate of significant increase in credit risk based on a regular monthly assessment of qualitative and/or quantitative indicators of creditworthiness of the client. Qualitative elements include indicators that are the result of a regular customer tracking process through the EWS system as well as other elements (e.g. days overdue, forbearance, workout and fraud status) and data available to the Bank. Quantitative elements reliy on monitoring the absolute and relative change in the probability of default of a customer in relation to the date of initial recognition of a particular financial placement.

Credit exposure

Credit exposure includes all financial instruments in Bank's portfolio except for cash in the register and Central Bank BH account balances.

Minimum rates for expected credit losses

When it comes to value of expected credit losses calculated in accordance with methodology described in section 3 of this Policy, the Bank shall apply minimum rates of expected credit losses defined in this section, by using whichever is higher from following values:

- value of expected credit losses calculated in accordance with internal methodology
- value of expected credit losses calculated by using minimum rates of expected credit losses as defined below.

Minimum rates of expected credit losses for Stage 1

For exposures classified into Stage 1, the Bank needs to determine and record in its books the expected credit losses in below given amounts as a minimum:

1. for exposures with low credit risk– 0.1% of exposure,
2. for exposures to central governments and central banks outside Bosnia and Herzegovina, which have credit evaluation from an acknowledged external institution for evaluation of credit rating which, in accordance with Article 69 of the Decision on calculation of bank capital are classified into medium credit quality 3 and 4 – 0,1% of exposure,
3. for exposures to banks and other subjects from financial sector which have credit evaluation from an acknowledged external institution for evaluation of credit rating which, in accordance with Article 69 of the Decision on calculation of bank capital are classified into credit quality levels 1, 2 or 3 – 0.1% of exposure,
4. for all other exposures – 0.5% of the exposure.

The expected credit loss for exposures in form of cash in hand and cash at bank is 0%, provided that all conditions related to property protection prescribed by sub-legal act regulating system of internal controls in the Bank have been met.

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Minimum rates of expected credit losses for Stage 2

For exposures classified into Stage 2, the Bank needs to determine and record in its books the expected credit losses in the minimum amount of 5% of exposure.

Minimum rates of expected credit losses for Stage 3

For exposures classified into Stage 3, the Bank needs to determine and record in its books the expected credit losses in amounts defined in Table 1 or Table 2, as a minimum.

Minimum rates of expected credit losses for exposures secured by an acceptable collateral

No.	*Days past due*	*Minimum expected credit loss*
1.	*up to 180 days*	*15%*
2.	*from 181 to 270 days*	*25%*
3.	*from 271 to 365 days*	*40%*
4.	*from 366 to 730 days*	*60%*
5.	*from 731 to 1460 days*	*80%*
6.	*over 1460 days*	*100%*

Minimum rates of expected credit losses for exposures not secured by an acceptable collateral

No.	*Days past due*	*Minimum expected credit loss*
1.	*up to 180 days*	*15%*
2.	*from 181 to 270 days*	*45%*
3.	*from 271 to 365 days*	*75%*
4.	*from 366 to 456 days*	*85%*
5.	*over 456 days*	*100%*

The Bank determines minimum expected credit losses in accordance with diagram below:

<table>
<tr><td colspan="2">Exposure not secured by an acceptable collateral</td><td rowspan="2">Expected losses in accordance with Table 2</td></tr>
<tr><td rowspan="2">Exposure partially secured by an acceptable collateral</td><td>Secured part</td></tr>
<tr><td>Unsecured part</td><td>Expected losses in accordance with Table 1</td></tr>
</table>

If the Bank has undertaken relevant legal actions, and if it can document probability of collection from the acceptable collateral during the next three years, it does not have to increase the level of expected credit losses over 80% of exposure. Thereby the estimate of future cash flows from an acceptable collateral reduced to present value needs to be higher than 20% of such exposure.

In case the Bank fails to collect receivables in the period of three years, it will have to record in its books expected credit losses in the amount of 100% of the exposure.

33. RISK MANAGEMENT (CONTINUED)

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

b) Credit risk management (continued)

In case of restructured exposures, the Bank shall, during each 12 months of recovery period, keep the expected credit losses at the same coverage level as formed upon the approval of restructuring, which cannot be lower than 15% of exposure.

The Bank is required to determine and record in its books expected credit losses in the amount of 100% of exposure for every third and subsequent restructuring of previously restructured exposure, which at the moment of restructuring was classified into Stage 3 or POCI assets, except for situations where the Bank has undertaken relevant legal actions and if it can document probability of collection from the acceptable collateral during the next three years, it does not have to increase the level of expected credit losses over 80% of exposure.

For exposures where the Client has failed to fulfil their obligations towards the Bank within 60 days from the date of demand for payment under a previously issued guarantee, the latest, the Bank shall be required to determine and record in its books expected credit losses in the amount of 100%, expect for situations where the Bank has undertaken relevant legal actions and if it can document probability of collection from the acceptable collateral during the next three years, it does not have to increase the level of expected credit losses over 80% of exposure.

For NPLs, it is considered that there is uncertainty of collection of interest income, and therefore recognition of these assets in the profit or loss shall be postponed until their collection. Such receivables from interest shall be recorded in Bank's books until their collection.

Minimum rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, as well as other receivables

Rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, as well as other receivables are given in table below:
Minimum rates of expected credit losses

No.	*Days past due*	*Minimum expected credit loss*
1.	*no default in materially significant amount*	*0.5%*
2.	*up to 30 days*	*2%*
3.	*from 31 to 60 days*	*5%*
4.	*from 61 to 90 days*	*10%*
5.	*from 91 to 120 days*	*15%*
6.	*from 121 to 180 days*	*50%*
7.	*from 181 to 365 days*	*75%*
8.	*over 365 days*	*100%*

When determining number of days past due for receivables, the Bank shall take into consideration default in repaying liabilities towards the bank in materially significant amount.

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

2020	Credit risk exposure	Credit loss allowances	Adjustments (FVOCI)	Net carrying amount
Cash and cash balances - demand deposits to credit institutions	30,632	-47	-	**30,585**
Non-trading debt instruments at FVPL	-	-	-	-
Debt instruments at FVOCI	159,257	-74	3,881	163,137
Debt securities	159,257	-74	3,881	163,137
Debt instruments at AC	**1,241,448**	**-83,337**	-	**1,158,111**
Loans and advances to banks	64,342	-73	-	64,269
Loans and advances to customers	1,177,106	-83,264	-	1,093,842
Off balance-sheet exposures	357,702	-6,533	-	351,169
Total	**1,789,039**	**-89,991**	**3,881**	**1,703,002**

2019	Credit risk exposure	Credit loss allowances	Adjustments (FVOCI)	Net carrying amount
Cash and cash balances - demand deposits to credit institutions	**21,846**	**-37**	-	**21,809**
Non-trading debt instruments at FVPL	-	-	-	-
Debt instruments at FVOCI	**155,873**	**-962**	**3,306**	**159,179**
Debt securities	155,873	-962	3,306	159,179
Debt instruments at AC	**1,200,942**	**-79,331**	-	**1,121,611**
Loans and advances to banks	73,992	-97	-	73,895
Loans and advances to customers	1,126,950	-79,234	-	1,047,716
Off balance-sheet exposures	**305,060**	**-3,531**	-	301,529
Total	**1,683,721**	**-83,860**	**3,306**	**1,604,128**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by counterparty sector and financial instrument

2020	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVTOCI	At amortised cost		Trade and other receivables	Off-balance sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
General governments	-	-	159,257	-	6,002	-	814	166,073
Credit institutions	30,632	-	-	64,342	-	9	3,278	98,260
Other financial corporations	-	-	-	-	8,062	-	1,251	9,313
Non-financial corporations	-	-	-	-	571,468	5,922	321,780	899,170
Households	-	-	-	-	585,642	-	30,580	616,223
Total	**30,632**	**-**	**159,257**	**64,342**	**1,171,175**	**5,931**	**357,702**	**1,789,039**

2019	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVTOCI	At amortised cost		Trade and other receivables	Off-balance sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
General governments	-	-	155,873	-	1,552	-	5,514	162,938
Credit institutions	21,846	-	-	73,992	-	9	4,037	99,885
Other financial corporations	-	-	-	-	3,710	-	1,232	4,942
Non-financial corporations	-	-	-	-	546,915	14,601	266,148	827,664
Households	-	-	-	-	560,110	53	28,129	588,292
Total	**21,846**	**-**	**155,873**	**73,992**	**1,112,287**	**14,663**	**305,060**	**1,683,721**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and financial instrument

2020	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVOCI	At amortised cost		Trade and other receivables	Off balance-sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
Agriculture and forestry	-	-	-	-	7,608	-	612	8,221
Mining	-	-	-	-	12,289	934	1,094	14,318
Manufacturing	-	-	-	-	159,548	2379	63,488	225,415
Energy and water supply	-	-	-	-	14,285	166	7,391	21,842
Construction	-	-	-	-	57,642	-	91,996	149,637
Trade	-	-	-	-	232,094	1669	109,759	343,522
Transport and communication	-	-	-	-	41,225	-	26,404	67,629
Hotels and restaurants	-	-	-	-	12,334	-	859	13,193
Financial and insurance services	30,632	-	-	64,342	8,521	9	4,868	108,372
Real estate and housing	-	-	-	-	7,878	-	600	8,478
Services	-	-	-	-	1,454	-	2,427	3,881
Public administration	-	-	159,257	-	6,008	-	-	165,265
Education, health and art	-	-	-	-	12,050	-	8,532	20,582
Private households	-	-	-	-	576,676	-	28,864	605,539
Other	-	-	-	-	21,563	774	10,808	33,146
Total	**30,632**	**-**	**159,257**	**64,342**	**1,171,175**	**5,931**	**357,702**	**1,789,039**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and financial instrument

2019	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVOCI	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Off balance-sheet exposures	Total
Agriculture and forestry	-	-	-	-	5,299	41	870	6,210
Mining	-	-	-	-	12,562	887	708	14,157
Manufacturing	-	-	-	-	154,273	2,483	57,538	214,294
Energy and water supply	-	-	-	-	9,344	183	3,941	13,468
Construction	-	-	-	-	61,469	4,732	62,436	128,637
Trade	-	-	-	-	218,690	6,289	98,471	323,450
Transport and communication	-	-	-	-	52,431	39	32,156	84,626
Hotels and restaurants	-	-	-	-	12,094	-	421	12,515
Financial and insurance services	21,846	-	-	73,991	3,747	9	5,586	105,179
Real estate and housing	-	-	-	-	9,862	-	-	9,862
Services	-	-	-	-	17,418	-	9,580	26,998
Public administration	-	-	155,873	-	1,558	-	5,500	162,931
Education, health and art	-	-	-	-	3,371	-	758	4,129
Private households	-	-	-	-	550,170	-	27,095	577,265
Other	-	-	-	-	-	-	-	-
Total	**21,846**	**-**	**155,873**	**73,991**	**1,112,286**	**14,663**	**305,060**	**1,683,721**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)
Credit risk exposure by industry and stage

2020	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guaranees and letters of credit	Total
Agriculture and forestry	7,065	421	264	-	7,750	470	8,221
Mining	12,307	1,612	140	53	14,111	207	14,318
Manufacturing	159,979	28,179	2,691	217	191,066	34,349	225,415
Energy and water supply	15,085	409	1	-	15,495	6,347	21,842
Construction	59,937	12,986	1,025	-	73,948	75,689	149,637
Trade	220,437	36,850	7,994	540	265,821	77,701	343,522
Transport and communication	33,567	14,405	2,029	139	50,141	17,488	67,629
Hotels and restaurants	-	12,539	395	-	12,934	259	13,193
Financial and insurance services	103,844	-	-	-	103,844	4,528	108,372
Real estate and housing	1,527	6,561	389	-	8,478	-	8,478
Services	1,253	1,067	-	-	2,320	1,561	3,881
Public administration	165,265	-	-	-	165,265	-	165,265
Education, health and art	3,920	8,936	781	-	13,637	6,945	20,582
Private households	502,975	58,081	43,810	674	605,539	-	605,539
Others	18,732	7,329	280	31	26,372	6,774	33,146
Total	**1,305,892**	**189,376**	**59,799**	**1,654**	**1,556,721**	**232,318**	**1,789,039**

2020	Stage 1	Stage 2	Stage 3	Total
Guaranees and letters of credit	205,654	26,662	2	232,318
Total	**205,654**	**26,662**	**2**	**232,318**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and stage (Continued)

2019	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guaranees and letters of credit	Total
Agriculture and forestry	5,205	36	500	-	5,741	469	6,210
Mining	12,027	1,139	611	35	13,812	344	14,157
Manufacturing	167,336	6,298	7,772	231	181,637	32,657	214,294
Energy and water supply	10,359	120	192	-	10,671	2,798	13,468
Construction	64,053	3,430	3,741	-	71,224	57,413	128,637
Trade	222,832	6,713	17,507	557	247,609	75,841	323,450
Transport and communication	53,423	2,389	4,064	73	59,949	24,677	84,626
Hotels and restaurants	10,548	1,316	392	-	12,256	259	12,515
Financial and insurance services	99,630	-	280	-	99,910	5,269	105,179
Real estate and housing	7,212	1,142	1,508	-	9,862	-	9,862
Services	15,133	2,108	1,557	-	18,798	8,200	26,998
Public administration	162,931	-	-	-	162,931	-	162,931
Education, health and art	3,763	111	63	10	3,947	182	4,129
Private households	512,118	27,366	37,410	371	577,265	-	577,265
Total	**1,346,570**	**52,168**	**75,597**	**1,277**	**1,475,612**	**208,109**	**1,683,721**

2019	Stage 1	Stage 2	Stage 3	Total
Guarantees and letters of credit	203,836	3,031	1,242	208,109
Total	**203,836**	**3,031**	**1,242**	**208,109**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by risk category

	Stage 1	Stage 2	Stage 3	POCI	Total
Credit risk exposure December 2020	1,305,892	189,376	59,799	1,654	1,556,721
Share of credit risk exposure	83.89%	12.17%	3.84%	0.11%	100,00%
Credit risk exposure December 2019	1,346,570	52,168	75,597	1,277	1,475,612
Share of credit risk exposure	91.26%	3.54%	5.12%	0.09%	100,00%

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by region and stage

2020	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Erste Grupe market	**82,117**	**-**	**-**	**-**	**82,116**	**3,278**	**85,394**
Austria	68,325	-	-	-	68,325	3,278	71,603
Czech Republic	-	-	-	-		-	-
Croatia	13,776	-	-	-	13,776	-	13,776
Serbia	16	-	-	-	16	-	16
Other European Union	**86,217**	**-**	**-**	**-**	**86,217**	**-**	**86,217**
Slovenia	-	-	-	-		-	-
Other EU Countries	86,217	-	-	-		-	86,217
Emerging markets	**1,137,464**	**189,357**	**59,697**	**1,651**	**1,388,170**	**229,040**	**1,617,210**
BiH	1,137,558	189,376	59,801	1,653	1,388,388	229,040	1,617,428
Total	**1,305,892**	**189,376**	**59,801**	**1,653**	**1,556,721**	**232,318**	**1,789,039**

2019	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Erste Grupe market	**54,465**	**-**	**-**	**-**	**54,465**	**4,037**	**58,502**
Austria	40,671	-	-	-	40,671	3,598	44,269
Czech Republic	-	-	-	-	-	439	439
Croatia	13,789	-	-	-	13,789	-	13,789
Serbia	5	-	-	-	5	-	5
Other European Union	**111,658**	**-**	**-**	**-**	**111,658**	**-**	**111,658**
Slovenia	18,578	-	-	-	18,578	-	18,578
Other EU Countries	93,080	-	-	-	93,080	-	93,080
Emerging markets	**1,180,447**	**52,168**	**75,597**	**1,277**	**1,309,489**	**204,072**	**1,513,561**
BiH	1,180,447	52,168	75,597	1,277	1,309,489	204,072	1,513,561
Total	**1,346,570**	**52,168**	**75,597**	**1,277**	**1,475,612**	**208,109**	**1,683,721**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by financial instrument and collateral

2020	Total credit risk exposure	Colaterals total	Collateralised by			Credit risk exposure net of collateral	IFRS9 impairment relevant		
			Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - demand deposits to credit institutions	30,632	-	-	-	-	30,632	30,632	-	-
Debt instruments - held for trading	-	-	-	-	-	-	-	-	-
Debt instruments at FVOCI	159,257	-	-	-	-	159,257	159,257	-	-
Debt instruments at AC	**1,241,448**	**414,221**	**5,505**	**367,975**	**40,741**	**827,227**	**1,147,529**	**32,771**	**61,148**
Loans and advances to banks	64,342	-	-	-	-	64,342	64,342	-	-
Loans and advances to customers	1,177,106	414,221	5,505	367,975	40,741	762,885	1,083,187	32,771	61,148
Off balance-sheet exposures	**357,702**	**19,574**		**15,137**	**4,436**	**338,128**	**124,787**	**564**	**305,060**
Total	**1,789,039**	**433,795**	**5,505**	**383,112**	**45,177**	**1,355,244**	**1,462,205**	**33,335**	**366,208**

2019	Total credit risk exposure	Colaterals total	Collateralised by			Credit risk exposure net of collateral	IFRS9 impairment relevant		
			Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - demand deposits to credit institutions	21,847	-	-	-	-	21,847	21,847	-	21,847
Debt instruments - held for trading	-	-	-	-	-	-	-	-	-
Debt instruments at FVOCI	155,873	-	-	-	-	155,873	155,873	-	155,873
Debt instruments at AC	**1,200,942**	**396,965**	**1,665**	**351,398**	**43,902**	**803,977**	**1,096,478**	**27,672**	**1,200,942**
Loans and advances to banks	73,992	-	-	-	-	73,992	73,992	-	73,992
Loans and advances to customers	1,126,950	396,965	1,665	351,398	43,902	729,985	1,022,486	27,672	1,126,950
Off balance-sheet exposures	**305,060**	**18,409**	**594**	**15,295**	**2,520**	**286,651**	94,745	2,179	**305,060**
Total	**1,683,721**	**415,374**	**2,259**	**366,693**	**46,422**	**1,268,347**	**1,368,943**	**29,851**	**1,683,721**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing exposures

	2020	Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
Performing	Not past due or Past due <= 30 days	S1	-	166,073	98,260	8,787	730,684	507,735	**1,511,540**
		S2	-	-	-	526	149,688	59,874	**210,089**
		S3	-	-	-	-			**-**
		POCI	-	-	-	-	87	185	**272**
	Past due > 30 days <= 90 days	S1	-	-	-	-	7		**7**
		S2	-	-	-	-	3,013	2,936	**5,949**
		S3	-	-	-	-	-	-	**-**
		POCI	-	-	-	-	-	-	**-**
Non performing	Unlikely to pay that are not past-due or past-due < = 90 days	S3	-	-	-	-	1,877	2,166	**4,043**
		POCI	-	-	-	-	229	358	**587**
	Past due > 90 days <= 180 days	S3	-	-	-	-	33	1,838	**1,872**
		POCI	-	-	-	-	0	33	**34**
	Past due > 180 days <= 1 year	S3	-	-	-	-	2,111	5,767	**7,878**
		POCI	-	-	-	-	20	42	**62**
	Past due > 1 year <= 5 years	S3	-	-	-	-	7,105	24,331	**31,436**
		POCI	-	-	-	-	445	105	**550**
	Past due > 5 years	S3	-	-	-	-	3,722	10,852	**14,573**
		POCI	-	-	-	-	147	-	**147**
								Total	**1,789,039**

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

	2019	Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
Performing	**Not past due or Past due <= 30 days**	S1	-	162,939	99,884	4,663	761,485	521,435	**1,550,405**
		S2	-	-	-	-	26,539	24,394	**50,933**
		S3	-	-	-	-	-	-	**-**
		POCI	-	-	-	-	20	35	**56**
	Past due > 30 days <= 90 days	S1	-	-	-	-	-		**-**
		S2	-	-	-	-	1,031	3,235	**4,266**
		S3	-	-	-	-	-	-	**-**
		POCI	-	-	-	-	-	-	**-**
Non performing	**Unlikely to pay that are not past-due or past-due < = 90 days**	S3	-	-	-	-	4,340	1,583	**5,923**
		POCI	-	-	-	-	272	303	**576**
	Past due > 90 days <= 180 days	S3	-	-	-	-	1,469	2,365	**3,834**
		POCI	-	-	-	-	32	-	**32**
	Past due > 180 days <= 1 year	S3	-	-	-	-	1,263	3,967	**5,230**
		POCI	-	-	-	-	-	5	**5**
	Past due > 1 year <= 5 years	S3	-	-	-	-	11,399	22,491	**33,891**
		POCI	-	-	-	-	459	44	**503**
	Past due > 5 years	S3	-	-	-	280	19,249	8,433	**27,961**
		POCI	-	-	-		105	-	**105**
								Total	**1,683,721**

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing impairement

2020		Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
Performing	Not past due or Past due <= 30 days	S1	-	-140	-124	-319	-9,004	-3,917	-13,504
		S2	-	-	-	-50	-11,626	-9,105	-20,781
		S3	-	-	-	-	-	-	-
		POCI	-	-	-	-	-12	-27	-40
	Past due > 30 days <= 90 days	S1	-	-	-	-	-	-	-
		S2	-	-	-	-	-166	- 1,112	-1,278
		S3	-	-	-	-	-	-	-
		POCI	-	-	-	-	-	-	-
Non performing	Unlikely to pay that are not past-due or past-due < = 90 days	S3	-	-	-	-	-1,017	-1,484	- 2,501
		POCI	-	-	-	-	-35	-60	-95
	Past due > 90 days <= 180 days	S3	-	-	-	-	-5	-1,509	-1,514
		POCI	-	-	-	-	-0	-8	-8
	Past due > 180 days <= 1 year	S3	-	-	-	-	-1,372	- 4,189	-5,562
		POCI	-	-	-	-	-7	-22	- 29
	Past due > 1 year <= 5 years	S3	-	-	-	-	- 6,175	-23,592	-29,767
		POCI	-	-	-	-	-168	-60	- 228
	Past due > 5 years	S3	-	-	-	-	- 3,722	-10,852	-14,573
		POCI	-	-	-	-	-110	-	-110
								Total	-89,991

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

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing impairement (continued)

	2019	Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
Performing	Not past due or Past due <= 30 days	S1	-	-1,004	-139	-102	-7,210	-3,472	**-11,927**
		S2	-	-	-	-	-1,884	-5,714	**-7,598**
		S3	-	-	-	-	-	-	-
		POCI	-	-	-	-	-	-	-
	Past due > 30 days <= 90 days	S1	-	-	-	-	-	-	-
		S2	-	-	-	-	-68	-1,450	**-1,518**
		S3	-	-	-	-	-	-	-
		POCI	-	-	-	-	-	-	-
Non performing	Unlikely to pay that are not past-due or past-due < = 90 days	S3	-	-	-	-	-2,414	-1,117	**-3,531**
		POCI	-	-	-	-	-	-	-
	Past due > 90 days <= 180 days	S3	-	-	-	-	-854	-1,683	**-2,537**
		POCI	-	-	-	-	-16	-	**-16**
	Past due > 180 days <= 1 year	S3	-	-	-	-	-1,016	-2,825	**-3,841**
		POCI	-	-	-	-	-	-	-
	Past due > 1 year <= 5 years	S3	-	-	-	-	-10,975	-15,974	**-26,949**
		POCI	-	-	-	-	-7	-	**-7**
	Past due > 5 years	S3	-	-	-	-280	-19,234	-6,422	**-25,936**
		POCI	-	-	-	-	-	-	-
Total									**-83,860**

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

33. RISK MANAGEMENT (CONTINUED)

c) Market risk management

Market risk is the risk of loss that may arise from adverse changes in market prices and the resulting parameters

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

Currency risk management

The bank is exposed to various types of exchange rate risks. This involves the risk of an open currency position and other risks. An open currency position risk is a risk associated with a mismatch between assets and liabilities in a particular currency or from currency derivatives. This type of risk can arise from client transactions or trading on its own account and is monitored and managed on a daily basis. Exposure to currency risk is limited by regulatory and internal limits. Internal limits are set by the Management Board.

The following table shows the largest open currency positions at 31 December 2020 and 31 December 2019:

	2019	2020
Euro	-13,076	837
American dolar	-171	-174
Other	-418	-135

Foreign currency sensitivity analysis

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

The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD and other currencies. 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 in currencies different from lender and borrower currencies. A positive number below indicates an increase in profit or other capital where BAM strengthens 10% against other relevant currency.. For a 10% weakening of BAM against other relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Effect	
	2019	2020
Gain / (loss)	19	17

33. FINANCIAL INSTRUMENTS (CONTINUED)

c) Market risk management

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at fixed interest rates. 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 derivative and non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability 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's net profit for the year ending 31 December 2020 would increase / decrease by BAM thousand 5,100 (2019: by BAM 5,814 thousand).

d) Liquidity risk management

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

The following table details the rest of Bank's contractual maturities for financial assets. The table is prepared based on nondiscounted financial assets cash flows, including interest for that assets and interest for that asset that will be earned, except for the assets that it is expected for the cash flow to appear in the future period.

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

33. RISK MANAGEMENT (CONTINUED)

d) Liquidity risk management (Continued)

Liquidity and interest risk tables

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Total
2020							
Non-interest bearing							
Cash balances as CBBiH	-	138,219	-	-	-	-	138,219
Fixed interest rate instruments							
Cash balances as CBBiH	-0,50%	35,505	-	-	-	-	35,505
Loans and advancec to banks	-0,50%	64,341	-	-	-	-	64,341
Loans and advancec to customers	4,75%	82,367	70,409	278,436	378,066	201,964	1,011,242
Debt securities	2,43%	-	-	2,112	105,724	58,977	166,813
Variable interest rate instruments							
Loans and advancec to banks	-0,55%	30,632	-	-	-	-	30,632
Loans and advancec to customers	3,51%	13,789	9,860	56,635	206,079	200,298	486,661
		364,853	**80,269**	**337,183**	**689,869**	**461,239**	**1,933,413**
2019							
Non-interest bearing	-	131,968	-		-	-	131,968
Cash balances as CBBiH	-	131,968					131,968
Fixed interest rate instruments							
Cash balances as CBBiH	-0,50%	19,729	-	-	-	-	19,729
Loans and advancec to banks	-0,77%	78,671	-	-	-	-	78,671
Loans and advancec to customers	4,16%	78,899	57,331	241,452	285,044	138,666	801,393
Debt securities	3,26%	-	-	22,549	50,761	84,216	157,526
Variable interest rate instruments							
Loans and advancec to customers	3,58%	12,838	7,974	36,155	161,914	106,249	325,130
		322,105	**65,305**	**300,156**	**497,719**	**329,131**	**1,514,417**

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

33. RISK MANAGEMENT (CONTINUED)

d) Liquidity risk management (Continued)

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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	1 to 5 years	Over 5 years	Total
2020							
Non-interest bearing							
Deposits from customers and banks	-	711,432	-	-	-	-	711,432
Variable interest rate instruments							
Deposits from customers and banks	1,39%		100	-	50,596	-	50,696
Borrowings	1,42%	2,238	3,254	5,507	3,295	-	14,294
Subordinated loans	3,9%	-	-	-	-	12,158	12,158
Fixed interest rate instruments							
Deposits from customers and banks	1,27%	51,483	88,746	154,173	361,089	15,232	670,724
Borrowings	0,89%	-	-	1,969	12,804	-	14,773
		765,153	**92,100**	**161,649**	**427,784**	**27,390**	**1,474,077**
2019							
Non-interest bearing							
Deposits from customers and banks	-	452,739	-	-	-	-	452,739
Variable interest rate instruments							
Deposits from customers and banks	1,40%	-	15,696	15,647	25,531	-	56,873
Borrowings	1,27%	-	-	4,303	27,417	-	31,720
Subordinated loans	3,90%	-	-	-	-	12,579	12,579
Fixed interest rate instruments							
Deposits from customers and banks	1,29%	152,974	62,974	202,040	313,649	8,803	740,439
Borrowings	1,97%	-	-	2,445	6,845	-	9,290
		605,713	**78,670**	**224,434**	**373,442**	**21,382**	**1,303,640**

The Bank expects to meet other operating cash flow and cash inflow obligations.

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

34. FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

34.1 Fair value of the Company'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	Fair value as at		Fair value Hierarchy as at 31 December 2020	Valuation technique(s) and key input(s)
	31 December 2020	**31 December 2019**		
	Listed equity securities in stock exchange in Bosnia and Herzegovina: -	Listed equity securities in stock exchange in Bosnia and Herzegovina: -		
	Listed equity securities on stock exchanges in other countries:	Listed equity securities on stock exchanges in other countries:		
	• Belgium –111 thousand BAM	• Belgium –111 thousand BAM		
Financial assets at fair value through other comprehensive income (Note 7) Non-trading financial assets at fair value through profit or loss (Note 6)	Listed debt securities in stock exchange in other countries:	Listed debt securities in stock exchange in other countries:		
	• Croatia – 9,921 thousand BAM (Baa3/BBB)	• Croatia – 9,977 thousand BAM (Baa3/BBB)		
	• Austria – 23,660 thousand BAM (AA/AA)	• Austria – 23,498 thousand BAM (AA/AA)	Level 1	Quoted bid prices in an active market,
	• Belgium – 15,180 thousand BAM (AA/AA)	• Belgium – 15,062 thousand BAM (AA/AA)		
	• France – 10,171 thousand BAM (AA/AA)	• France – 10,021 thousand BAM (AA/AA)		
	• Slovenia - 18,911 thousand BAM (AA/A)	• Slovenia - 18,376 thousand BAM (AA/AA)		
	Listed debt securities in stock exchange in Bosnia and Herzegovina:	Listed debt securities in stock exchange in Bosnia and Herzegovina:		
	• FBiH Ministry of Finance – 32,910 thousand BAM (B+)	• FBiH Ministry of Finance – 40,841 thousand BAM (B+)	Level 2	
	• RS Ministry of Finance – 52,384 thousand BAM (B+)	• RS Ministry of Finance – 41,404 thousand BAM (B+)	Level 2	

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

34. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	2019					2020				
	Book value	Fair value	Quoted market prices in active markets Level 1	Valued according to a model based on available market data Level 2	Valued according to a model based on unavailable data Level 3	Book value	Fair value	Quoted market prices in active markets Level 1	Valued according to a model based on available market data Level 2	Valued according to a model based on unavailable data Level 3
ASSET										
Cash and cash balances	248,957	248,957	-	-	-	331,653	331,653	-	-	-
Financial assets at amortised cost	**1,121,611**	**1,123,320**	-	-	**1,123,320**	**1,158,111**	**1,158,854**	-	-	**1,158,854**
Loans and advances to banks	73,895	73,903	-	-	73,903	64,269	64,269	-	-	64,269
Loans and advances to customers	1,047,716	1,049,327	-	-	1,049,327	1,093,842	1,094,585	-	-	1,094,585
Trade and other receivables	14,444	14,444	-	-	14,444	5,760	5,760	-	-	5,760
LIABILITIES										
Financial liabilities measured at amortised cost	**1,336,813**	**1,335,703**	-	-	**1,335,703**	**1,459,244**	**1,459,232**	-	-	**1,459,232**
Deposits from banks	187,947	189,939	-	-	189,939	185,485	186,746	-	-	186,746
Deposits from customers	1,148,866	1,145,764	-	-	1,145,764	1,273,760	1,272,486	-	-	1,272,486
FINANCIAL GUARANTEES AND COMMITMENTS										
Financial guarantees	-	-	-	-	-	-	22	-	-	22
Irrevocable commitments	-	6,860	-	-	6,860	-	5,168	-	-	5,168

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

34. FAIR VALUE MEASUREMENT (CONTINUED)

34.2 Fair value of the Bank's non-financial assets and non-financial liabilities

Fair values and fair value hierarchy of non-financial assets

2020	Book value	Fair value	Quoted market prices in active markets Level 1	Model-based on market data observation level 2	Market by model based on observable inputs that are not visible in the market for Level 3
Assets whose value is shown in the notes					
Real estate investment	1,025	1,025	-	-	1,025
Assets whose fair value is shown in the balance sheet					
Held-for-sale assets	-	-	-	-	-

2019	Book value	Fair value	Quoted market prices in active markets Level 1	Model-based on market data observation level 2	Market by model based on observable inputs that are not visible in the market for Level 3
Assets whose value is shown in the notes					
Real estate investment	3,497	3,497	-	-	3,497
Assets whose fair value is shown in the balance sheet					
Held-for-sale assets	-	-	-	-	-

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

35. EVENTS AFTER THE REPORTING DATE

Since 1 Feburary 2021, Amir Softić is Chairman of the Management Board (replacing Sanel Kusturica), while Amer Hadžikadić is new member of the Management Board.

As of 18 March 2021 FBA has issued Decision on temporary measures of banks to ensure recovery from negative economic consequences caused by COVID-19 extending the possibility for applying for reliefe measures. The Bank is currently assessing the impact of the forementioned Decision. The Bank does not expects significant negative effect of the Decision on liquidity in 2021 due to the extension of the Decision. Until the date of the report, the Bank did not have a large number of customer requests. Furthermore, the Bank will continue to identify debtors negatively impacted with COVID 19 pandemic in a timely manner and asign debtors to an adequate level of credit risk.

There were no other significant subsequent events that would have a significant impact on the financial statements for 2020 or that would require disclosure in the notes to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of the Bank on 9 April 2021

Amir Softić President of the Management Board	**Igor Bilandžija** Member of the Management Board

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