

SPARKASSE BANK DD BIH

**Financial statements for the year
ended 31 December 2021 and
Independent Auditor's Report**

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

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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 94 were authorised by the Management Board on 14 April 2022 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
President of the Management Board

Igor Bilandžija
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 2021, 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 2021;
- 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.

Other information

The Management Board is responsible for the other information. The other information obtained at the date of this auditor's report is the Bank's Annual business report as prescribed by the Law on accounting and auditing of the Federation of Bosnia and Herzegovina (but does not include the separate financial statements and our auditor's report thereon).

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our audit approach

Overview

Materiality

- Overall materiality: Bosnia and Herzegovina's Convertible Marks ("BAM") 2,438 thousand, which represents 1% 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 the Management Board 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 the Management Board 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 2,438 thousand
How we determined it	<p>1% of net assets of the Bank</p> <p>1% 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.</p>
Rationale for the materiality benchmark applied	<p>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.</p> <p>We chose 1% which we believe is within the range of acceptable quantitative materiality thresholds for this benchmark in the circumstances.</p>

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 provisions" 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 2021, gross loans and advances to customers and credit loss allowances amounted to BAM 1,362,231 thousand and BAM 85,553 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 Board 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.

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 Board'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 Board 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 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 Board and Supervisory Board for the financial statements

The Management Board 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 the Management Board 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, the Management Board 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 the Management Board 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 the Management Board.

- Conclude on the appropriateness of the Management Board'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 engagement partner on the audit resulting in this independent auditor's report is Primož Kovačič.

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

Refer to the original signed
Bosnian version

Mirza Bihorac, Director and licensed auditor

Sarajevo, Bosnia and Herzegovina

14 April 2022

Izveštaj o finansijskom položaju
na dan 31. decembra 2021. godine

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

	Napomene	31. decembar 2020.	31. decembar 2021.
Imovina			
Novac i novčani ekvivalenti	5	331.519	433.391
Finansijska imovina po fer vrijednost kroz bilans uspjeha	6	111	127
Finansijska imovina po fer vrijednosti kroz ostalu sveobuhvatnu dobit	7	163.137	163.705
Finansijska imovina po amortiziranom trošku	8	1.158.111	1.276.678
Nekretnine i oprema	9	32.426	31.181
Ulaganja u nekretnine	9	1.025	999
Nematerijalna imovina	9	5.031	4.606
Imovina s pravom korištenja	9	3.215	3.307
Ulaganja u pridružena društva	10	607	607
Unaprijed plaćeni porez na dobit		1.467	-
Odgođena porezna imovina	28	1.829	2.222
Ostala imovina	11	6.142	8.628
Ukupno imovina		1.704.620	1.925.451
Obaveze i kapital			
Finansijske obaveze koje se mjere po amortiziranom trošku		1.459.245	1.649.332
<i>Depoziti od banaka</i>	12	146.649	92.280
<i>Obaveze po uzetim kreditima</i>	13	38.836	27.835
<i>Depoziti od klijenata</i>	14	1.273.760	1.529.217
Obaveze po osnovu najmov	15	3.145	3.344
Rezervisanja	16	9.084	9.683
Tekuće porezne obaveze	28	-	554
Ostale obaveze	17	10.544	17.099
Ukupne obaveze		1.482.018	1.680.012
Dionički kapital	18	86.473	86.473
Dionička premija		3.000	3.000
Akumulirana dobit		128.937	153.667
Rezerve fer vrijednosti		4.192	2.299
Ukupno kapital		222.602	245.439
Ukupno obaveze i kapital		1.704.620	1.925.451

Računovodstvene politike i napomene u nastavku čine sastavni dio ovih finansijskih izvještaja.

**Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021**

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

	Notes	2020	2021
Net interest income	19	44,908	49,332
Interest income		54,705	58,712
Interest expense		-9,797	-9,380
Net fee and commission income	20	20,082	23,524
Fee and commission income		25,755	30,089
Fee and commission expense		-5,693	-6,565
Other similar expense		-439	-797
Dividend income	21	286	225
Net trading result	22	2,854	4,660
Gains/losses from financial instruments measured at FVTPL	6	-	16
Rental income from investment properties & other operating leases	23	327	344
Personnel expenses	24	-20,750	-21,050
Other administrative expenses	24	-16,391	-17,891
Depreciation and amortisation	24	-5,356	-5,291
Impairment losses of financial instruments and provisions	25	-13,919	-7,637
Other operating income	26	13,536	13,911
Other operating expenses	27	-12,123	-12,385
Pre-tax result		12,995	26,961
Income tax	28	-987	-2,231
Net result for the period		12,008	24,730
Other comprehensive income		351	-1,956
Items that may be reclassified to profit or loss		351	-1,956
Debt instruments at fair value through other comprehensive income		-228	-2,166
Deferred taxes relating to items that may be reclassified		579	210
Items that will not be reclassified to profit or loss		-	-
Total comprehensive income		12,359	22,774
Earnings per share			
Basic and diluted earnings	29	13.89	28.60

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 2021**

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

	Share capital	Capital reserves and capital earnings	Retained earning	Revaluation reserves	Total
1 January 2020	86,473	3,000	116,929	3,841	210,243
Total comprehensive income	-	-	12,008	351	12,359
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
1 January 2021	86,473	3,000	128,937	4,192	222,602
Total comprehensive income	-	-	24,730	-1,956	22,774
Profit for the year	-	-	24,730	-	24,730
Other comprehensive income	-	-	-	-1,956	-1,956
Other adjustments	-	-	-	63	63
31 December 2021	86,473	3,000	153,667	2,299	245,439

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

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

	2020	2021
Operating activities		
Profit before taxation	12,995	26,961
Adjustments:		
Depreciation and amortization (Note 24)	5,356	5,291
Impairment losses and provisions	14,164	4,144
Loss / (gain) on sale of tangible and intangible assets, net	90	-10
Gain on disposal of repossessed collaterals, net	-	-3,516
Accrued expenses	-	1,600
Modification effects IFRS 16	244	-36
Effects of change in FV of financial assets designated at FVTPL	-	-16
Interest expense from IFRS 16 recognized in the statement of profit or loss	44	64
Interest income on financial instruments recognized at FVOCI	-1,795	-2,125
Dividend income recognized in statement of profit and loss (Note 21)	-286	-225
Changes in operating assets and liabilities:		
Decrease / (increase) in placements with other banks, before allowance, net	9,620	-10,058
Increase in loans and advances to customers, before allowance, net	-69,005	-110,815
Increase in other assets, before allowance, net	-2,920	-1,633
Increase in due to customers, net	124,884	255,457
Decrease in due to other banks, net	-2,462	-65,370
Increase / (decrease) in provisions, net	392	-239
(Decrease) / increase in other liabilities, net	-1,500	8,258
Income tax paid	-987	-2,231
NET CASH GENERATED IN OPERATING ACTIVITIES	88,844	105,501
Investing activities		
Purchase of financial assets FVOCI	-996	-502
Purchase of property and equipment, and intangible assets	-4,093	-2,730
Proceeds from disposal of property and equipment, and intangible assets	2	273
Proceeds from disposal of repossessed assets	-	2,136
Dividend received	286	225
NET CASH USED IN INVESTING ACTIVITIES	-4,801	-598
Financing activities		
Repayment of lease principal	-1,437	-2,967
Repayment of lease interest	-44	-64
NET CASH USED IN FINANCING ACTIVITIES	-1,481	-3,031
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,562	101,872
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	248,957	331,519
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	331,519	433,391

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

Notes to the financial statements for the year ending 31 December 2021

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

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.

Notes to the financial statements
for the year ending 31 December 2021

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

1. GENERAL (CONTINUED)

Managing bodies of the Bank

Supervisory Board:

Gerhard Maier	President
Renate Ferlitz	Member
Maximilian Clary und Aldringen	Member until 26 May 2021
Christoph Schoefboeck	Member from 26 May 2021
Ismeta Čardaković	Independent member
Željko Šain	Independent member

Management Board:

Amir Softić	Chairman of the Management Board from 1 February 2021
Sanel Kusturica	Chairman of the Management Board until 31 January 2021
Igor Bilandžija	Member of the Management Board, from 18 October 2020
Amer Hadžikadić	Member of the Management Board from 1 February 2021
Igor Jokić	Member of the Management Board from 1 January 2022

Audit Board:

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

**Notes to the financial statements
for the year ending 31 December 2021**

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

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 FBA, 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.
- FBA 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 2021, the Bank created higher allowances for credit losses in the amount of 11,306 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 1,126 thousand (for both allowances and provision for ECL), out of which application of minimum impairment rates stipulated by the Article 26 of the Decision for trade receivables, factoring and other receivables refers to difference in the amount of BAM 31 thousand.
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 1,715 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 8,464 thousand, of which amount of BAM 5,729 thousand refers to exposures not secured by acceptable collateral, the amount of BAM 2,735 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 31 thousand.

**Notes to the financial statements
for the year ending 31 December 2021**

(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	31 December 2021
Decrease of assets	-11,717	-10,343	-10,682
Increase of liabilities	1,380	915	624
Decrease of equity	-13,097	-11,258	-12,003
Net result for the year ended	-	2,677	697

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

b) Basis of preparation and measurement basis

These financial statements have been prepared on a historical cost basis, except 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.

Notes to the financial statements for the year ending 31 December 2021

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

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 has not consolidated its associate – Sparkasse Leasing d.o.o. Sarajevo, as the Management Board believes that the conditions from IAS 28, paragraph 17 have been met:

- a. The Bank is a wholly-owned subsidiary and its owner has been informed about, and does not object to, the Bank not applying the equity method.
- b. The Bank's debt or equity instruments are not traded in a public market.
- c. The Bank 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.
- d. The ultimate or any intermediate parent of the Bank produces consolidated financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated.

In addition, by the letter of FBA No. 9666-02-16-19 dated 19 April 2019, the Bank has been exempted from the preparation of consolidated financial statements (i.e. from consolidation of its associate).

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 2021 and 2020). 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.

**Notes to the financial statements
for the year ending 31 December 2021**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

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.

**Notes to the financial statements
for the year ending 31 December 2021**

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

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 statement of financial position, 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 on financial instruments 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.

Notes to the financial statements
for the year ending 31 December 2021

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

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 statement of financial position, 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 statement of financial position 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 statement of financial position 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'.

Notes to the financial statements
for the year ending 31 December 2021

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

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 (Note 33 Risk Management, section b, Credit risk)

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.

Expected loss	Stage 1 12-month period	Stage 2 Lifetime period	Stage 3 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) Purchased or originated credit impaired ("POCI") assets which are not defaulted	Delay >90 days i.e. Client is in default on any basis POCI assets which are defaulted

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.

**Notes to the financial statements
for the year ending 31 December 2021**

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

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).

Notes to the financial statements
for the year ending 31 December 2021

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

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.

Derecognition of financial liabilities

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

Property and equipment, 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:

	2020	2021
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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment, and intangible assets (continued)

Impairment

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

Reposessed collaterals

Reposessed 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, reposessed collaterals are recognized at the amount of BAM 1.

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.

Notes to the financial statements
for the year ending 31 December 2021

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

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

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.

Notes to the financial statements
for the year ending 31 December 2021

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2020 and 2021.

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 2021:

- Covid-19-Related Rent Concessions – amendments to IFRS 16
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments listed above did not have any 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 2021 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)

Notes to the financial statements for the year ending 31 December 2021

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (Issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 8: Definition of Accounting Estimates (Issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- Covid-19-Related Rent Concessions – additional amendments to IFRS 16 (Issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021)
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (Issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

Those standards are not expected to have a material impact on the Bank in the 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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

SPPI assessment (continued)

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.

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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

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.

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 33 Risk Management, section b, 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
- client's segment

Industry heat-map:

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

ECL measurement (continued)

In more details, the following 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 and 1YPD higher than 250 bp; however the rule for PPIs was abolished on November 2021 based on the recovery of the mentioned portfolio

As of 31 december 2021, 52,803 thousand 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 2,342 thousand, out of which BAM 2,176 thousands for corporate portfolio and BAM 166 thousand for micro portfolio.

Customer relief measures

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

The last decision was issued on 17 December 2021 based on which borrowers that are negatively affected by the pandemic and meet certain 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 monthly 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 entities who applied and were approved for the COVID relief measure as of 31 December 2021 amounted to BAM 171,603 thousand, out of which only BAM 100 thousand has still active measures as of December 2021.

From above mentioned, loans to individuals who applied for the relief and were approved during 2021 and 2020 amounted to BAM 44,416 thousand as of 31 December 2021. As of 31 December 2021, no exposures with active COVID relief measures were present.

Loans to legal entities who applied for the relief and were approved during 2020 and 2021 amounted to BAM 127,187 thousand as of 31 December 2021, out of which only BAM 100 thousand with active relief measures as of that date.

Notes to the financial statements for the year ending 31 December 2021

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

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 2021.

31.12.2021										
Name of industry / Product according to local regulatory segmentation		Number of clients who applied for COVID-relief measure	Gross loans for COVID measures	Number of clients whose measure was approved	Active measures		Expired measures			
					Number of clients	Gross loans	Number of clients	Gross loans		
		050	050	070	090	090	090	090	090	090
010	1. Legal entities (1.1. to 1.19.)	205	127,167	142	1	100	141	83,919		
020	1.1. A Agriculture, forestry and fishing	2	169	1	0	0	1	90		
030	1.2. B Mining and quarrying	0	0	0	0	0	0	0		
040	1.3. C Manufacturing	62	58,078	44	0	0	44	51,750		
050	1.4. D Electricity, gas, steam and air conditioning supply	0	0	0	0	0	0	0		
060	1.5. E Water supply	1	16	0	0	0	0	0		
070	1.6. F Construction	6	2,202	4	1	100	3	1,425		
080	1.7. G Wholesale and retail trade	54	29,344	39	0	0	39	24,219		
090	1.8. H Transport and storage	42	15,228	31	0	0	31	11,959		
100	1.9. I Accommodation and food service activities	8	13,708	4	0	0	4	1,910		
110	1.10. J Information and communication	2	3,969	2	0	0	2	1,525		
120	1.11. K Financial and insurance services	0	0	0	0	0	0	0		
130	1.12. L Real estate activities	1	3,183	1	0	0	1	4,796		
140	1.13. M Professional, scientific and technical activities	6	1,947	7	0	0	7	1,591		
150	1.14. N Administrative and support service activities	14	2,106	5	0	0	5	218		
160	1.15. O Public administration and defence, compulsory social security	0	0	0	0	0	0	0		
170	1.16. P Education	1	11	1	0	0	1	7		
180	1.17. Q Human health services and social work activities	2	656	2	0	0	2	507		
190	1.18. R Arts, entertainment and recreation	3	74	1	0	0	1	52		
200	1.19. S Other services	0	0	0	0	0	0	0		
210	2. Retail (2.1 + 2.2 + 2.3)	1539	44,416	1166	0	0	1166	37,174		
220	2.1. Consumer loan	1985	85,633	1225	0	0	1225	29,689		
230	2.2. Housing/Mortgage loans	126	7,959	117	0	0	117	6,893		
240	2.3. Entrepreneurial (Micro)	28	824	24	0	0	24	656		
250	3. Total (1 + 2)	1741	171,603	1508	1	100	1507	121,093		

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 relieved from making payments. After the end of the holiday period granted, the Bank continues the count of days overdue starting from zero.

Notes to the financial statements
for the year ending 31 December 2021

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

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 determined 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 890 thousand (2020: BAM 1,400 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.

Deferred tax assets and liabilities

Deferred 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 assets in the statement of financial position (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, i.e. increase the tax base in case of higher expenses, i.e. reduce the tax base in case of higher income, while at the same time recognizing tax assets / liabilities as 10% of these amounts.

Notes to the financial statements
for the year ending 31 December 2021

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

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.

**Notes to the financial statements
for the year ending 31 December 2021**

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

5. CASH AND CASH EQUIVALENTS

	2020	2021
Cash on hand	127,419	195,798
Cash balances at central banks	173,724	203,907
Of which obligatory reserve with the CBBH	138,219	95,294
Impairment (Note 25)	-174	-204
Cash balances at central banks after impairment	173,550	203,703
Other demand deposits to credit institutions	30,633	34,033
Impairment (Note 25)	-83	-143
Other demand deposits to credit institutions after impairment	30,550	33,890
Cash and cash balances	331,519	433,391

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2021
Equity Instruments	111	127
Equity Instruments	111	127

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 change in fair value in 2021 amounting to BAM 16 thousand.

Notes to the financial statements
for the year ending 31 December 2021

(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			Accumulated other fair value changes	Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
31 December 2021									
Debt securities	165,481	-	-	165,481	-162	-	-	-162	163,705
Total	165,481	-	-	165,481	-162	-	-	-162	163,705
31 December 2020									
Debt securities	167,018	-	-	167,018	-159	-	-	-159	163,137
Total	167,018	-	-	167,018	-159	-	-	-159	163,137

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)	Allocation (increase in provision)	Derecognition (release of provision)	Transfer between stages	Release of provision, net (not resulted from derecognition)	To
1 January 2021							31 december 2021
Stage 1	-159	-	-15	2	-	10	-162
Total	-159	-	-15	2	-	10	-162
1 January 2020							31 december 2020
Stage 1	-962	-61	-33	5	-	892	-159
Total	-962	-61	-33	5	-	892	-159

Notes to the financial statements
for the year ending 31 December 2021

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

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

	2020	2021
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	85,294	88,260
Government of Republic of Austria – bonds	23,660	23,027
Republic of Slovenia - bonds	18,911	18,204
Kingdom of Belgium - bonds	15,180	14,622
Government of Republic of Croatia – bonds	9,921	9,677
Republic of France - bonds	10,171	9,915
Total debt securities	163,137	163,705

The Bank did not invest in treasury notes in 2021, Interest rate (yield to maturity) on bonds ranged from 0,05% to 4,93% p.a. during 2021.

Expected Maturity:

	2020	2021
- no more than 12 months after the reporting period	5,167	11,596
- more than 12 months after the reporting period	157,970	152,109
Total debt securities	163,137	163,705

Notes to the financial statements
for the year ending 31 December 2021

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

8. FINANCIAL ASSETS AT AMORTISED COST

2021	Gross carrying amount					Impairment			Total	Carrying amount 31 December
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3		
Loans and receivables from credit institutions	74,310	-	-	-	74,310	-145	-	-	-145	74,165
Credit institutions	74,310	-	-	-	74,310	-145	-	-	-145	74,165
Loans and receivables from clients	1,050,399	174,249	60,929	2,344	1,287,921	-12,041	-18,873	-53,291	-1,203	1,202,513
Credit institutions	13	-	-	-	13	-	-	-	-	13
General governments	6,003	-	-	-	6,003	-30	-	-	-	5,973
Other financial institutions	10,984	1,314	-	-	12,278	-203	-66	-	-	12,009
Non-financial institutions	524,968	116,292	11,346	1,259	653,865	-8,432	-12,112	-8,687	-734	623,920
Households	508,451	58,643	49,583	1,085	615,762	-3,376	-6,695	-44,624	-469	560,598
Total	1,124,709	174,249	60,929	2,344	1,362,231	-12,186	-18,873	-53,291	-1,203	1,276,678

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

Notes to the financial statements for the year ending 31 December 2021

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

8. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Movement of allowance for impairment losses:

	31 December 2020	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Allocation (new assets originated or purchased)	Derecognition (assets derecognised or repaid)	Transfer between stages	Release of provision, net (not resulted from derecogniti on)	Write- offs	Other	31 December 2021
Loans and receivables from credit institutions									
Stage 1	-73	-	-676	604	-	-	-	-	-145
Credit institutions	-73	-	-676	604	-	-	-	-	-145
Total allowances for impairment losses	-73	-	-676	604	-	-	-	-	-145
Loans and receivables from clients									
Stage 1	-9,549	-	-9,915	3,353	3,137	991	-	-58	-12,041
General governments	-30	-	-4	-	-	4	-	-	-30
Other financial institutions	-284	-	-194	14	29	233	-	-1	-203
Non-financial institutions	-5,549	-	-8,053	2,878	2,717	-363	-	-62	-8,432
Households	-3,686	-	-1,664	461	391	1,117	-	5	-3,376
Stage 2	-19,316	-	-40	5,955	-15,517	9,987	-	58	-18,873
Other financial institutions	-	-	-	-	-71	4	-	1	-66
Non-financial institutions	-9,425	-	-11	4,805	-8,542	1,073	-	-12	-12,112
Households	-9,891	-	-29	1,150	-6,904	8,910	-	69	-6,685
Stage 3	-63,889	-	16	3,232	-527	-8,365	6,243	-1	-53,291
Other financial institutions	-	-	-	-	-	-	-	-	-
Non-financial institutions	-12,291	-	-2	1,154	-373	-1,914	4,780	-1	-8,667
Households	-41,598	-	18	2,078	-154	-6,451	1,483	-	-44,624
POCI	-510	-	13	181	-	-1,044	157	0	-1,203
Non-financial institutions	-333	-	11	109	-	-715	157	37	-734
Households	-177	-	2	72	-	-329	-	-37	-469
Total allowances for impairment losses	-83,264	-	-9,926	12,721	-12,907	1,569	6,400	-1	-85,408

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

8. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Movement of allowance for impairment losses:

	31 December 2019	Adoption of regulatory requirements - Decision on CRM and Determining ECL (Note 2a)	Allocation (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 2020
Loans and receivables from credit institutions									
Stage 1	-97	-30	-601	655	-	-	-	-	-73
Credit institutions	-97	-30	-601	655	-	-	-	-	-73
Total allowances for impairment losses	-97	-30	-601	655	-	-	-	-	-73
Loans and receivables from clients									
Stage 1	-8,570	-3,529	-8,240	3,241	3,868	3,681	-	-	-8,549
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	-468	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	18,665	56	-53,869
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 allowances for impairment losses	-79,234	-12,382	-8,165	9,298	-19,421	7,906	18,724	10	-83,264

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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 December 2020	1,003,402	176,624	59,770	1,652	1,241,448
New assets originated or purchased	503,439	-	-	857	504,296
Assets derecognised or repaid (excluding write off)	-57,994	-5,995	-969	-57	-65,015
Transfer from Stage 1 to Stage 2	-1,687	1,687	-	-	-
Transfer from Stage 1 to Stage 3	-105	-	105	-	-
Transfer from Stage 2 to Stage 3	-	-44	44	-	-
Transfer from Stage 3 to Stage 2	-	14	-14	-	-
Transfer from Stage 2 to Stage 1	1,476	-1,476	-	-	-
Amount written off	-	-	24,234	-	24,234
Changes to contracts that did not change the stage	-323,822	3,439	-22,241	-108	-342,732
At 31 December 2021	1,124,709	174,249	60,929	2,344	1,362,231

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances at amortised cost					
Gross carrying amount as at 31 December 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	-54,608	-6,665	-5,748	194	-66,827
At 31 December 2020	1,003,402	176,624	59,770	1,652	1,241,448

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9. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

Property and equipment

a) Purchase value

	Property and equipment and investment properties					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Asset under construction (AUC)	Property and equipment	Investment property
1 January 2020	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
Additions (+)	-	-	-	1,295	1,295	-
Sales and expenses (-)	-13	-380	-71	-	-464	-
Transfer from AUC (+/-)	130	853	286	-1,289	-	-
Balance at 31 December 2021	34,365	14,489	4,967	164	53,985	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 construction (AUC)	Property and equipment	Investment property
January 1, 2020	-8,536	-8,711	-3,246	-	-16,493	-771
Depreciation (-)	-804	-1,306	-543	-	-2,653	-86
Sales and expenses (+)	-	701	310	-	1,011	-
Reclassification (+/-)	-593	-	-	-	-593	593
Impairments (-)	-181	-	-	-	-181	-
Balance at 31 December 2020	-7,933	-9,316	-3,479	-	-20,728	-264
Depreciation (-)	-804	-1,238	-440	-	-2,482	-26
Sales and expenses (+)	10	325	71	-	406	-
Balance at 31 December 2021	-8,727	-10,229	-3,848	-	-22,804	-290

c) Book value

	Property and equipment and investment properties					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Asset under construction (AUC)	Property and equipment	Investment property
Balance at 31 December 2020	26,315	4,700	1,273	138	32,426	1,025
Balance at 31 December 2021	25,638	4,260	1,119	164	31,181	999

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(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 2021 the Bank generated a total income from rents in the amount of BAM 307 thousand – Note 23 (2020 – BAM 314 thousand), while other operating income from operating lease for the year 2021 amounted to BAM 37 thousand (2020 – BAM 13 thousand). Fair value of investment properties as at 31 December 2021 and 2020 does not significantly differ from the carrying value of the building during 2021 and 2020.

Intangible assets

a) Purchase value

	Acquired software	Other (licenses, patents, etc.)	Asset under construction (AUC)	Total
1 January 2020	8,040	6,015	85	14,140
Additions (+)	-	-	2,966	2,966
Sales and expenses (-)	-9	-	-26	-35
Reclassification (+/-)	1,773	910	-2,683	-
Balance at 31 December 2020	9,804	6,925	342	17,071
Additions (+)	-	-	1,435	1,435
Sales and expenses (-)	-216	-	-	-216
Transfer from AUC (+/-)	1,705	52	-1,757	-
Balance at 31 December 2021	11,293	6,977	20	18,290

b) Accumulated amortization

	Acquired software	Other (licenses, patents, etc.)	Asset under construction (AUC)	Total
1 January 2020	-5,580	-3,978	-	-10,558
Depreciation (-)	-688	-803	-	-1,491
Sales and expenses (+)	9	-	-	9
Reclassification (+/-)	-	-	-	-
Balance at 31 December 2020	-7,259	-4,781	-	-12,040
Depreciation (-)	-886	-769	-	-1,655
Sales and expenses (+)	11	-	-	11
Balance at 31 December 2021	-8,134	-5,550	-	-13,684

Book values

	Acquired software	Other (licenses, patents, etc.)	Asset under construction (AUC)	Total
Balance at 31 December 2020	2,545	2,144	342	5,031
Balance at 31 December 2021	3,159	1,427	20	4,606

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for the year ending 31 December 2021

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9. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (CONTINUED)

Right of use assets

a) Purchase value	Land and buildings
1 January 2020	3,220
Additions (+)	2,337
Sales and expenses (+)	-908
Reclassification (+/-)	-
Balance at 31 December 2020	4,649
Additions (+)	1,262
Sales and expenses (+)	-644
Reclassification (+/-)	-
Balance at 31 December 2021	5,267
b) Accumulated depreciation	
1 January 2020	-892
Depreciation (-)	-1,126
Sales and expenses (+)	584
Balance at 31 December 2020	-1,434
Depreciation (-)	-1,128
Sales and expenses (+)	602
Impairments (-)	-
Balance at 31 December 2021	-1,960
c) Book values	
Balance at 31 December 2020	3,215
Balance at 31 December 2021	3,307

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10. INVESTMENTS IN ASSOCIATES

The Bank's Investments in associates are as follows:

Name of the company	2020	2021
Sparkasse Leasing doo Sarajevo (49%)	607	607
Total	607	607

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

	2020	2021
Total assets	86,158	107,867
Total liabilities	-78,410	-99,215
Net assets	7,748	8,652

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

	Cost method	
	2020	2021
Balance at 1 January	595	607
Increase in risk provision	12	-
Balance at 31 December	607	607

11. OTHER ASSETS

	2020	2021
Reposessed collaterals	8,392	4,076
Fees and commission receivables	3,620	4,391
Authorized exchange office receivables	2,190	2,516
Accrued income	-	1,600
Domestic transactions receivables	708	818
Paid in advance expenses	625	781
Consumables	337	384
Receivables from employees	93	247
Inventories	132	109
Western union receivables	95	92
VAT receivables	-	1
Other assets	978	1,117
Total other assets before impairment losses	17,168	16,132
Less: Impairment losses	-11,026	-7,504
Net other assets	6,142	8,628

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

11. OTHER ASSETS (CONTINUED)

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 and Sales	To
	1 January 2021					31 December 2021
Other assets	-2 655	-	-2 457	1 880	244	-2 988
Reposessed collaterals	-7 899	-	-550	-	4 470	-3 979
Small inventory	-472	-	-65	-	-	-537
Total	-11,026	-	-3,072	1,880	4,714	-7,504

	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
	1 January 2020					31 December 2020
Other assets	-2,850	-52	-2 664	2 397	514	-2 655
Reposessed 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

12. DEPOSITS FROM BANKS

	2020	2021
Overnight deposits	23,730	8,179
Term deposits	122,919	84,101
Deposits from banks	146,649	92,280

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13. BORROWINGS

	2020	2021
European Investment Bank (EIB) – average weighted interest rate per drawn instalment is 1,718%	11,075	4,239
European Bank for Reconstruction and Development (EBRD) – weighted average interest rate 0,558% p.a.	17,882	11,761
The European Fund For Southeast Europe (EFSE)– weighted average interest rate 1,1% p.a.	-	1,956
Liabilities for long-term loans – subordinated debt Steiermarkische bank und Sparkassen AG, maturity on 29 March 2027 at the rate of 3,9%	9,879	9,879
Total	38,836	27,835

Expected Maturity:

	2020	2021
- no more than 12 months after the reporting period	13,096	9,534
- more than 12 months after the reporting period	25,740	18,301
Total	38,836	27,835

14. DEPOSITS FROM CUSTOMERS

	2020	2021
Current accounts / overnight deposits	688,917	839,933
Transaction accounts	688,917	839,933
General governments	50,319	53,696
Other financial corporations	16,373	20,598
Non-financial corporations	243,150	298,823
Households	379,075	466,816
Term deposits	584,843	689,284
Deposits with agreed maturity	584,843	689,284
Savings deposits	501,824	624,244
Other financial corporations	21,509	31,129
Non-financial corporations	155,447	243,985
Households	324,868	349,130
Transaction accounts	83,019	65,040
General governments	36,798	10,686
Other financial corporations	808	541
Non-financial corporations	18,926	24,918
Households	26,487	28,895
Deposits from customers	1,273,760	1,529,217
General governments	87,117	64,382
Other financial corporations	38,690	52,268
Non-financial corporations	417,523	567,726
Households	730,430	844,841

Average interest rates on total client deposits at the end of 2021 amounted to 0.53% p.a and are lower compared to the previous year (2020 0.62%) by 9 bp. Average interest rates on long-term client deposits decreased from 1.33% (2020) to 1.21% in 2021, while average interest rates on short-term deposits had a decreasing trend from 0.57% (2020) to 0.47% (2021). Avista and avista saving accounts avg interest rate decreased from 0.048% to 0.022% by 2.6 bp.

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

15. LEASE LIABILITIES

	2020	2021
Lease liabilities	3,145	3,344
	2020	2021
Maturity analysis		
- less than one year	1,552	986
- one to five years	1,526	2,322
- more than five years	67	36
Total	3,145	3,344
Lease liabilities	2020	2021
Current	1,552	986
Non-current	1,593	2,358

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 2021 amounted to 64 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 2021 is 688 thousand BAM, and in 2020 650 thousand BAM.

Amounts recognised for the reporting period

The following amounts are recognised in profit or loss:

	2020	2021
Interest expense on lease liabilities (included in finance expenses)	44	64
Expense relating to leases of low-value assets that are not short-term leases (included in personnel expenses, other administrative expenses and depreciation expenses)	650	688
	694	752

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15. LEASE LIABILITIES (CONTINUED)

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

	2020	2021
Cash outflow for leases – within financing activities		
Principal	1,437	2,987
Interest	44	64
Termination penalty	243	36
Cash outflow for leases – within operating activities	650	688
	9,084	9,683

16. PROVISIONS

	2020	2021
Long-term employee provisions	1,151	1,242
Pending legal issues and tax litigation	1,400	890
Commitments and guarantees given	2,168	2,334
Allowance for credit losses for commitments and financial guarantees in Stage 1	1,141	1,753
Allowance for credit losses for commitments and financial guarantees in Stage 2	999	576
Allowance for credit losses for commitments and financial guarantees in Stage 3	28	5
Other provisions	4,365	5,217
Provisions	9,084	9,683

Long-term provisions for employees

	2020	2021
Present value of long-term provisions for employee benefits, 01 January	1,006	1,151
Cost of services (Note 24)	103	64
Interest expense	42	27
Payments	-	-
Present value of long-term provisions for employee benefits, December 31	1,151	1,242

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

16. PROVISIONS (CONTINUED)

Provision for Commitments and guarantees given

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	31 December 2021						
Stage 1	1,141	1,735	-686	-85	-351	9	1,763
Stage 2	999	-	-357	261	-319	-8	576
Stage 3	28	-	-11	4	-17	1	5
Total	2,168	1,735	-1,054	170	-687	2	2,334

Adoption of
regulatory
requirements -
Decision on
CRM and
Determining ECL
(Note 2a)

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	31 December 2020						
Stage 1	813	357	-666	-282	-281	-2	1,141
Stage 2	234	40	-149	968	-94	-	999
Stage 3	23	-	-11	15	1	-	28
Total	1,070	397	-826	701	-374	-2	2,168

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16. PROVISIONS (CONTINUED)

Other provisions (except long-term provisions for employees)

	From	Increase	Derecognition	Others and Use	To
	1 January 2021				31 December 2021
Pending Legal proceedings	1,400	298	-488	-320	890
Other provision	4,365	8,262	-7,413	3	5,217
Total	5,765	8,560	-7,901	-317	6,107

	From	Adoption of regulatory requirement Decision on CRM and Determining ECL (Note 2a)	Increase	Derecognition	Others and Use	To
	1 January 2020					31 December 2020
Pending Legal proceedings	1,283	-	118	-	-1	1,400
Commitments and guarantees given outside IFRS 9	2,461	983	8,103	-7,170	-12	4,365
Total	3,744	983	8,221	-7,170	-13	5,765

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.

	2020	2021
Granted but undrawn loans	212,908	249,052
Performance guarantees	92,368	118,256
Payment guarantees	51,921	62,864
Academics	505	2,354
Total	357,702	432,526

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

16. PROVISIONS (CONTINUED)

As of 31 December 2021, 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 0,99% (2020: 0,98%)
 - Average fluctuation rate 1,22% (2020: 1,35%)
- Financial assumptions (discount rate, wage levels, expected wage growth):
 - Discount rate 4,0% (2020: 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

	2020	2021
Liabilities towards suppliers	3,793	3,704
Liabilities for unallocated payments	872	1,610
Liabilities to banks	1,133	1,426
Liabilities towards employees	1,204	1,340
Deferred income and accrued expenses	513	651
Operational risk commitments	469	464
Card business obligations	494	395
Liabilities for taxes	72	168
Other liabilities	1,994	7,341
Total	10,544	17,099

18. SHARE CAPITAL

Shareholding structure as at 31 December 2021 and 2020 was as follows:

	No, of shares	Amount in BAM '000	%	No, of shares	Amount in BAM '000	%
Steiermärkische Bank und Sparkassen AG, Graz, Austria	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.

The ultimate owner of the Bank is Erste Group Bank AG Vienna, Austria ("Erste Group").

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19. NET INTEREST INCOME

	2020	2021
Interest and other similar income		
Financial assets at amortised cost	52,574	56,587
Credit institutions	117	41
General governments	108	153
Other financial corporations	215	268
Non-financial corporations	20,040	21,510
Households	32,094	34,615
of which unwinding (Note 8)	-65	-104
Financial assets measured at fair value through other comprehensive income	2,131	2,125
Total interest and other similar income	54,705	58,712
Interest expenses and similar expenses		
Financial liabilities at amortised cost	-9,797	-9,380
Interest expenses	-9,797	-9,380
Total interest expenses and similar expenses	-9,797	-9,380
Net interest income	44,908	49,332
Thereof: Interest-income on credit impaired financial assets	2,478	1,031
Thereof: Modification gains/losses	-1,152	335

20. NET FEE AND COMMISSION INCOME

	2020		2021	
	Income	Expense	Income	Expense
Payment services	21,490	-5,165	25,112	-5,954
Card business	5,553	-3,738	6,680	-4,315
Other	15,937	-1,427	18,432	-1,639
Customer resources distributed but not managed	816	-209	1,111	-213
Collective investment	816	-	1,105	-
Other	-	-209	6	-213
Lending business	3,126	-256	3,553	-361
Guarantees given, guarantees received	2,465	-23	2,791	-80
Loan commitments given, loan commitments received	663	-233	762	-301
Other	321	-63	313	-37
Total fee and commission income and expenses	25,755	-5,693	30,069	-6,565
Net fee and commission income	20,062	-	23,524	-

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21. DIVIDEND INCOME

	2020	2021
Income from investments in joint ventures and associates	286	225
Dividend income	286	225

22. NET TRADING RESULT

	2020	2021
Foreign exchange transactions income	54,805	42,840
Foreign exchange transactions expenses	-51,951	-38,180
Net Trading Result	2,854	4,660

23. RENTAL INCOME FROM INVESTMENT PROPERTIES & OTHER OPERATING LEASES

	2020	2021
Investment properties	314	307
Other operating leases	13	37
Rental income from investment properties & other operating leases	327	344

24. PERSONNEL EXPENSES, OTHER ADMINISTRATIVE EXPENSES AND DEPRECIATION

The average employee number of the Bank during the year ending 31 December 2021 was 522 (2020: 520).

	2020	2021
Personnel expenses	-20,750	-21,050
Wages and salaries	-18,928	-19,256
Compulsory social security	-1,719	-1,730
Long-term employee provisions (Note 16)	-103	-84
Other administrative expenses	-16,391	-17,891
IT expenses	-4,816	-5,246
Deposit insurance contribution	-2,831	-3,329
Expenses for office space	-3,223	-3,113
Office operating expenses	-2,061	-2,509
Legal and consulting costs	-1,946	-2,032
Advertising/marketing	-847	-862
Sundry administrative expenses	-767	-800
Depreciation and amortisation	-5,356	-5,291
Owner occupied real estate	-1,829	-1,128
Office furniture and equipment and sundry property and equipment	-1,850	-2,482
Software and other intangible assets	-1,491	-1,655
Investment properties	-86	-26
General administrative expenses	-42,497	-44,232

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25. IMPAIRMENT LOSSES OF FINANCIAL INSTRUMENTS AND PROVISIONS

	2020	2021
Financial assets at fair value through other comprehensive income (Note 7)	864	-3
Cash and cash balances (Note 5)	1,048	-90
Financial assets at amortised cost (Note 8)	-15,126	-7,380
Net increase of credit loss allowances	-10,264	-8,511
Foreclosed assets	-4,954	-550
POCI	414	1,374
Recoveries recorded directly to the income statement	16	20
Modification gains or losses	-338	287
Net allocation of provisions for commitments and guarantees given (Note 16)	-703	-164
Net impairment loss on financial instruments	-13,919	-7,637

26. OTHER OPERATING INCOME

	2020	2021
Release of other provisions (Note 16)	7,170	7,413
Release of provisions for other assets (Note 11)	2,397	1,880
Release of pending legal provisions (Note 16)	-	488
Income from sale of property and foreclosed assets	1,328	3,516
Other operating income	2,641	614
Total	13,536	13,911

27. OTHER OPERATING EXPENSES

	2020	2021
Allocation to other provisions (Note 16)	-8,103	-8,262
Allocation to provisions for other assets (Note 11)	-2,663	-2,457
Other taxes	-669	-938
Allocation to pending legal provisions (Note 16)	-118	-298
Expenses for foreclosed assets	-112	-219
Loss from disposal of property, plant and equipment	-90	-10
Operating expenses (including repair and maintenance) for investment properties held for rental income	-15	-8
Other operating expenses	-353	-193
Total	-12,123	-12,385

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28. INCOME TAX

The 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 2021 and 31 December 2020 was 10%.

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

	2020	2021
Current income tax	-1,608	-2,413
Deferred income tax	621	182
Deferred income tax assets	902	343
Deferred income tax liabilities	-281	-161
Income tax	-987	-2,231

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
	2020			2021		
Fair value loss allowance	228	-23	205	2,102	-210	1,892
Other comprehensive income	228	-23	205	2,102	-210	1,892

	2020	2021
Profit before tax	12,995	26,961
Income tax at the legal rate of 10%	1,299	2,696
Effects of:		
Non-taxable income	-658	-688
Non deductible expenses	191	178
Unrecognized portion of tax paid in RS and BD	155	45
Income tax	987	2,231
Effective tax rate for the year	7.59%	8.27%

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28. INCOME TAX (CONTINUED)

Movement in deferred tax assets can be presented as follows:

	2020	2021
Balance at 1 January	1,092	2,304
Increase/decrease in deferred tax assets – Impairment Stage 1; Stage 2	802	320
Increase/decrease in deferred tax assets – Fair value reserves FVOCI	590	48
Increase/decrease in deferred tax assets – Other	-180	-137
Balance at 31 December	2,304	2,539

Movement in deferred tax liabilities can be presented as follows:

	2020	2021
Balance at 1 January	-483	-475
Increase/decrease in deferred tax liabilities – Impairment Stage 1; Stage 2	-	-
Increase/decrease in deferred tax liabilities – Fair value reserves FVOCI	-92	164
Increase/decrease in deferred tax liabilities – Impairment Fair value reserves FVOCI	80	-
Balance at 31 December	-475	-311
Balance at 31 December	1,829	2,222

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.

	2020	2021
Profit attributable to shareholders, net	12,008	24,730
Average number of ordinary shares during the year	864,733	864,733
Basic earnings per share (BAM)	13.89	28.60

There were no dilution effects during 2021 and 2020.

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 direct shareholder

	2020		2021	
	Receivables	Liabilities	Receivables	Liabilities
Steiermarkische Bank und Sparkassen AG, Graz, Austria	1,014	163,545	1,015	102,639
Total	1,014	163,545	1,015	102,639

	2020		2021	
	Income	Expense	Income	Expense
Steiermarkische Bank und Sparkassen AG, Graz, Austria	35	2,651	12	2,351
Total	35	2,651	12	2,351

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30. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with the ultimate shareholder

	2020		2021	
	Receivables	Liabilities	Receivables	Liabilities
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	25,242	1,175	27,957	1,465
Total	25,242	1,175	27,957	1,465

	2020		2021	
	Income	Expense	Income	Expense
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	24	197	1	134
Total	24	197	1	134

Transactions with the associate

	2020		2021	
	Receivables	Liabilities	Receivables	Liabilities
Sparkasse Leasing d.o.o. Sarajevo, Bosnia and Herzegovina	631	2,588	7,556	2,460
Total	631	2,588	7,556	2,460

	2020		2021	
	Income	Expense	Income	Expense
Sparkasse Leasing d.o.o. Sarajevo, Bosnia and Herzegovina	331	-	420	143
Total	331	-	420	143

Transactions with other related parties

	2020		2021	
	Receivables	Liabilities	Receivables	Liabilities
Erste and Steiermarkische bank d.d, Zagreb, Croatia	2,719	58	1,569	471
Erste Bank Akcionarsko Društvo, Novi Sad	-	-	33	166
Sparkasse Bank a.d. Skopje, North Macedonia	268	-	43	-
Erste Digital GmbH (S IT Solutions AT Spardat GmbH) Vienna, Austria	-	859	-	440
Erste Group Card Processor d.o.o. (vm,MBU), Zagreb, Croatia	-	-	-	14
Total	2,987	917	1,645	1,091

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30. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with other related parties (continued)

	2020		2021	
	Income	Expense	Income	Expense
Erste and Steiermarkische bank d.d, Zagreb, Croatia	21	17	19	6
Erste Bank Akcionarsko Društvo, Novi Sad	-	-	-	2
Sparkasse Bank a.d. Skopje, North Macedonia	-	-	54	-
Erste Group Card Processor d.o.o. (vm,MBU) Zagreb, Hrvatska	-	838	-	850
Erste Digital GmbH (S IT Solutions AT Spardat GmbH Vienna, Austria)	-	1,416	-	1,742
S IT Solutions HR d.o.o, Bjelovar, Croatia	-	-	-	-
Total	21	2,271	73	2,600

Management remunerations

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

	2020	2021
Gross salaries of the Management Board members	990	953
Other benefits of the Management Board members	275	105
Fees to the Supervisory Board members	32	36
Total	1,297	1,094

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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 statement of financial position.

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

	2020	2021
Loans		
Corporate	14,189	14,056
Individuals	2,351	2,259
	16,540	16,315
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	14,825	14,683
Ministry of war military Invalids of Zenica-Doboj Canton	331	270
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica-Doboj Canton Government	30	12
Employment agency of Zenica-doboj Canton	110	106
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
	16,540	16,315
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.

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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 statement of financial position, 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:

	2020	2021
Debt	1,462,390	1,652,676
Equity	222,602	245,439
Debt to capital ratio	6,6	6,7

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.

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32. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS (CONTINUED)

As of 31 December 2021 and 2020 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2021 the adequacy of the Bank's capital amounts to 18,6% (2020: 18,9%).

	2020	2021
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	71,660	83,732
Accumulated other comprehensive income	4,255	2,299
(-) Other intangible assets	-5,031	-4,606
(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-1,677	-1,860
(-) CET1 instruments of financial sector entities where the institution has a significant investment	-607	-607
(-) CET1 capital elements or deductions - other	-	-
Total Tier 1 capital	203,278	213,636
Tier 2 capital		
Paid up capital instruments and subordinated loans	9,779	9,779
T2 capital elements or deductions - other	-	-
Tier 2 capital	9,779	9,779
Regulatory capital	213,057	223,415
Risk weighted exposure amounts for credit risks (unaudited)	1,044,955	1,121,836
Risk exposure amount for position, foreign exchange and commodities risks (unaudited)	2,138	3,661
Risk exposure amount for operational risk (unaudited)	78,258	77,861
Total Risk Weighted asset	1,125,351	1,203,358
Total capital ratio (%)*	18,9	18,6

*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.

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 ECL model is based on a three-stage approach that leads to a 12-month ECL or lifetime ECL.

33. RISK MANAGEMENT

b) Credit risk management (Continued)

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 allowances are 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.

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.

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Definition of default and recovery status (continued)

Default definition has changed in treatment of joint obligation. Joint obligor is treated as a client from a risk point of view. If a joint obligor exceeds 90 DPD then all clients of this joint obligor default automatically. Joint credit obligation with other obligors and connected with one of these defaulted clients is separately assessed, meaning that if one or more obligors of a joint credit obligation default with their individual exposures and if after assessment at least one remaining co-obligors can fulfill the obligation, the JCO and co-obligor shall stay performing.

Joint credit obligation with other obligors and connected with one of these defaulted clients must be separately assessed.

If all individual obligors of a JCO default, all their JCOs with the same set of obligors (assigned to the same JO) are automatically considered as defaulted.

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 as well as private individuals, 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.

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 statement of financial position 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.

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 deterministic approach, calculated on the Bank's historical data. The LGD used by the Bank to calculate impairment losses on loans and other receivables is based on differentiated per homogeneous groups, and is finally calculated on asset level, taking into account the remaining maturity of the asset as well as the characteristics of the segment to which asset corresponds. In addition, for defaulted exposures the Bank is applying more stringent LGD values than calculated ones for certain segments of PI portfolio, since the sample was rather small.

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Forward looking information

The Bank used supportable forward looking information for measurement of ECL. To incorporate different macro scenarios the Bank used three different scenarios (downside, base, upside). Those scenarios are received from Erste Group.

Scenarios	Scenario probabilities		
	Year 1 2021	Year 2 2022	Year 3 2023
Downside	55%	55%	55%
Base	40%	40%	40%
Upside	5%	5%	5%

Scenarios	GDP GROWTH		
	Year 1 2021	Year 2 2022	Year 3 2023
Downside	-1.23%	-0.25%	-0.29%
Base	4.50%	3.20%	3.30%
Upside	5.83%	4.53%	4.63%

Scenarios	INFLATION - CPI		
	Year 1 2021	Year 2 2022	Year 3 2023
Downside	-2.20%	-0.03%	0.62%
Base	3.40%	1.50%	1.80%
Upside	4.28%	2.38%	2.68%

Scenarios	UNEMPLOYMENT		
	Year 1 2021	Year 2 2022	Year 3 2023
Downside	25.36%	24.92%	24.74%
Base	17.30%	16.80%	16.80%
Upside	16.83%	16.33%	16.13%

Probabilities of three scenarios (base, downside, upside) are calculated in coordination with Erste Group. For 2021-2023 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.

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Forward looking information (continued)

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. According to the recommendations issued by the FBA, for all POCI contracts, after initial recognition at least minimum regulatory CLA is calculated based on the days past due.

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 rely 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 CBBH account balances.

33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Minimum rates for expected credit losses

As mentioned in Note 2 Decision on Credit Risk Management and Determining Expected Credit Losses (hereinafter the "Decision") prescribed minimum rates for expected credit losses for different stages.

When it comes to value of expected credit losses calculated in accordance with methodology 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 by the Decision

Those minimum rates are presented 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.

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.

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

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%

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Minimum rates of expected credit losses for Stage 3 (continued)

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

<i>Exposure not secured by an acceptable collateral</i>		<i>Expected losses in accordance with Table 2</i>
<i>Exposure partially secured by an acceptable collateral</i>	<i>Secured part</i>	<i>Expected losses in accordance with Table 1</i>
	<i>Unsecured part</i>	

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.

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%, 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 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.

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

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.

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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

2021	Credit risk exposure	Credit loss allowances	Adjustments (FVOCI)	Net carrying amount
Cash and cash balances - demand deposits to credit institutions	34,033	-347	-	33,686
Non-trading debt instruments at FVPL	-	-	-	-
Debt instruments at FVOCI	161,928	-162	1,776	163,705
Debt securities	161,928	-162	1,776	163,705
Debt instruments at AC	1,362,231	-85,553	-	1,276,678
Loans and advances to banks	74,310	-145	-	74,165
Loans and advances to customers	1,287,921	-85,408	-	1,202,513
Off balance-sheet exposures	432,526	-7,551	-	424,975
Total	1,990,719	-93,613	1,776	1,899,044

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

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by counterparty sector and financial instrument

2021	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	-	-	161,928	-	6,003	-	860	168,792
Credit institutions	34,033	-	-	74,310	-	13	3,776	112,132
Other financial corporations	-	-	-	-	12,278	-	1,303	13,581
Non-financial corporations	-	-	-	-	647,208	6,657	394,758	1,048,621
Households	-	-	-	-	615,762	-	31,831	647,593
Total	34,033	-	161,928	74,310	1,281,251	6,670	432,526	1,990,719

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	3,277	98,260
Other financial corporations	-	-	-	-	8,062	-	1,251	9,313
Non-financial corporations	-	-	-	-	571,468	5,922	321,780	899,170
Households	-	-	-	-	585,643	-	30,580	616,223
Total	30,632	-	159,257	64,342	1,171,175	5,931	357,702	1,759,039

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33. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and financial instrument

2021	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				
I. Natural Resources & Commodities	-	-	-	-	54,322	2,377	22,923		78,622
II. Energy	-	-	-	-	40,814	291	20,246		61,351
III. Construction and building materials	-	-	-	-	123,447	491	132,048		255,988
IV. Automotive	-	-	-	-	16,227	271	18,822		35,320
V. Cyclical Consumer Products	-	-	-	-	142,680	636	65,957		209,253
VI. Non-Cyclical Consumer Products	-	-	-	-	108,232	-	36,043		144,275
VII. Machinery	-	-	-	-	19,675	-	8,998		28,673
VIII. Transportation	-	-	-	-	53,050	39	39,917		93,006
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	-	-	-	-	23,763	2,552	23,375		49,690
X. Healthcare & Services	-	-	-	-	21,126	-	22,118		43,244
XI. Hotels, Gaming & Leisure Industry	-	-	-	-	40,439	-	6,583		47,032
XII. Real Estate	-	-	-	-	10,642	-	232		10,874
XIII. Public Sector	-	-	161,929	-	6,003	-	-		167,932
XIV. Financial Institutions	34,033	-	-	74,310	12,786	13	5,114		126,256
XV. Private Households	-	-	-	-	608,065	-	30,140		638,205
Total	34,033	-	161,929	74,310	1,281,251	6,670	432,526		1,990,719

Notes to the financial statements for the year ending 31 December 2021

(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 (continued)

2020	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVOCI	At amortised cost			Total
				Loans and advances to banks	Loans and advances to customers	Trade and other receivables	
Agriculture and forestry	-	-	-	-	7 608	-	8 220
Mining	-	-	-	-	12 289	934	14 317
Manufacturing	-	-	-	-	159 548	2379	225 415
Energy and water supply	-	-	-	-	14 285	166	21 842
Construction	-	-	-	-	57 642	-	149 638
Trade	-	-	-	-	232 094	1669	343 522
Transport and communication	-	-	-	-	41 225	-	67 629
Hotels and restaurants	-	-	-	-	12 334	-	13 193
Financial and insurance services	30 632	-	-	64 342	8 521	9	106 372
Real estate and housing	-	-	-	-	7 878	-	8 478
Services	-	-	-	-	1 454	-	3 881
Public administration	-	-	159 257	-	6 008	-	165 265
Education, health and art	-	-	-	-	12 050	-	20 582
Private households	-	-	-	-	576 676	-	605 540
Other	-	-	-	-	21 563	774	33 145
Total	30 632	-	159 257	64 342	1 171 175	5 931	1 789 039

Notes to the financial statements for the year ending 31 December 2021

(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

2021	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	-	-	-	-	6,336	-	722	7,058
Mining	-	-	-	-	9,316	-	413	9,729
Manufacturing	-	-	-	-	181,306	2,320	69,945	253,571
Energy and water supply	-	-	-	-	22,185	291	9,959	32,435
Construction	-	-	-	-	54,633	491	95,552	150,676
Trade	-	-	-	-	247,346	1,272	150,721	399,339
Transport and communication	-	-	-	-	68,004	2,283	48,219	118,506
Hotels and restaurants	-	-	-	-	19,343	-	771	20,114
Financial and insurance services	34,033	-	-	74,310	12,786	13	5,098	126,240
Real estate and housing	-	-	-	-	10,066	-	200	10,266
Services	-	-	-	-	4,018	-	474	4,492
Public administration	-	-	161,929	-	13,021	-	3,621	178,571
Education, health and art	-	-	-	-	24,826	-	16,691	41,517
Private households	-	-	-	-	608,065	-	30,140	638,205
Other	-	-	-	-	-	-	-	-
Total	34,033	-	161,929	74,310	1,281,251	6,670	432,526	1,990,719

Notes to the financial statements
for the year ending 31 December 2021

(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 – 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	-	-	-	-	7,808	-	-	612	8,221
Mining	-	-	-	-	12,289	934	-	1,084	14,318
Manufacturing	-	-	-	-	159,548	2379	-	63,488	225,415
Energy and water supply	-	-	-	-	14,285	166	-	7,391	21,842
Construction	-	-	-	-	57,642	-	-	91,986	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

Notes to the financial statements
for the year ending 31 December 2021

(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

2021	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Agriculture and forestry	3,346	3149	128	-	6,623	435	7 058
Mining	9,493	-	73	-	9,566	163	9 729
Manufacturing	187,736	26,509	2,097	383	216,725	36 844	253,569
Energy and water supply	15,390	11076	-	-	26,466	5,970	32,436
Construction	54,852	11,163	1,261	-	67,276	83 400	150,676
Trade	282,712	21,605	5,774	720	290,811	108 528	399,340
Transport and communication	73,158	13,681	1,609	164	88,592	29 914	118,506
Hotels and restaurants	9,284	10,286	53	5	19,628	485	20 113
Financial and insurance services	119,862	1314	-	-	121,176	5 064	126,240
Real estate and housing	3,998	6,228	39	-	10,265	-	10 265
Services	3,429	831	-539	-	3,721	233	3,954
Public administration	174,770	2857	25	34	177,686	885	178,571
Education, health and art	15,247	14,236	1,402	45	30,930	11 127	42,057
Private households	530 806	57,390	49,016	993	638,205	-	638,205
Total	1,464,063	180,305	60,938	2,344	1,707,670	283,049	1,990,719
2021	Stage 1		Stage 2		Stage 3		Total
Guarantees and letters of credit	255,224		27,703		122		283,049
Total	255,224		27,703		122		283,049

Notes to the financial statements
for the year ending 31 December 2021

(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)

2020	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Agriculture and forestry	7,065	421	264	-	7,750	470	8,220
Mining	12,307	1,612	140	53	14,112	207	14,319
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	50,140	17,488	67,628
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	-	8,477	-	8,477
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	605,540	-	605,540
Others	18,732	7,329	280	31	26,372	6,774	33,146
Total	1,305,893	189,375	59,799	1,654	1,556,721	232,318	1,789,039
2020				Stage 1	Stage 2	Stage 3	Total
Guarantees and letters of credit				205,654	26,662	2	232,318
Total				205,654	26,662	2	232,318

Notes to the financial statements
for the year ending 31 December 2021

(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 31 December 2021	1,464,083	180,305	80,938	2,344	1,707,670
Share of credit risk exposure	85.74%	10.56%	3.56%	0.14%	100.00%
Credit risk exposure 31 December 2020	1,305,865	189,374	59,799	1,652	1,556,690
Share of credit risk exposure	83.89%	12.17%	3.84%	0.11%	100.00%

Notes to the financial statements
for the year ending 31 December 2021

(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

	2021	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Erate Grupe market		86,541	-	-	-	86,541	3,551	90,092
Austria		72,799	-	-	-	72,799	3,551	76,350
Czech Republic		-	-	-	-	-	-	-
Croatia		13,709	-	-	-	13,709	-	13,709
Serbia		33	-	-	-	33	-	33
Other European Union		91,560	-	-	-	91,560	-	91,560
Slovenia		-	-	-	-	-	-	-
Other EU Countries		91,560	-	-	-	91,560	-	91,560
Emerging markets		1,285,982	180,305	60,938	2,344	1,529,569	279,498	1,809,067
BiH		1,285,982	180,305	60,938	2,344	1,529,569	279,498	1,809,067
Total		1,464,083	180,305	60,938	2,344	1,707,670	283,049	1,990,719
	2020	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Guarantees and letters of credit	Total
Erate Grupe market		82,117	-	-	-	82,117	3,277	85,394
Austria		68,325	-	-	-	68,325	3,277	71,602
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	1,652	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	1,556,722	232,317	1,789,039

Notes to the financial statements
for the year ending 31 December 2021

(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

2021	Total credit risk exposure	Collateralised by				IFRS9 impairment relevant		
		Collaterals total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired
Cash and cash balances - demand deposits to credit institutions	34,033	-	-	-	-	34,033	34,033	-
Debt instruments - held for trading	-	-	-	-	-	-	-	-
Debt instruments at FVOCI	161,929	-	-	-	-	161,929	161,929	-
Debt instruments at AC	1,352,234	476,982	11,628	388,407	76,947	885,249	1,265,886	33,462
Loans and advances to banks	74,310	-	-	-	-	74,310	74,310	-
Loans and advances to customers	1,287,921	476,982	11,628	388,407	76,947	810,939	1,191,356	33,462
Off balance-sheet exposures	432,526	25,672	4,066	16,103	5,503	406,854	152,368	-
Total	1,990,719	502,654	15,694	404,510	82,450	1,488,065	1,613,996	33,462
								63,115

2020	Total credit risk exposure	Collateralised by				IFRS9 impairment relevant		
		Collaterals total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not 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
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
Off balance-sheet exposures	357,702	19,574	-	15,137	4,436	338,128	124,787	564
Total	1,789,039	433,795	5,505	383,112	45,177	1,355,244	1,462,205	33,335
								386,208

Notes to the financial statements
for the year ending 31 December 2021

(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

	2021	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	34,033	168,792	78,099	12,267	888,245	537,838	1,719,274
		S2	-	-	-	1,314	139,335	57,085	197,734
		S3	-	-	-	-	-	-	-
	Past due > 30 days ≤ 90 days	POCI	-	-	-	-	4	166	170
		S1	-	-	-	-	30	-	30
		S2	-	-	-	-	8,283	1,992	10,275
		S3	-	-	-	-	-	-	-
	Unlikely to pay that are not past-due or past-due ≤ 90 days	POCI	-	-	-	-	-	-	-
		S3	-	-	-	-	2,492	2,180	4,672
		POCI	-	-	-	-	543	481	1,024
Non performing	Past due > 90 days ≤ 180 days	S3	-	-	-	-	919	2,140	3,059
		POCI	-	-	-	-	9	44	53
	Past due > 180 days ≤ 1 year	S3	-	-	-	-	1,208	4,669	5,877
		POCI	-	-	-	-	-	89	89
	Past due > 1 year ≤ 5 years	S3	-	-	-	-	6,201	28,159	34,360
		POCI	-	-	-	-	539	272	811
	Past due > 5 years	S3	-	-	-	-	648	12,444	13,092
		POCI	-	-	-	-	165	34	199
	Total								1,990,719

Notes to the financial statements
for the year ending 31 December 2021

(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 (continued)

	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	98,280	8,787	730,684	507,735	1,511,540
		S2	-	-	-	528	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	-	-	-	-	-	-	-
	Unlikely to pay that are not past-due or past- due <= 90 days	S3	-	-	-	-	1,877	2,166	4,043
		POCI	-	-	-	-	-	-	-
Non performing	Past due > 90 days <= 180 days	S3	-	-	-	-	229	358	587
		POCI	-	-	-	-	33	1,838	1,872
		S3	-	-	-	-	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								1,786,039

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for the year ending 31 December 2021

(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 impairment

2021	Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
	S1	-347	-236	-164	-270	-13,247	-3,623	-17,887
Not past due or Past due	S2	-	-	-	-66	-12,460	-6,448	-18,974
<= 30 days	S3	-	-	-	-	-	-	-
	POCI	-	-	-	-	-1	-24	-25
	S1	-	-	-	-	-1	-	-1
Past due > 30 days <= 90 days	S2	-	-	-	-	-1,562	-621	-2,183
	S3	-	-	-	-	-	-	-
	POCI	-	-	-	-	-	-	-
	S3	-	-	-	-	-840	-1,108	-2,048
Unlikely to pay that are not past-due or past-due <= 90 days	POCI	-	-	-	-	-82	-117	-199
Past due > 90 days <= 180 days	S3	-	-	-	-	-776	-922	-1,698
	POCI	-	-	-	-	-3	-17	-20
Non performing	S3	-	-	-	-	-978	-2,901	-3,879
Past due > 180 days <= 1 year	POCI	-	-	-	-	-	-55	-55
Past due > 1 year <= 5 years	S3	-	-	-	-	-5,395	-27,253	-32,648
	POCI	-	-	-	-	-488	-223	-711
Past due > 5 years	S3	-	-	-	-	-648	-12,444	-13,092
	POCI	-	-	-	-	-160	-33	-193
							Total	-93,613

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(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 impairment (continued)

2020	Stage	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
	S1	-	-140	-124	-319	-9,004	-3,917	-13,504
	S2	-	-	-	-50	-11,626	-9,105	-20,781
	S3	-	-	-	-	-	-	-
	POCI	-	-	-	-	-12	-27	-40
Performing	S1	-	-	-	-	-	-	-
	S2	-	-	-	-	-166	-1,112	-1,278
	S3	-	-	-	-	-	-	-
	POCI	-	-	-	-	-	-	-
	Unlikely to pay that are not past-due or past- due <= 90 days	-	-	-	-	-1,017	-1,484	-2,501
	POCI	-	-	-	-	-35	-60	-95
	Past due > 90 days <= 180 days	-	-	-	-	-5	-1,509	-1,514
	POCI	-	-	-	-	-0	-8	-8
Non performing	S3	-	-	-	-	-1,372	-4,189	-5,562
	POCI	-	-	-	-	-7	-22	-29
	Past due > 180 days <= 1 year	-	-	-	-	-6,175	-23,592	-29,767
	POCI	-	-	-	-	-168	-60	-228
	Past due > 1 year <= 5 years	-	-	-	-	-3,722	-10,852	-14,573
	S3	-	-	-	-	-	-	-
	POCI	-	-	-	-	-	-	-
Total								-69,991

Notes to the financial statements
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(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 2021 and 31 December 2020:

	2020	2021
Euro	837	3 487
American dolar	-174	-120
Other	-135	-226

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	
	2020	2021
Gain / (loss)	17	12

33. RISK MANAGEMENT (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 2021 would increase / decrease by BAM thousand 4,185 (2020: by BAM 5,100 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.

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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
2021							
Non-interest bearing							
Cash balances as CBBiH	-	95,294	-	-	-	-	95,294
Fixed interest rate instruments							
Cash balances as CBBiH	-0.55%	108,612	-	-	-	-	108,612
Loans and advances to banks	-0.97%	108,271	-	-	-	-	108,271
Loans and advances to customers	5.08%	83,515	75,151	308,767	366,962	194,076	1,028,471
Debt securities	1.88%	-	-	11,537	108,414	54,441	174,392
Variable interest rate instruments							
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	3.39%	21,208	12,939	57,768	283,889	239,163	594,967
		416,900	88,090	378,072	739,265	487,680	2,110,007
2020							
Non-interest bearing							
Cash balances as CBBiH	-	138,219	-	-	-	-	131,988
Fixed interest rate instruments							
Cash balances as CBBiH	-0.50%	35,505	-	-	-	-	35,505
Loans and advances to banks	-0.50%	64,341	-	-	-	-	64,341
Loans and advances to customers	4.75%	82,367	70,409	278,436	378,086	201,964	1,011,242
Debt securities	2.43%	-	-	2,112	105,724	58,977	166,813
Variable interest rate instruments							
Loans and advances to banks	-0.55%	30,632	-	-	-	-	30,632
Loans and advances to customers	3.51%	13,789	9,860	56,635	208,079	200,298	486,661
		345,294	80,269	337,183	689,869	461,239	1,913,856

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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
2021								
Non-interest bearing								
Deposits from customers and banks	-	-	710,961	-	-	-	-	710,961
Variable interest rate instruments								
Deposits from customers and banks	1.39%	-	-	-	7,905	42,012	-	49,917
Borrowings	1.42%	-	-	3,254	-	-	-	3,254
Subordinated loans	3.9%	-	-	-	-	-	12,158	12,158
Fixed interest rate instruments								
Deposits from customers and banks	0.94%	195,247	110,048	110,048	180,413	363,705	11,313	870,726
Borrowings	0.77%	1,956	-	-	4,207	8,580	-	14,743
		908,164	113,302	113,302	202,525	414,297	23,471	1,661,759
2020								
Non-interest bearing								
Deposits from customers and banks	-	711,432	-	-	-	-	-	711,432
Variable interest rate instruments								
Deposits from customers and banks	1.36%	-	100	-	-	50,598	-	50,698
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

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

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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		Valuation technique(s) and key input(s)
	31 December 2021	31 December 2020	
Financial assets at fair value through other comprehensive income (Note 7)	Listed equity securities in stock exchange in Bosnia and Herzegovina: -	Listed equity securities in stock exchange in Bosnia and Herzegovina:	Quoted bid prices in an active market.
	Listed equity securities on stock exchanges in other countries:	Listed equity securities on stock exchanges in other countries:	
	• Belgium – 127 thousand BAM	• Belgium – 111 thousand BAM	
	Listed debt securities in stock exchange in other countries:	Listed debt securities in stock exchange in other countries:	
Non-trading financial assets at fair value through profit or loss (Note 6)	• Croatia – 9,677 thousand BAM (Baa3/BBB)	• Croatia – 9,921 thousand BAM (Baa3/BBB)	Level 1
	• Austria – 23,027 thousand BAM (AA/AA)	• Austria – 23,660 thousand BAM (AA/AA)	
	• Belgium – 14,622 thousand BAM (AA/AA)	• Belgium – 15,180 thousand BAM (AA/AA)	
	• France – 9,915 thousand BAM (AA/AA)	• France – 10,171 thousand BAM (AA/AA)	
	• Slovenia – 18,204 thousand BAM (AA/AA)	• Slovenia – 18,911 thousand BAM (AA/AA)	Level 2
	Listed debt securities in stock exchange in Bosnia and Herzegovina:	Listed debt securities in stock exchange in Bosnia and Herzegovina:	
	• FBiH Ministry of Finance – 34,504 thousand BAM (B+)	• FBiH Ministry of Finance – 32,910 thousand BAM (B+)	
	• RS Ministry of Finance – 53,756 thousand BAM (B+)	• RS Ministry of Finance – 52,384 thousand BAM (B+)	

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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.

	2020					2021								
	Book value	Fair value	Quoted market prices in active markets	Valued according to a model based on available market data	Level 1	Level 2	Level 3	Book value	Fair value	Quoted market prices in active markets	Valued according to a model based on available market data	Level 1	Level 2	Level 3
ASSETS														
Cash and cash balances	331,653	331,653	-	-	-	-	-	433,391	433,391	-	-	-	-	-
Financial assets at amortised cost	1,158,111	1,158,854	-	-	-	-	1,158,854	1,276,878	1,276,632	-	-	-	-	1,276,632
Loans and advances to banks	64,269	64,269	-	-	-	-	-	74,165	74,165	-	-	-	-	74,165
Loans and advances to customers	1,093,842	1,094,585	-	-	-	-	1,094,585	1,202,513	1,202,467	-	-	-	-	1,202,467
Trade and other receivables	5,760	5,760	-	-	-	-	5,760	6,556	6,556	-	-	-	-	6,556
LIABILITIES														
Financial liabilities measured at amortised cost	1,459,245	1,459,232	-	-	-	-	1,459,232	1,649,332	1,642,361	-	-	-	-	1,642,361
Deposits from banks	185,485	186,746	-	-	-	-	186,746	120,115	118,916	-	-	-	-	118,916
Deposits from customers	1,273,760	1,272,486	-	-	-	-	1,272,486	1,529,217	1,523,445	-	-	-	-	1,523,445
FINANCIAL GUARANTEES AND COMMITMENTS														
Financial guarantees	-	22	-	-	-	-	22	-	39	-	-	-	-	39
Irrevocable commitments	-	5,168	-	-	-	-	5,168	-	1,862	-	-	-	-	1,862

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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						
2021	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	999	999	-	-	-	999
Assets whose fair value is shown in the statement of financial position						
Held-for-sale assets	-	-	-	-	-	-
2020						
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 statement of financial position						
Held-for-sale assets	-	-	-	-	-	-

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35. EVENTS AFTER THE REPORTING DATE

Since 1 January 2022, Igor Jokić is Member of the Management Board.

As of 24 February 2022, Russia started military invasion on Ukraine. This military invasion caused global changes on political and economic level. Management considers this outbreak to be a non-adjusting event after the reporting period end date 31. December 2021. While this is still an ongoing situation at the time of issuing these financial statements, there has been no discernible impact on the Bank's operations, however the future effects cannot be predicted. Management continues to monitor the impact of the military invasion on the Bank's business operations and is taking all steps possible to mitigate any effects.

There were no other significant subsequent events that would have a significant impact on the financial statements for 2021 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 14 April 2022.


Amir Softić
President of the Management Board


Igor Bilandžija
Member of the Management Board