



INTESA SANPAOLO BANKA

Bosna i Hercegovina

2020 Annual Report



Cover photo:

La Nuova Galleria in Milano col passeggio notturno, 1870.
Carlo Canella

	Page
Report on Supervisory Board	4
Management Board's report on Bank's operations	7
Management Board's Report	10
Responsibilities of the Management and Supervisory Boards for the preparation and approval of the financial statements	11
Independent Auditors' Report	12
Statement of profit or loss and other comprehensive income	17
Statement of financial position	19
Statement of changes in shareholders' equity	20
Statement of cash flows	22
Notes to the financial statements	24-114

Report on Supervisory Board



The Bank's financial results in 2020 have been significantly affected by the Covid-19 pandemic and its containment measures and recorded important deviation compared to previous year in terms of volumes growth and profitability metrics.

Low business activity from corporates and individuals resulted in significant reduction of new disbursements, which led to loans volume stable at the same level of 2019.

Loans to customers (net) amounted to 1.579 mln BAM at the end of December 2020, decreasing slightly by -0.5% compared to December 2019. Retail loan portfolio and loans to corporate clients stayed at the similar level as in 2019. ISP BiH performed better than the market resulting with an increase of market share by loans of +15 bps YOY.

Customers' Deposits recorded an increase of +4.3% vs 2019 to reach 1.584 mln BAM, backed the growth of legal entities deposits +7% and private customers' deposits +1.6% YOY. The bank has shown resilience and stability in the deposits base, without significant outflows even in the most acute phases of the pandemic, reflecting a highly recognized reputation in the market.

The lack of growth in the loan portfolio, coupled with a constant contraction in spreads caused by increasing levels of competition, produced a significant reduction in interest income, only partially offset by the effect of the re-structuring of funding sources and repricing of Retail Term Deposits adopted in the 2H 2020. The Bank focused its liability management strategy on improving the maturity profile of deposits and optimizing cost of funding, by replacing expensive corporate deposits

with cheaper long-term funding from Supranationals to support Covid affected clients (60 mln BAM new credit facilities).

Net Operating Income recorded a decrease of 7.4 mln BAM or -8.4% YOY to reach 80.7 mln BAM, driven by lower Net Interest Income, Net Commission and FX trading income.

The change in the business environment and the deterioration in macroeconomic indicators caused by the Covid-19 pandemic led to a decline in business activities and a reduction in the number of processed operations. Commission flow recorded marked reduction of -6.9% in volumes in almost all categories (payments, card business, loans and foreign exchange), as consequence of low commercial flows and lack of tourists.

Bank's performance was influenced by continuous market pressure on lending rates and increased cost of placing the excess of liquidity at Central Bank, due the lack of opportunities in the local bonds market.

The decrease of revenues was partly offset by lower operating costs thanks to effective cost management.

Net Provisions increased by +11.mio BAM versus previous year, as consequence of higher Net adjustments to Loans, mainly due to implementation of new EBA stress coefficients (ISP request) and worsening of Sovereign rating.

The Bank recorded Net profit of 18.2 mln BAM at the year-end or -46.2% lower than in 2019.

Portfolio quality was in range of expectations, with NPLs ratio slightly increased to level of 3.82%, with adequate NPLs coverage.

The Bank's capital adequacy ratio strengthened at 19.62% (without net profit of 2020), above the total regulatory requirements of 14.5%, a level adequate to support future development of business activity.

Even in the most challenging year of last decade, the bank was profitable, preserved asset quality, enjoyed sound liquidity position and improved capital ratio.

While the results achieved by the bank in 2020 have to be considered sound in the light of very challenging economic environment, targets for 2021 remain ambitious especially in light of the still uncertain

Report on Supervisory Board (continued)

evolution of the pandemic and the economic recovery. The Bank plans to return to the pre-Covid profitability levels of 2019 with a net profit of 33 mln BAM at the end of 2021. This target relies on a significant grow of credit portfolio higher than the market, coupled with further optimization of the deposits structure to reduce the cost of funding. Operating margin is foreseen to grow markedly in all its components (interest income, commission and trading income), backed by economic recovery on all business segments (households and corporates). Particular attention has to be paid on credit quality in order to maintain a low level of risk, especially in the light of the lifting of Moratoria measures

During the year 2020, the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter: "the Bank") held 17 meetings on the following dates: 28.01.; 19.02.; 04.03.; 23.03.; 15.04.; 28.04.; 21.05.; 24.06.; 21.07.; 30.07.; 13.08; 17.09.; 23.09.; 21.10.; 27.10.; 16.11.; and 09.12.2020 and which were recorded under sequential numbers from 1 to 17.

The Supervisory Board of the Bank carried out its activities in conformity with the Law, the Bank's Articles of Association and Rules of Procedure of the Supervisory Board of the Bank along with the significant support by the Management Board, Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

At the meetings held, the Bank's Supervisory Board considered, analyzed and discussed all the processes within its competence, including policies and procedures, prepared internally but also received from ISP and PBZ. During the whole year, the Supervisory Board analyzed and discussed Bank's financial reports and followed up internal and external auditors' activities.

Among the major issues and topics that the Supervisory Board discussed is the overall situation caused by COVID 19 and the effects it had to the Bank's credit risk, the Capital Adequacy ratio and the Liquidity ratios. The Supervisory Board will continue to follow up with this issue, staying committed in respecting the local regulation about the capital adequacy and liquidity ratios and advising Management Board on further actions.

The Supervisory Board also paid special attention to AML activities and reports, provided by the AML Office.

During 2020, special attention was paid by the Board to the assessment of the adequacy of the internal control system of the Bank, in general and in specific operational areas, receiving information from the

Management Board and Internal Auditing Department on potential and identified weaknesses and the progress in implementation of the necessary remedial actions.

The control functions of risk management and control functions of compliance submitted reports and information to the Supervisory Board for consideration, in order to ensure the effective establishment of a system of internal controls.

As per local regulatory requirement, Supervisory Board also received and considered information related to the assessment of the effectiveness of the control functions in the Bank, including the appropriateness of processes. The Supervisory Board confirmed the soundness of the activities carried out by these functions.

The Supervisory Board of the Bank, through adoption of Operational Reports and Report of independent External Auditors acknowledged work of the Management Board, assessing it as compliant with laws, internal acts, decisions, policies, procedures and programs.

The Supervisory Board of the Bank performed and implemented all the required activities through its subcommittees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee that held their regular meetings during the year and duly informed the Supervisory Board of their activities.

Significant involvement of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina in all Bank's activities contributed to stability and maintenance a good position of the Bank in the market, thus, achieving sound financial results.

As far as the composition of the Supervisory Board is concerned, during 2020, the composition of the Supervisory Board of Intesa Sanpaolo banka d.d. Bosna i Hercegovina (hereinafter "the Bank") was: Mr. A.Cioni, (Chairman), Mr. Ivan Krolo (Deputy Chairman) until 28.08.2020 when he was replaced by Mr. Matija Birov, Mr. Miroslav Halužan, Mr. Gianluca Tiani, Mr. Andrea Fazzolari, Mr. Alden Bajgorić (independent SB member) and Mr. Massimo Lanza (independent member).

Pursuant to the Decision on assessment of members of Bank's bodies by Banking Agency of the FBiH and its amendments, ("the Policy") the Nomination Committee performed necessary assessments in accordance with the Policy, confirming that all the assessed persons do satisfy the prescribed requirements and are suitable for given positions in the Bank's Bodies.

Report on Supervisory Board (continued)

Starting from statements presented in this Report, the Supervisory Board proposes to the Bank's General Shareholders' Meeting to adopt the following:

- Decision on adoption of Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for the period 01.01. – 31.12.2020 prepared in accordance with the FBA Reporting Standards together with the Report of External and Internal Auditors, Report on Supervisory Board Activities, Report on Audit Committee Activities;
- Decision on adoption of Annual Statements of Accounts for the period 01.01. - 31.12.2020 and proposal for Distribution of Profit for 2020;
- Decision on adoption of Financial Plan 2021-2024;
- Decision on Adoption of Capital Plan 2021-2024;
- Decision on Adoption of Liquidity and Funding Plan 2021-2024
- Information for the GSM of the Bank, related to the Supervisory Board, Management Board and Top Management of the Bank and Proposal of the Supervisory Board on Earnings, Fees and other Proceeds;
- Decision on Suitability of the Members of Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for 2020.



Alessio Cioni
Chairman of the Supervisory Board

Management Board's report on Bank's operations for 2020



Pursuant to Articles 40 and 41 of Law on Accounting (Official Gazette FBiH 83/2009), Management Board of Intesa Sanpaolo d.d. BiH hereby presents business results of the Bank for 2020.

Intesa Sanpaolo Banka d.d. BiH was established in Sarajevo in 2000, as UPI Banka d.d. Sarajevo. In 2007, Intesa Sanpaolo Holding S.A Luxembourg became main shareholder with 94.92% of ownership. In July 2007, the Bank finished the merger process with LT Gospodarska banka d.d. Sarajevo. In 2008, the Bank changed its name to Intesa Sanpaolo Banka d.d. BiH. As a part of investment re-organization, within mother company Intesa Sanpaolo Group Italy, in July 2015, ownership over ISP Banka was taken over by sister company Privredna banka Zagreb d.d.

During 2017, Privredna banka dd Zagreb overtook the shares of minor shareholders of the Bank, thus becoming the Bank's owner with 99.99% of shares.

Intesa Sanpaolo Banka d.d. BiH took a fifth place in BiH in terms of share in total assets, based on data from September 2020. The Bank did business in 42 organizational units in FBiH and 5 in RS. Most of the business activity (97% of total assets) was concentrated in FBiH, where the Bank took third place in terms of total assets, loans and deposits, with respective market share of 9.5% in total assets, and 10.6% in loans and 8.9% in deposits.

ISP BiH provides basic banking services to retail and corporate clients, offering the whole array of product packages and commercial services in BiH, with expanding and optimization products catalogue.

The Bank maintains its business presence in BiH territory through its network of agencies and ATMs, and by further leveraging of relationship with merchants and

clients through expansion of POS network.

In 2020, the Bank achieved profit after taxes of 18,245 ths KM which is 46.2% less than previous year.

The deterioration in macroeconomic indicators and business environment caused by the Covid-19 pandemic led to a decline in business activities, a reduction in the number of transactions and an increase in the cost of provisions, which ultimately resulted into lower profit in comparison with previous year. The reduction in profit was mostly influenced by the cost of provisions, which increased significantly in 2020 by KM 10,989 ths.

Net interest income recorded an annual decline of 2,983 ths KM or -4.6%, mostly due to the reduction of loans interest rates in 2020 by 30 basis points.

Net Commission highly impacted by Covid-19 crisis and are lower by -1,800 ths BAM or -6,9% YOY mainly due to lower Card business, Loans, Payments, Foreign activities, partially offset by higher income on Current accounts, automated products and lower commission expenses on Card business.

Trading income, highly impacted by lockdown, recorded a decrease of by -14%.

The decrease of revenues is partially offset by lower operating costs thanks to effective cost management. Significantly higher loan loss provision was recorded, mainly due to the implementation of the new EBA stress coefficients (as required by the ISP Group) and the deterioration of the Sovereign rating. The share of non-performing loans grew by 27 basis points compared to last year, reaching a level of 3.8%, which is significantly lower than the average of the banking sector.

Total assets stable, similar to the level of 2019 year end at 2,330,250 ths KM in 2020.

Net loans to customers in the amount of 1,578,987 ths KM, slightly decreased by -0,5% compared to 2019, mainly due to increase of provisions. Retail loan portfolio and loans to corporate clients stayed at the similar level as in 2019. In the worsened business conditions in 2020, with lack of demand for credit and very low level of new production, the Bank kept the level of volume of gross loans similar to 2019, better compared to market in BiH which recorded a decline in gross loans of -2% in the same period.

Management Board's report on Bank's operations for 2020 (continued)

Customers deposits recorded an increase of +4.3% vs 2019 to reach 1.584.612 ths BAM, backed by positive performance of corporate deposits by 7% and retail deposits by 1,6%.

The Bank's liquidity position is stable, even in the event of a deterioration in macroeconomic conditions, and sufficient to sustain a further expansion of credit portfolio.

The Bank's capital adequacy is constantly improving and amounts to 19.62% (vs minimum requirements of 14.5%), considering that the net profit for 2020 is not included in the calculation.

The Bank's strategic goals for 2021 are as follows:

1. Revenue growth by taking advantage of new business opportunities and achieving the unexploited potential in poorly covered market segments.
2. Improvement of the distribution strategy, with the aim of enhancing the coverage model in light of new customer needs and behaviours.
3. Progressing with multi-year plan of investments for the infrastructural and technological modernization of the Bank to keep the pace with fast-changing business challenges and increasing regulatory requirements.
4. Continuous assessment of risk profile of bank's assets in order to strengthen the capital adequacy.

- Individuals Segment

More in detail, the strategic initiatives identified by the Business Units and other Governance Units to reach the targets set in the Plan are described here in after:

1. SFE (Sale Force Efficiency) Project - Improvement of sale efficiency introducing special program of education and trainings, with individual approach to employees.
2. AGDM and network optimisation - with focus on proactive approach to the client.
3. ATM NETWORK - introducing new functionalities.
4. DIGITAL - Focus on digitalization projects
5. NEW INSURANCE PRODUCTS - life insurance, real estate insurance, accident insurance etc.
6. IMPROVEMENT OF PRODUCT CATALOGUE
INCREASE CROSS SALE

- Small Business Segment

7. NEW SERVICE MODEL FOR SMALL BUSINESS SEGMENT
8. IMPROVEMENT OF PRODUCT CATALOGUE FOR SMALL BUSINESS SEGMENT

- Corporate & SME Segment

1. LOANS VOLUMES. Increase in the market share in loan volumes in the sub-segments of Institutional and Domestic Corporate and Upper SME by extensive use of Guarantee funds by State and Supranational. Potential infrastructure financing of public institutions/companies is of the highest priority to leverage on the ISP group know-how and capacity.
2. MULTINATIONAL CLIENTS GROWTH. Improving synergies with the ISP Group Banks on Multinational Clients and promoting joint initiatives and common business development, covering the entire supply / customers' chain.
3. CRM will be used more extensively to increase the profitability with wide range of products
4. GLOBAL TRANSACTION BANKING PRODUCTS. Trade finance and International payments is of the highest focus and determination to show progress

- Treasury

1. Strengthening further the funding structure of the bank, collecting additional MLT funding sources from Supranational (EIB, EBRD...),
2. Active management of Group MM lines and investment portfolio in order to optimize the risk/return of liquidity management.
3. Boosting the FX business in cooperation with Corporate /SME departments, through dedicated action plan and campaigns.

Management Board's report on Bank's operations for 2020 (continued)

- Chief Operating Officer Area

1. Interface platform for Digital at the same time
2. Changing obsolete client Oracle Forms&Reports 6i with web based Oracle Forms&Reports 19
3. Further consolidation of data processing and performance improvement by moving internet banking (Elba) servers to PBZ (note: needs FBA approval)
4. Further consolidation of license management and processes efficiency improvement by implementing MS Office Cloud solutions
5. Development and upgrade the core software and interfaces to support new business projects and initiatives and to comply with regulatory requirements
6. Improvement of ATM service model by changing from purchase to lease which will allow more efficient maintenance and fast and flexible disposition
7. Implementation of document management system
8. Further automation and centralisation of back office processes
9. Optimisation of branch network facilities and providing support in AGDM project
10. Further outsourcing of physical archiving to improve safety and quality of process and to achieve savings

- Chief Risk Officer

1. UNDERWRITING
 - Improvement of credit process on individual (retail) segment, based on internal rating calculated on client level.
 - Defining the criteria for actions of pre-approved loans for Small Business / Individuals clients.
2. WORKOUT
 - Delivering specific exit strategies for NPL clients of the Retail segment as a one-time discount arrangement

Apart from the above stated, detailed explanations of Bank's policies related to financial risk management, exposures of the Bank to price risk, FX risk, credit risk, capital and liquidity risks are to be found in Bank's Financial Report for 2020, audited by external auditor BDO BH d.o.o. and approved by Bank Management Board on 15.02.2021.

In accordance with the Article 41 of Law of Accounting

and Auditing, we list the corporate values of Intesa Sanpaolo banka d.d. BiH:

- Integrity
We pursue our goals with honesty, fairness and responsibility, in full and true respect of the rules and professional ethics and in the spirit of signed agreements.

- Excellence
We set ourselves the goal of continuous improvement, forward thinking, anticipating challenges, and fostering creativity aimed at innovation, both recognising and rewarding merit.

- Transparency
We are committed to making transparency the basis of our actions, advertising and contracts, in order to allow all our stakeholders to make independent and informed decisions.

- Respect for specific qualities
It is our intention to combine large-scale operations with profound local roots and to be a bank with a broad vision, without losing sight of individuals.

- Equality
We are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, ethnic origin, religion, political and union persuasions, sexual orientation, language or disability.

- Values of the individual
The value of each single person is a guide for our modus operandi: we use listening and dialogue as tools to continuously improve our relationships with all of our stakeholders.

- Responsibility in the use of resources
We aim to use all of our resources attentively, promoting behaviour based on resource optimisation and avoiding waste and ostentation, and we give priority to choices that take sustainability into account



Stefano Borsari
Member of the Management Board

Management Board's Report

The Management Board has pleasure in submitting its report for the year ended 31 December 2020.

Review of operations

The result for the year ended 31 December 2020 of the Bank is set out in the statement of profit or loss and other comprehensive income on page 9.

Supervisory Board, Management Board and Audit Committee

During the course of 2020 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board

Alessio Cioni	Chairman
Matija Birov	Vice-Chairman
Miroslav Halužan	Member
Gianluca Tiani	Member
Andrea Fazzolari	Member
Alden Bajgorić	Independent member
Massimo Lanza	Independent member

During the course of 2020 and up to the date of this report, the Audit Committee comprised:

Audit Committee

Stefano Bruschi	Chairman, from 22.05.2020
Ana Jadrešić	Member
Jadranko Grbelja	Member
Dražen Karakašić	Constantly invited person, from 22.05.2020
Salvatore Giuliano	Constantly invited person, from 22.05.2020
Daniele Davini	Constantly invited person, from 22.05.2020
Dražen Karakašić	Chairman, until 21.05.2020
Petar Sopek	Member, until 21.05.2020
Zoltan Mogyorosi	Member, until 21.05.2020

As of 31 December 2020, the Management Board comprised a President and four Members, who served during the year and up to the date of this report as follows:

Management Board

Almir Krkalić	President of the Management Board, until 05.01.2021
Marco Trevisan	President of the Management Board, from 06.01.2021
Edin Izmirlija	Management Board Member and Head of Risk Management and Controlling Division
Stefano Borsari	Management Board Member and Chief Financial Officer
Amir Termiz	Management Board Member and Head of Retail Division
Alek Bakalović	Management Board Member and Head of Corporate & SME Division, from 24.06.2020

On behalf of the Management Board:



Almir Krkalić
President of the Management Board



Stefano Borsari
Member of the Management Board

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the financial statements

The Management Board is required to prepare financial statements, 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 to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it 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 to conform with applicable accounting standards and then applying them consistently; making judgements and estimates that are reasonable and prudent; and preparing 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 to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

The financial statements set out on pages 8 to 93 were authorised by the Management Board on 15 February 2021 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

For and on behalf of Management Board



Almir Krkalić




Stefano Borsari

President of the Management Board

Member of the Management Board

Independent Auditor's report

To the shareholders of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina

The report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina ("the Bank"), which comprise the statement of financial position of the Bank as at 31 December 2020, statement of profit or loss and comprehensive income, statement of cash flows and statement of changes in equity of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the annual financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give an opinion on these matters.

We have determined that the following matter was the key audit matter and should be published in our Independent Auditor's report.

Key audit matters

Key audit matter	How we addressed the key audit matter
Impairment of loans and advances to customers	<p>As at 31 December 2020 gross loans and advances to customers amount to 1,650,611 thousand BAM, related impairment allowance amounts to 71,624 thousand BAM and impairment loss recognised in the income statement amounts to 13,830 thousand BAM (31 December 2019: gross loans and advances: 1,650,988 thousand BAM, impairment allowance: 63,455 thousand BAM, impairment loss recognised in the income statement: 5,333 thousand BAM).</p>

Independent Auditor's report (continued)

Key audit matter

Impairment allowances represent management's best estimate of risk of default and the expected credit losses within the loans and advances at the reporting date. We focused on this area due to the significance of the amounts involved and also because of the nature of the judgements and assumptions that management are required to make.

IFRS requires management to make judgments about the future and various items in the financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer are significant estimates.

The key areas of judgement uncertainty associated with credit loss allowances for loans and advances to customer are the identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows as well as expected proceeds from the realization of collateral and the determination of the expected credit losses of loans and advances to customer which are all inherently uncertain.

The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit.

As of January 1 of year 2020 the Bank applied the new Decision on Credit Risk Management and determination of Expected Credit Losses, issued by Federal Banking Agency, where specific set of requirements regarding expected credit losses, criteria for segmentation, definition of eligible collateral, and other requirements had been set.

Negative financial effects of COVID-19 on exposure to credit risk and the associated credit risk management

Audit Procedures

Our audit procedures in this area included, among others:

- Reviewing the methodology of the Bank for the calculation of the expected credit loss and assessing its compliance with the relevant requirements of IFRS 9,
- obtaining an understanding of the impairment allowance for loans and advances, IT applications used, as well as assumptions for data used in the expected credit loss model,
- evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances,
- testing the design, implementation and operational effectiveness of key controls in the areas of customer rating in appropriate risk groups, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances,
- testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies,
- evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD),
- testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk,

Independent Auditor's report (continued)

policies are likely to be significant. In addition, Bank in accordance with negative financial effects have offered modifications to loans. Since COVID-19 negative financial impact, expected credit losses, models utilised by Management, adjustments to amounts derived from the models, including changes in financial assumptions and the way credit losses are estimated, have been updated.

Related disclosures accompanying the annual financial statements

For additional information see notes 3. z) to financial statements (Significant accounting policies) and 4. (Critical accounting judgements and key sources of estimation uncertainty) and notes 23. (Loans and advances to customers) and 5.1. (Credit risk section of the note Financial risk management policies).

- conducting an evidentiary test of the selected sample to assess the correctness of the loan and advance classification,
- in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and advances and compared our calculations with the impairment of the value calculated by the Bank,
- evaluating the accuracy and completeness of the financial statement disclosures.
- Auditors will focus on implementation of new regulatory decision effective as of January 1, 2020.
- Evaluating the changes in credit risk management policies, regarding COVID 19 outbreak, including review of changes in estimates included in financial assumptions (adjustment in forward-looking elements in expected credit losses calculations).

Other information in the Annual Report

Management is responsible for the other information. The other information comprises of information included in the Annual Report, but does not include the annual financial statements and our Independent auditor's report.

Our opinion on the financial statements does not include other information and, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with our knowledge obtained in the audit. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

Independent Auditor's report (continued)

Responsibilities of Management and those charged with Governance for the Annual Financial Statements

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal controls as the Management determines necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 higher 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 made based on these annual 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 annual 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.
- make conclusion on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's report (continued)

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

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

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the matters we are communicating with those charged with governance, we determine those matters that are of utmost importance in the audit of financial statements for the current period and are therefore key audit matters. We describe these matters in our independent auditor's report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our independent auditor's report as it can reasonably be expected that the negative effects of the announcement will surpass the welfare of public interest in such disclosure.

In Sarajevo, 15 February 2021

BDO BH d.o.o. Sarajevo
Fra Anđela Zvizdovića broj 1
71000 Sarajevo



A handwritten signature in blue ink, appearing to read 'A. Gabela'.

Mario Filipović, direktor

Aldijana Gabela, ovlaštenu revizor

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

	Notes	2020.	2019.
Interest income	8	74.039	78.039
Interest expense	9	(11.856)	(12.873)
Net interest income		62.183	65.166
Fee and commission income	10	30.566	33.208
Fee and commission expense	11	(6.202)	(7.044)
Net fee and commission income		24.364	26.164
Net trading income	12	2.376	2.768
Other operating income/(expense)	13	(8.215)	(5.970)
Other operating expenses, net		(5.839)	(3.202)
Total operating income, net		80.708	88.128
Personnel expenses	14	(21.338)	(21.224)
Administrative expenses	15	(15.993)	(17.624)
Depreciation and amortisation		(5.673)	(5.759)
Operating expenses		(43.004)	(44.607)
Profit before impairment losses and other provisions and income tax		37.704	43.521
Net impairment gains/(losses) and other provisions	16	(16.476)	(5.487)
Profit before tax		21.228	38.034
Income tax expense	17	(2.983)	(4.111)
Net profit for the year		18.245	33.923

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

Statement of profit or loss and other comprehensive income for the year ended 31 December (continued)

	Notes	2020.	2019.
Profit for the year		18.245	33.923
Other comprehensive income for the year			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Fair value reserves (Financial assets at fair value through OCI) Change in fair value, net of deferred tax		1.511	(4)
<u>Items that will not be reclassified to profit or loss</u>			
Revaluation of property (property classified as IAS 16) Change in fair value, net of deferred tax		1.208	-
Other comprehensive income		2.719	(4)
Total comprehensive income for the year		20.964	33.913
Basic and diluted earnings per share (BAM)	18	41,15	75,76

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

Statement of financial position

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	19	458.909	499.752
Reserves with Central Bank	20	190.280	191.510
Placements with other banks	21	29	68
Financial assets at fair value through other comprehensive income	22 a)	55.146	126
Financial assets at fair value through profit or loss	22 b)	467	790
Financial assets at amortized cost	22 c)	5.832	6.134
Loans and receivables from customers	23	1.578.987	1.587.533
Income tax prepayment		5.005	3.356
Deferred tax assets	32	329	332
Other assets	24	5.905	9.641
Property and equipment	25	25.694	26.506
Intangible assets	26	3.667	4.780
Total assets		2.330.250	2.330.528
Liabilities			
Due to banks and other financial institutions	27	387.529	466.814
Due to customers	28	1.584.612	1.518.913
Financial liabilities at fair value through profit or loss	22 c)	106	574
Other liabilities	29	31.450	29.649
Provisions for liabilities and charges	30	5.589	4.993
Deferred tax liabilities	31	68	51
Total liabilities		2.009.354	2.020.994
Equity			
Share capital	32	44.782	44.782
Share premium		57.415	57.415
Regulatory reserves for credit losses		-	18.286
Other reserves and fair value reserves		3.866	1.513
Retained earnings		214.833	187.538
Total equity		320.896	309.534
Total liabilities and equity		2.330.250	2.330.528

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

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

	Issued share capital	Share premium	Regulatory reserves for credit losses	Other reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2020	44.782	57.415	18.286	980	533	187.538	309.534
First Time adoption of FBA new standards	-	-	-	-	-	(7,773)	(7,773)
General Assembly Decision	-	-	(18.286)	(366)	-	16.823	(1.829)
Net profit for the year	-	-	-	-	-	18.245	18.245
Other comprehensive income							
Net gain from change in fair value of financial assets through other comprehensive income	-	-	-	-	1.511	-	1.511
Net gain from change in Fair Value of Property (Note 25)	-	-	-	-	1.208	-	1.208
Total other comprehensive income	-	-	-	-	2.719	-	2.719
Total comprehensive income	-	-	-	-	2.719	18.245	20.964
Balance as at 31 December 2020	44.782	57.415	-	614	3.252	214.833	320.896

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

Statement of changes in shareholders' equity for the year ended 31 December 2019

	Issued share capital	Share premium	Regulatory reserves for credit losses	Other reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2019	44,782	57,415	18,286	980	542	153,615	275,620
Net profit for the year	-	-	-	-	-	33.923	33.923
Debt instruments at FVOCI – net change in fair value	-	-	-	-	(5)	-	(5)
Other comprehensive income							
Net loss from change in fair value of financial assets through other comprehensive income	-	-	-	-	(4)	-	(4)
Deferred tax assets	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	(4)	-	(4)
Total comprehensive income	-	-	-	-	(9)	33.923	33.914
Balance as at 31 December 2019	44.782	57.415	18.286	980	533	187.538	309.534

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

Statement of cash flows

	Notes	31. december 2020.	31. december 2019.
Cash flows from operating activities			
Profit for the year		18.245	33.923
Adjustments for:			
- depreciation and amortisation	25, 26	5.673	5.759
- net impairment losses and provisions	16	16.476	5.487
- net change in provisions for liabilities and charges		168	1.559
- net interest income		(62.183)	(65.166)
- net change in fair value of financial assets and liabilities at fair value through profit or loss	12	(186)	215
Net charge to profit or loss statement, property	13	1.021	(29)
- other comprehensive income		(1.208)	4
- income tax expense	17	2.983	4.111
		(19.011)	(14.137)
Changes in:			
- placements with other banks		67	21.516
- loans and receivables from customers		(11.720)	(170.617)
- other assets		2.354	(473)
- obligatory reserve with the Central Bank		1.232	(18.531)
- financial assets and liabilities at fair value through profit or loss		41	(184)
- due to banks		(79.290)	10.476
- due to customers		65.783	215.150
- other liabilities		4.331	(3.790)
- provisions for liabilities and charges		113	(1.120)
		(36.100)	(38.290)
Income tax paid		(6.458)	(6.119)
Interest received		72.705	78.345
Interest paid		(12.454)	(13.420)
		17.693	97.096
Cash flows from investing activities			
Acquisition of property and equipment		(1.885)	(1.198)
Proceeds from the sale of property and equipment		-	145
Acquisition of intangible assets		(472)	(1.191)
Proceeds from financial assets at fair value through other comprehensive income		(53.757)	576
		(56.114)	(1.668)

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

Statement of cash flows (continued)

	Notes	31 December 2020	31 December 2019
Cash flows from financing activities			
Lease outflow		(2,422)	(2,090)
Net cash flow used in financing activities		(2,422)	(2,090)
Net increase in cash and cash equivalents		(40,843)	93,338
Cash and cash equivalents at the beginning of the year			
	19	499,752	406,414
Cash and cash equivalents at the end of the year			
	19	458,909	499,752

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

Notes to the financial statements

1. GENERAL

Incorporation and registered activities

Intesa Sanpaolo Banka d.d. Bosna i Hercegovina ("the Bank") was registered in the Cantonal Court in Sarajevo on 20 October 2000. Its registered address is Obala Kulina Bana 9a in Sarajevo.

The Bank's main operations are as follows:

1. Accepting deposits from the public,
2. Granting short-term and long-term loans and guarantees to corporate customers, private individuals, local municipalities and other credit institutions,
3. Money market activities,
4. Performing local and international payments,
5. Foreign currency exchange and other banking-related activities,
6. Providing banking services through an extensive branch network in Bosnia and Herzegovina.

Notes to the financial statements (continued)

2. BASIS OF PREPARATION

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements of the Bank have been prepared in accordance with legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina ("FBiH"), which is based on the Law of Accounting and Auditing of FBiH, the Law on Banks of FBiH and bylaws FBiH Banking Agency adopted on the basis of the mentioned laws.

- Law on Accounting and Auditing of FBiH determines the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previous mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.
- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the "Decision"), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: "Financial instruments" ("IFRS 9").

The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS). In accordance with the provisions of the Decision, the Bank formed larger value adjustments for credit losses in the amount of 7,350 thousand BAM as of December 31, 2020 (7,773 thousand BAM as of January 1st 2020) in relation to the amount obtained by calculation resulting from the Bank's internal model, as it is required in IFRS 9. This difference is due to the following reasons:

- application of the minimum value adjustment rates determined in Article 23. of the Decision for level exposures credit risk 1 - difference in the amount of 1,988 thousand BAM as of December 31, 2020 (2,337 thousand BAM, as of January 1st 2020)
- application of the minimum value adjustment rates determined in Article 24. of the Decision for level exposures credit risk 2 - difference in the amount of 113 thousand BAM as of of December 31, 2020 (145 thousand BAM, as of January 1st 2020)
- application of the minimum value adjustment rates prescribed in Article 25. of the Decision for level exposures credit risk 3 (non-performing assets) - the difference in the amount of 5,106 thousand BAM as of December 31, 2020, of which the amount of 2,680 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,426 thousand BAM on exposures which are provided with acceptable collateral (4,954 thousand BAM as of January 1st 2020, of which the amount of 2,493 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,461 thousand BAM on exposures which are provided with acceptable collateral).

Notes to the financial statements (continued)

2. BASIS OF PREPARATION (CONTINUED)

Basis of accounting (continued)

- application of the minimum rates of value adjustments determined in Article 26. of the Decision on receivables, receivables based on factoring and financial leasing and other receivables - difference in the amount of 143 thousand BAM as of of December 31, 2020 (337 thousand BAM as of January 1st 2020).

In accordance with Article 32 of the Decision, the banks are obliged, if not sell repossessed / acquired material property more than three years from acquisition date, to evaluate value to 1 KM.

As presented below, the Bank formed impairments before new regulation, and for all assets acquired before three years already built impairments, so no impact of new regulation was recorded.

Acquired material property	2020			2019		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Assets which has been acquired in the last three years	77	77	0	1.314	91	1.224
Assets which was acquired over a period of more than three years	196	196	0	438	438	0
Total	273	273	0	1.752	528	1.224

Previously described differences between the legal accounting regulations applicable to banks in FBiH and requirements for recognition and measurement under International Financial Reporting Standards had to result in the following effects *:

	1 January 2020	31 December 2020
ASSETS	(7.464)	(6.937)
OBLIGATIONS	309	413
CAPITAL	(7.773)	(7.350)
	The year that has ended	31 December 2020
Financial result before taxes		423

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

These financial statements were authorised by the Management Board on 15 February 2021 for submission to the Supervisory Board.

Functional and presentation currency

These financial statements are presented in thousands of convertible marks ('000 BAM) which is the functional currency of the Bank.

Notes to the financial statements (continued)

2. BASIS OF PREPARATION (CONTINUED)

Basis of accounting (continued)

Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Results actually recorded upon settlement of transactions which were initially subject to estimates may eventually differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

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

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in currencies other than Convertible Marks (“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 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 profit or loss statement for the period.

The Bank values its assets and liabilities at the middle rate of the Central Bank of Bosnia and Herzegovina valid at the reporting 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 Decembar 2019	EUR 1 = KM 1,95583	USD 1 = KM 1.74799
31 Decembar 2020	EUR 1 = KM 1,95583	USD 1 = KM 1.59257

(b) Net trading income

Net trading income comprises net gains and losses from foreign exchange trading, net gains and losses on financial instruments at fair value through profit or loss, and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date.

(c) Lease payments

At inception of contract, the Bank assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. The Bank recognizes a right-of use asset and lease liability at the lease commencement date. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Bank’s incremental borrowing rate. Generally Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise of following: fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(c) Lease payments (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Bank presents right-of-use assets in "property and equipment" Note 25, and lease liabilities in "Due to customers" Note 28, in the statement of financial position.

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(d) Income tax expense

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the profit or loss statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date and any adjustments to tax payable in respect of previous years.

The amount of deferred tax is calculated using the balance sheet liability method whilst considering the temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets and liabilities are recognized using the tax rates that are expected to apply on taxable income in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable future profits will be available against which the deferred tax assets can be utilized. At each reporting date the Bank reassesses unrecognized potential deferred tax assets and the carrying amount of recognized deferred tax assets for indications of potential impairment.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(e) Property and equipment

Recognition and measurement

Equipment is stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognized in the profit or loss statement as incurred.

Buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognized in the asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognized against the asset revaluation reserve. All other decreases in carrying amounts are recognized as a loss in the statement of comprehensive income.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount, and are included in the profit or loss statement as other income or operating expense.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Property and equipment

The depreciation rates used by the Bank are as follows:

	2020	2019
Computers	20%	20%
Furniture and equipment	10% - 15%	10% - 15%
Business premises	5%	5%
Leasehold improvements	20%	20%

Depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(f) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Amortization is provided on all intangible assets except assets in the course of construction on a straight line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The amortization rates used by the Bank were applied consistently in 2019 and 2020:

Intangible assets – licenses	10% - 33,33%
Intangible assets – software	20%

Amortization method and useful lives are reviewed and adjusted if appropriate at each reporting date.

(g) Assets repossessed from disbursement of loans

The Bank may recover assets that were originally received as collateral for the loan after exercising contractual rights or undertaking specific legal actions. When both of the following conditions are satisfied, the relevant assets shall be included in the Bank's balance sheet:

- The recovery activity has been completed
- The Bank has become owner of the asset

Classification and measurement of these assets depend on the scope for holding the property. More specifically, the asset may be classified according to IAS 16 (if the assets becomes instrumental), IAS 40 (if the property is held to earn rentals or for capital appreciation), IAS 2 (when the property has been acquired, in the ordinary course of business, exclusively with the intent to dispose of the asset in the reasonably short period of time). Classification under IFRS 5 is also possible when the conditions are met.

Following their initial recognition in the balance sheet at their fair value, the repossessed assets classified according to IAS 16, excluding property assets, shall be measured at cost (amortized and periodically tested for impairment). Repossessed property assets, such as functional property and valuable art collections (governed by IAS 16) and Investment property (governed by IAS 40) will be subsequently measured according to the revaluation model and fair value model respectively. Assets classified under IAS 2 shall be measured at the lower between cost and the net realizable value and shall not be amortized but only subject to the impairment test.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Assets repossessed from disbursement of loans (continued)

In accordance with Banking Regulatory Agency's Decision, assets repossessed from disbursement of loans should be registered at lower of following values:

- a) Net carrying value of loan receivable. In addition in circumstances where carrying value of loan receivables is equal to the expected credit loss provisions, the Bank shall recognize repossessed assets in value of 1 BAM.
- b) Estimated fair value, decreased for expected costs of sale, estimated by independent valuator.

(h) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the profit or loss statement.

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits

Short-term benefits

On behalf of its employees, the Bank pays pension and health insurance which is calculated on the gross salary paid as well as tax on salaries which are calculated on the net salary paid. The Bank pays the above contributions into the state pension and health funds according to statutory rates during the course of the year.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(j) Employee benefits (continued)

Short-term benefits (continued)

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

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss statement as incurred.

Long-term employee benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees' retirement severance benefits upon retirement in an amount representing three times the average salary of the respective employee in the period of the last three months.

The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the estimated interest rate on government bonds.

Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued by the ultimate parent company. The Bank accounts for share-based payments as a cash-settled transaction.

The fair value of the amount payable to employees in respect of the ultimate parent company shares to be given to the employees is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payments. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a personnel expense in the profit or loss statement.

(k) Provisions for liabilities and charges

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. Management determines the sufficiency of provisions on the basis of insight into specific items; current economic circumstances risk characteristics of certain transaction categories, as well as other relevant factors.

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.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(l) Equity

Issued share capital

Issued share capital comprises ordinary and preference shares and is stated in BAM at nominal value.

Regulatory reserve for credit losses

Changes in regulation for Regulatory reserve for credit losses are explained in Note 4. Retained earnings

Retained earnings represent the accumulation of net profits after appropriations to owners and other transfers, such as transfers to regulatory reserves as described above.

Fair value reserve

The fair value reserve comprises changes in fair value of financial assets available for sale, net of deferred tax.

Other reserves

Other reserves mainly relate to accumulated appropriations from retained earnings in accordance with the shareholder's decisions.

Dividends

Dividends on ordinary shares and preference shares are recognized as a liability until payment to beneficiaries in the period in which they are approved by the Bank's shareholders.

(m) Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

(n) Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services rendered the Bank charges a fee.

(o) Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. A geographical segment is engaged in providing products or services within a particular economic environment distinguished from other segments engaged in providing products or services within other economic environments.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(o) Segment reporting (continued)

The Bank has identified 3 primary business segments: Retail, Corporate and Treasury. The primary segmental information is based on the Bank's internal reporting structure by business segment. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina.

(v) Interest income and expense

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(w) Fee and commission income and expenses

Fee and commission income and expenses that are integral part of the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income and expenses, reported as such, comprise mainly fees related to credit card transactions, the issuance of guarantees and letters of credit, domestic and foreign payment transactions and other services and are recognized in the profit or loss statement upon performance of the relevant service.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(x) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and, from 01 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(y) Dividend income

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(z) Financial assets and financial liabilities

1. Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2. Classification and subsequent measurement

Financial assets

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Financial assets measured at amortised cost
- Financial assets measured through other comprehensive income
- Financial assets at fair value through profit or loss

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables.

Classification and subsequent measurement of debt instruments depend on:

- (i) The purpose of managing financial assets (business model)
- (ii) The contractual characteristics of cash flows (Solely Payments of Principle and Interest, further "SPPI test" or "SPPI")

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Financial assets measured at amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 3(w)(6). Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables occur when the Bank grants cash to customers without the intent to trade these receivables and includes placements and loans to banks, given loans and receivables from customers and assets with the Central Bank.

- **Financial assets measured through other comprehensive income**

Fair value through other comprehensive income (FVOCI) financial assets, that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Net trading income". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition.

The Bank designates financial assets at fair value through profit or loss when:

- the assets are managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include derivative financial instruments classified as financial instruments held for trading and equity instruments designated by management at fair value through profit or loss.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Purpose of managing financial assets (Business model)

The business model reflects how the Bank manages the assets in order to generate cash flows.

Business models of the Bank are:

- Business model whose objective is to hold assets for the collection of contractual cash flows - it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument. For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
 - Deposits with banks,
 - Loans,
 - Other receivables.

Credit risk is the underlying risk that is managed under this business model.

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets. The following financial assets are allocated to the business model for collection and sale:
 - Debt securities (pass SPPI test),
 - Equity securities (fail SPPI test),

Liquidity risk is the underlying risk that is managed under this business model.

- The business model within which financial assets are measured at fair value through profit and loss - combines all financial assets that are not held under the two previously mentioned business models. Financial assets in this business model are managed in order to realize cash flows by selling assets and making short-term profits.

Contractual cash flow characteristics (SPPI)

Test of features of contractual cash flows from the point of view of solely payment of principal and interest (hereinafter: SPPI test) is one of the criteria for the classification of financial assets in an individual category of measurement. SPPI test is implemented for the purpose of establishing whether the interest rate on unsettled principle reflects the fee for time value of money, credit risk and other basic risks of borrowing, lending costs and profit margin.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

Contractual cash flow characteristics (SPPI) (continued)

The SPPI test is performed:

- for each financial asset, allocated to a business model whose purpose is to hold financial assets for the payment of contractual cash flows and a business model for the purpose of collecting contractual cash flows and selling financial asset on the date of its initial recognition,
- for each financial asset in cases where the original asset has been significantly modified and therefore re-recognised as new assets,
- when introducing new models and/or loan programs to determine in advance the eligibility of the considered loan term and conditions in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

• Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the "Net trading income" line in the statement of profit or loss.

• Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

3. Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

According to regulation prescribed by Federal Banking Agency of BiH from 01.01.2020, Decision on Credit Risk Management and determination of expected credit losses, modification can be:

- 1) triggered by the debtor's current needs (e.g. effective interest rate reduction due to changes in the market, collateral swap, etc.), and not by the debtor's financial distress,
- 2) triggered by the debtor's current financial distress or distress that will arise soon, i.e. deterioration of their creditworthiness, timeliness in meeting of their obligations to the bank or other creditors

Bilješke uz godišnje finansijske izvještaje (nastavak)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

According to ISP Group Accounting Policies, modification can be:

- modification due to financial difficulties can be:
 - without derecognition of previous loan (impact is recognized as gain/losses from contractual modification without derecognition, and later, time value reversal effect has to be recognized in the interest margin)
 - with derecognition (the modified asset is considered as a new financial asset)
- modification due to commercial purposes will have no impact on the Income Statement.

Effects

The Bank calculated modification effects for loans that had some changes in contractual original terms during 2020 year.

Calculation was done for modification due to commercial reasons and due to financial difficulties.

The total number of clients subject to modification for commercial/financial difficulties amounts to n. 413, majority of which in Collection department (338). The total negative impact on P&L would be 396 thousand BAM, of which 184 thousand BAM related to commercial purposes and 212 thousand BAM related to clients with financial difficulties.

That effect should be smaller because of passage of time (time value reversal effects). Since calculation was done manually, reversal effects into interest margin couldn't be calculated.

Since modification effects refers to:

- 413 loans (in Retail portfolio 399, in Corporate 14 loans) which is 0.65% / 0.56% in comparison with total number of loans (loans with Balance Sheet exposure)
- P&L effects is 396 thousand BAM which is 0,53% of Interest Income as of December 2020

The Bank considered effects as immaterial for 2020 and will not recognize it through Profit and Loss for 2020 year.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

- Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

- Impairment

IFRS 9 outlines a "three-stage" model for impairment of financial assets based on changes in credit quality since initial recognition of financial assets.

Impairment of financial assets is recognized on the basis of the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments).

IFRS 9 requires entities to enter the expected losses at the level of losses expected in the next 12 months (Stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" deterioration in relation to the initial measurement (Stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Financial liabilities (continued)

- Allocation of performing financial assets at different levels of credit risk ("staging"), corresponding to value adjustments based on expected losses over the next 12 months (the so-called "Stage 1") or lifetime for the entire remaining duration of the instrument (the so-called "Stage 2"), in the presence of a significant increase in credit risk;
- Allocation of partially or fully non-performing financial assets in the so-called "Stage 3", always with value adjustments based on expected losses over the entire duration of the instrument;
- Inclusion of Expected Credit Losses ("ECL") in the calculation, as well as the expected future changes of the macroeconomic scenario.

The following table summarizes claims for impairment under IFRS 9.

	Stage 1	Stage 2	Stage 3
Deterioration in credit risk	Initial recognition (non-performing loans a origination are included in Stage 3)	Credit risk has increased significantly since initial recognition and is not considered "low"	Credit risk has increased to the point where it is considered that the value of the instrument is impaired.
Recognition of the provisioning in the balance sheet IFRS 9	12-month expected loss	Lifetime expected loss	Lifetime expected loss
Current classification	Performing	Performing	Non-performing
Current provision	Incurred loss	Incurred loss	Lifetime expected loss

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The Bank wrote off a loan or an investment in debt security, either partially or in full, and any related allowance for impairment losses, when Bank's Credit determined that there was no realistic prospect of recovery.

Accounting Write-off

In July 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses which is explained in Accounting Summary Policies - Impairment.

According to FBA Decision, Bank is obliged to perform write off of financial assets in time period of two years after the date on which total amount of expected credit risk had been registered in amount of 100% of the value of financial asset, and declared assets as completely due.

Unlike to above explained Write-off, Accounting Write-off is part of Off-Balance Sheet records and in Financial Statement is part of movement of Impairments in single Notes.

Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 22 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(aa) Loans and receivables from customers

“Loans and receivables” captions in the statement of financial position include:

- loans and receivables measured at amortized cost (see Note 23); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(ab) Investment securities

The “investment securities” caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

(ac) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- At the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(w)(6) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- The Bank recognizes a loss allowance

Liabilities arising from financial guarantees and loan commitments are included within provisions.

A. New standards and interpretations

The Bank has initially adopted following standards and amendments to standards mandatory effective for annual periods beginning after 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting estimates and Errors (Amendment – Disclosure Initiative – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Conceptual Framework for Financial Reporting (Revised)
- IBOR Reform and its Effects of Financial Reporting – Phase 1

The Bank has adopted Covid-19 Related Rent Concessions-Amendment to IFRS 16, effective as of 1 June 2020.

The adoption of these new standards, amendments to existing standards and interpretations did not lead to any material changes in the Bank's financial statements.

Notes to the financial statements (continued)

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(z) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and financial liabilities (continued)

B. New standards and amendments to existing standards that have been published and have not yet been adopted

- Interest Rate Benchmark Reform – Phase 2 which introduces the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 (effective after January 1, 2021)
- IFRS 17: “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2023),
- IAS 37 Amendments – Onerous Contracts – Cost of Fulfilling a Contract
- IAS 16 Amendments – Property, Plant and Equipment: Proceeds before Intended Use
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 15 and IAS 41);
- IFRS 3 Amendments - References to Conceptual Framework

The Bank does not expect these standards issued by the IASB, not yet effective, to have a material impact on the Bank.

Notes to the financial statements (continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be reasonably assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment losses on loans and receivables

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

(b) Taxation

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

(c) Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

In addition to impairment allowances calculated and recognised in accordance with IFRS, the Bank also calculates impairment losses in accordance with the Agency regulations for capital adequacy calculation purposes.

Regulation until 31.12.2019

Prior to 2012, any increase in allowance in accordance with the Agency regulations over amounts recognized under IFRS were required to be transferred to regulatory reserves from profit or retained earnings, upon the decision of the General Assembly. However, based on the Decision on Minimum Standards of Capital Management and Asset Classification issued by the Agency in February 2013 any further shortfall in regulatory provisions after 31 December 2012 will be adjusted as a deduction of regulatory capital in the capital adequacy calculation without any transfer of this shortfall from retained earnings to regulatory reserves for credit losses within equity.

As presented in the table below, total Agency provisions exceeded provisions recognized under IFRS by BAM 29,195 thousand as at 31 December 2019. Out of this amount, BAM 18,286 thousand has been recognized as a regulatory reserve for credit losses within equity as at 31 December 2019. The remaining amount of BAM 10,909 thousand, which represents the current year end shortfall, in line with the Agency regulation, as explained above, will not be transferred to the regulatory reserves for credit losses, but will be recorded as a reduction of regulatory capital, for capital adequacy calculation.

Notes to the financial statements (continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Regulatory requirements (continued)

Regulation from 01.01.2020

In July 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses with application from 01.01.2020.

The FBA Decision regulates the rules for classification of financial instruments based of International Financial Reporting Standard 9: Financial Instruments (IFRS 9), with the introduction of some specific characteristics for the BiH market.

From 01.01.2020 there is no obligation for calculation regulatory reserves for credit losses within the equity.

In accordance with the Decision on credit risk management and determination of expected credit losses, the Bank applies the following rules of minimum coverage to define the ECL.

The Bank shall determine and record the expected credit losses for exposures allocated to credit risk level 1 at least in the following amounts:

- a) for low risk exposures – 0.1% of exposures,
- b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution, which is assigned to credit quality step 3 and 4 – 0.1% in accordance with Article 69. of the Decision on calculating the bank's capital.
- c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which is in accordance with Article 69 of the Decision on calculating the bank's capital is classified in credit quality step 1, 2 or 3 - 0.1% exposure,
- d) for other exposures - 0.5% of exposures.

For exposures allocated to credit risk level 2, the bank is obliged to determine and record the expected credit losses in the amount of more than the following:

- a) 5% exposure,
- b) the amount determined in accordance with the bank's internal methodology.

The Bank shall determine and record expected credit losses for exposures allocated to the level of credit risk 3 at least in the amounts defined in Table 1 or Table 2.

Notes to the financial statements (continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Regulatory requirements (continued)

Table 1. Minimum expected credit loss rates for exposures secured by eligible collateral:

Number:	Days of delay	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 730 to 1460 days	80%
6.	over 1460 days	100%

Table 2. Minimum expected credit loss rates for exposures not secured by eligible collateral:

Number	Days of delay	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%

Exceptionally, if the bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure.

The estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable.

In case that the bank does not collect receivables in the specified period of three years, it is obliged to record the expected credit losses in the amount of 100% of the exposure.

Notes to the financial statements (continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Regulatory requirements (continued)

The Bank shall determine the rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, and other receivables at least in the amounts as shown in Table 3.

Table 3. Minimum rates of expected credit losses for leasing and other receivables

R.br.	Days of delay	Minimalni očekivani kreditni gubitak
1.	no delay in material 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%

The following table summarizes impairment allowances calculated in accordance with the Agency regulations. Regulatory provisions as of 31 December 2019 are calculated in accordance with the methodology, as explained above:

Summary of impairment allowances	31 December 2020	Effects of first adoption 1 January 2020	31 December 2019
Provisions for total balance-sheet items (Agency)	73,735	7,464	87.160
Provisions for total off-balance-sheet items	2.264	309	8.019
	75.999	7.773	95.179
Impairment allowances under FBA / IFRS standards	75.999	-	65.984
Excess at the year end	-	-	29.195

(d) Litigation and claims

The total amount of litigations and claims amounts to BAM 12,457 thousand (2019: BAM 13,494 thousand).

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

As stated in Note 30, the Bank provided BAM 2,655 thousand (2019: BAM 2.504 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case based on the likelihood and magnitude of an outflow of resources.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, and interest rate risk.

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial services business and the operational risks are an inevitable consequence of being in business.

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Risk management is carried out by the Risk Management Division whose main purpose is to support financial operations, coordinate access to domestic and international financial markets, and oversee and manage financial risk through internal risk reports including analysis by size and level of the risk.

5.1 Credit risk

5.1.1 Risk limit control and mitigation policies

The Bank takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Bank Risk.

The limits of credit risk are determined in relation to the Bank's regulatory capital.

According to the Bank's policy, decision-making on exposure to credit risk is centralized and concentrated on the Credit Committee. Decisions of the Credit Committees are made upon consideration of proposals provided by the Underwriting Department. The terms for approval of each corporate loan are determined individually depending on client type, the loan's purpose, estimated creditworthiness and current market situation. Conditions for collateral are also determined according to client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount.

Off-balance-sheet credit instruments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letter of credits carry the same risk as loans and are secured with similar collateral as are loans.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancement (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt instruments and available-for-sale debt assets. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3 (z).

Placements with other banks at amortized cost	2020			2019	
	Stage 1	Stage 2	Stage 3	Total	Total
Performing – Stage 1	21	-	-	21	68
Total Gross	21	-	-	21	68
Less: impairment allowance	-	-	-	-	-
Carrying amount	21	-	-	21	68
Loans and receivables from customers at amortized cost					
Performing – Stage 1	1.525.291	-	-	1.525.291	1.528.975
Performing – Stage 2	-	62.337	-	62.337	63.411
Past due impaired unlikely to pay	-	-	7.695	7.695	7.553
doubtful	-	-	32.733	32.733	31.126
Total Gross	1.525.291	62.337	62.983	1.650.611	1.650.988
Less: impairment allowance	(20.380)	(11.041)	(40.203)	(71.624)	(63.455)
Carrying amount	1.504.911	51.296	22.780	1.578.987	1.587.533
Debt instruments at FVOCI					
Performing - Stage1	55.016	-	-	55.016	-
Total Gross	55.016	-	-	55.016	-
Loss allowance	-	-	-	-	-
Carrying amount	55.016	-	-	55.016	-
Debt instruments at amortized cost					
Performing - Stage1	6.203	-	-	6.203	6.203
Total Gross	6.203	-	-	6.203	6.203
Loss allowance	370	-	-	370	69
Carrying amount	5.833	-	-	5.833	6.134

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancement (continued)

	2020			2019	
	Stage 1	Stage 2	Stage 3	Total	Total
Contingent liabilities					
Stage 1	139.318	-	-	139.318	139.102
Stage 2	-	3.006	-	3.006	2.645
Stage 3	-	-	67	67	36
Total Gross	139.318	3.006	67	142.391	141.783
Less: impairment allowance	(396)	(177)	(10)	(583)	(300)
Carrying amount	138.922	2.829	57	141.808	141.483
Loan commitments					
Stage 1	401.306	-	-	401.306	206.804
Stage 2	-	5.536	-	5.536	2.736
Stage 3	-	-	1.177	1.177	1.063
Total Gross	401.306	5.536	1.177	408.019	210.603
Less: impairment allowance	(1.086)	(261)	(334)	(1.681)	(1.364)
Carrying amount	400.220	5.275	843	406.338	209.239

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Collateral held and other credit enhancements

During the year the Bank obtains financial and non-financial assets by taking possession of collaterals it holds as security or calling on other credit enhancements, in case of failure by the debtors to repay their due amounts. Such process of foreclosure involves mainly real estate, equipment, vehicles and deposits. Repossessed items are presented as such in the statement of financial position once they meet the criteria for recognition according to IFRS and local law. The policy of the Bank is to sell repossessed assets; during the period of possession and pending their final sale to third parties, the assets can be temporarily used if they are functional to the Bank's standard operations, or leased operationally to third parties.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	Note	31 December 2020	31 December 2019
LTV ratio			
Less than 50%		32.150	31.661
51–70%		51.601	41.940
71–90%		49.209	48.071
91–100%		14.052	11.471
More than 100%		467	208
Total		147.479	133.351

Credit-impaired loans	2020	2019
Less than 50%	1.132	881
51–70%	703	818
More than 70%	1.358	950
Total	3.193	2.649

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Collateral held and other credit enhancements (continued)

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2020	2019
Property	273	1.752
Total	273	1.752

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Amounts arising from ECL

(i) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met. Criteria for determining a significant increase in credit risk are defined for the proper allocation of exposure in "Stage 1" or "Stage 2".

Elements that will be the main determinants which need to be considered for the purpose of assessing the "steps" between the various "stages" are the following:

- Default probability change in relation to the moment of initial entry of the financial instrument in the financial statements. It is therefore an assessment implemented by adopting the "relative" criterion, which is configured as the main criteria;
- Eventual presence of due amount which remains overdue over 30 days. In the event of such case the credit risk of such exposure is considered "significantly increased" and is classified to Stage 2;
- Existence of "forbearance" measures;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Certain indicators of the internal credit risk monitoring system and early warning system

Determining whether the specific factor is relevant, as well as its significance in relation to other factors, depends on the type of products and characteristics of the financial instrument. Consequently, it is not possible to define a unique set of factors that determine whether there has been a significant increase in credit risk.

(ii) Definition of default

Staging criteria are selected in line with IFRS9, and based on risk parameters available in the Bank. Main indicators that are used are transaction classification, Days past due, Forbearance, PCEM (watch list) Indicator and/or Early Warning System (EWS) model for Micro Business, SME and Large Corporate portfolios as well as EWS indicators for Retail customers. Considering that, Stage 3 is equal to Non-performing status of the loan, the key element in Stage assignment is recognition of increasing credit risk of a financial instrument. Significant increase of credit risk could be highlighted by qualitative indicators as:

- Past Due days
- Forborne status
- Early warning signals and/or Proactive Credit Management watch list status of the customer

In addition, forbearance measures could represent a significant increase in credit risk since they consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Amounts arising from ECL (continued)

(ii) Definition of default (continued)

Stage assignment for Loans:

Stage 1	Stage 2	Stage 3
<ol style="list-style-type: none"> 1. Performing exposures without days past due 2. Performing exposures with less than or equal to 30 days past due under New DoD rules 	<ol style="list-style-type: none"> 1. Performing exposures with more than 30 days past due under New DoD rules (*) 2. Performing exposures with significant increase in PD since origination 3. Forborne performing exposures 4. Forborne probation period 5. Performing exposures of Corporate customers showing Early Warning signals (**) (orange, red and light blue) or present in local PCEM 6. Exposures to customers whose account(s) in ISP BiH are blocked at reporting date (***) 7. Exposures to Retail Individual customers that has automatically cancelled Overdraft with due amount of principal (****) 8. Retail individuals performing exposures showing signs of increased credit risk based on internal behavioral indicators (*****) 	<ol style="list-style-type: none"> 1. Exposures with more than 90 days past due under New DoD rules 2. Past Due Probation period 3. Unlikely to Pay 4. UTP Probation Period 5. Doubtful 6. Forborne Non-performing NPV test > 1% in case of distressed

Note: (*) for more detail please see please see document "Methodology for Definition of Default" and "ISP Group Guidelines on Definition of Default"

Note: (**) EWS Model for Corporate customers incorporates level or risk estimated based on financial statement of the customer, transactions made in customer's account, blocking of account, behavioral data, AQR triggers. For more detail please see please see document "EWS Corporate and SB Model Sheet" and "Proactive Credit Management Handbook (PCM)"

Note: (***) According to FBA "Decision on credit risk management and estimation of expected credit losses" Article 19, bullet 4, point e), where

- For Legal entities any type of blockage is taken into consideration as a part of EWS model, while for
- Retail Individuals customers, technical blockages are not taken into consideration, such as one that occur when customer loses his debit card to prevent theft are not considered. Only external blockades that come from court decisions are used as Stage 2 trigger.

Note: (****) In cases when customer doesn't have any more inflows to his account, automatic procedure cancels the Overdraft and client must repay entire amount. Until Overdraft is repaid, this is a signal of increased credit risk and all customer's exposures are classified into Stage 2. Automatic procedure is performed once in three months, checking if

- the customers had less than 3 inflows to his account, and if
- there is unauthorized overdue amount of overdraft until the end of current month.

If any of those two conditions is met, procedure will cancel utilization of overdraft.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.4 Amounts arising from ECL (continued)

(ii) Definition of default (continued)

Note:(*****) Signs of increased risk are applied on retail individuals' customers that don't have Residential Mortgage loan in the Bank, and have:

- 1) average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 110 BAM of overdue amount on revolving products on average in the last month, or
- 2) average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 250 BAM of overdue amount on all products at reporting date.

During 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses.

The FBA Decision regulates the rules for classification of financial instruments based of International Financial Reporting Standard 9: Financial Instruments (IFRS 9), with the introduction of some specific characteristics for the BiH market.

The key changes required by the Decision on Credit Risk Management and determination of Expected Credit Losses are in largely consistent with the Guidelines issued by the European Banking Supervisory Authority (EBA).

The Decision, like the Guidelines, prescribe automatically classification of clients who are significantly late in setting their financial obligations for more than 90 days into the default status.

Significant delay in settlement of financial liabilities according to FBA Decision is the total amount of receivables due from:

- a) Individual - 200 KM and 1% of total debtor balance exposure;
- b) Legal entity - KM 1,000 and 1% of total debtor balance sheet exposure.

Significant delay in settlement of financial liabilities according to EBA Guidelines is the total amount of receivables due from:

- a) Individual – 100 EUR and 1% of total debtor balance exposure;
- b) Legal entity – 500 EUR and 1% of total debtor balance sheet exposure.

Intesa Sanpaolo Bank has applied unique materiality thresholds of € 100 and € 500 selecting more prudent approach.

Applying the lower absolute thresholds (100 Eur for Retail and 500 Eur for Corporate and similar portfolios), ensures that both requirements from FBA and ECB Regulations are satisfied.

(iii) Inclusion of forward looking element

Projection of Lifetime credit risk parameters under IFRS 9 requires inclusion of forward looking macroeconomic elements, in order to estimate future point-in-times risk drivers.

Inclusion of forward looking macroeconomic effect is based on EBA stress test coefficients. EBA stress test coefficients are used for creation of scenario for the three years, relative to the starting point of every bank. Stress test coefficient are multipliers for risk parameters: PD, LGD and LR-Loss rate. This step includes calculation of PD conditioned by EBA Stress Test coefficients. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have to be estimated in order to include add-on component into Lifetime PD.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.4 Amounts arising from ECL (continued)

(iv) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(w).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.4 Amounts arising from ECL (continued)

(iv) Modified financial assets (continued)

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(w)(6)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(v) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ("PD"); a loss given default ("LGD"); and the exposure at default ("EAD").

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities.

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Loans and advances to customers at amortized cost.

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	16,098	11,402	35,955	63,455	18,750	11,930	44,456	75,136
First time adoption of FBA Impairments	1,459	114	4,936	6,509	0	0	0	0
Transfers - Stage 1	110	-54	-56	0	17,785	-15,521	-2,264	0
Transfers - Stage 2	-7,762	8,279	-517	0	-1,251	1,942	-691	0
Transfers - Stage 3	-7,991	-2,318	10,309	0	-215	-5,649	5,864	0
Net remeasurement of loss allowance	17,683	226	1,945	19,854	-20,989	21,354	10,239	10,604
New financial assets originated or purchased	5,911	1,318	3,731	10,960	8,771	2,158	2,870	13,799
Financial assets that have been derecognized	-5,128	-7,926	-3,929	-16,983	-6,753	-4,812	-7,505	-19,070
Total effect through Profit and Loss (Note 23)	18,466	-6,382	1,747	13,830	-18,971	18,700	5,604	5,333
Write off-s	-	-	-11,843	-11,843	0	0	-3,656	-3,656
Unwinding the discount	-	-	-347	-347	-	-	-205	-205
Sale and other movements	-	-	19	19	0	0	-13,153	-13,153
Balance as at 31 December	20,380	11,041	40,203	71,624	16,098	11,402	35,955	63,455

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.5 Impaired financial assets

a) Loans to customers that are neither past due nor impaired

The quality of the portfolio of loans to customers that are neither past due nor impaired can be assessed through the internal standard monitoring system. Loans to customers are regularly monitored and systematically reviewed in order to identify any irregularities or warning signals. These loans are subject to constant monitoring with the aim of taking timely action based on improvement/deterioration of the client's risk profile.

An overview of gross exposure of loans to customers that are neither past due nor impaired according to the business segment and the type of loan is as follows:

	Consumer loans	Retail loans		Total	Corporate loans		Total
		Housing loans	Credit card loans and overdrafts		Large	Other	
31 December 2020 Standard monitoring	412.750	210.030	56.052	678.832	469.204	427.583	896.787
31 December 2019 Standard monitoring	421.219	187.263	48.693	657.175	484.435	415.375	899.810

b) Past due but not impaired loans

Loans to and receivables from customers less than 90 days overdue are not considered as impaired, unless other information is available to indicate the contrary. The gross amount of loans to and receivables from customers that were past due but not impaired was as follows:

31 December 2020	Gross amount	Past due days			
		Until 30 days	31 – 60 days	61 – 90 days	Over 90 days
Corporate loans					
- Large	219	219	-	-	-
- Other	1,744	1,744	-	-	-
	1,963	1,963	-	-	-
Retail loans					
- Consumer	7,006	4,225	1,954	827	-
- Housing	2,403	1,598	326	479	-
- Credit Cards and overdrafts	638	408	108	122	-
	10,047	6,231	2,388	1,428	-
Total	12,010	8,194	2,388	1,428	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.5 Impaired financial assets (continued)

b) Past due but not impaired loans (continued)

31 December 2019	Gross amount	Past due days			
		Until 30 days	31 – 60 days	61 – 90 days	Over 90 days
Corporate loans					
- Large	-	-	-	-	-
- Other	250	250	-	-	-
	250	250	-	-	-
Retail loans					
- Consumer	17.847	15.056	2.208	583	-
- Housing	6.228	4.945	1.048	235	-
- Credit Cards and overdrafts	11.076	8.819	1.788	469	-
	35.151	28.820	5.044	1.287	-
Total	35.401	29.069	5.044	1.287	-

c) Non-performing loans

The breakdown of the gross and net amount of the loans to customers that are impaired along with the estimated value of related collateral held by the Bank as security (presented up to the maximum amount of the related exposure), are as follows:

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2020							
Gross exposure	36.047	7.938	4.148	48.133	-	14.849	14.849
Impairment	(27.245)	(3.673)	(2.910)	(33.828)	-	(6.375)	(6.375)
Net	8.802	4.265	1.238	14.305	-	8.474	8.474
Rate of impairment	75%	46%	70%	70%	-	43%	43%

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.5 Impaired financial assets (continued)

c) Non-performing loans (continued)

Estimated value of collateral							
Mortgage	41	4,072	-	4,113	-	7,708	7,708
Total	41	4,072	-	4,113	-	7,708	7,708

	Retail loans			Total	Corporate loans		Total
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	
31 December 2019							
Gross exposure	38.480	2.649	4.036	45.165	-	13.437	13.437
Impairment	(24.878)	(796)	(2.734)	(28.408)	-	(7.547)	(7.547)
Net	13.602	1.853	1.302	16.757	-	5.890	5.890
Rate of impairment	65%	30%	68%	63%	-	56%	56%
Estimated value of collateral							
Mortgage	147	5.333	-	5.480	-	5.631	5.631
Total	147	5.333	-	5.480	-	5.631	5.631

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6 Impaired financial assets (continued)

The Bank accounts for counterparty risks arising from the loan portfolio by making allowances for impaired loans. At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.

Loans and receivables with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (rescheduling). Rescheduling is mainly performed in response to initial deterioration of the clients' financial position or for the prevention of further deterioration of the clients' financial position. The revised terms usually include extending the maturity, changing the timing of interest payments and when possible obtaining additional instruments of collateral. Following the restructuring the loans remain graded as restructured until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash-flows and there are no other indicators of impairment. Gross carrying amount of loans with renegotiated terms amount to BAM 8,950 thousand for corporate loans and BAM 13,871 thousand for retail loans as at 31 December 2020 (2019: BAM 1,479 thousand for corporate and BAM 11,253 for retail loans.)

The breakdown of the gross and net exposure of renegotiated loans are as follows:

	Retail loans			Total	Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	Total
31 December 2020							
Gross exposure	12.653	1.218	-	13.871	-	8.950	8.950
Impairment	(8.908)	(175)	-	(9.083)	-	(1.576)	(1.576)
Net	3.745	1.043	-	4.788	-	7.374	7.374
Rate of impairment	70%	14%	-	65%	-	18%	18%

	Retail loans			Total	Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	Total
31 December 2019							
Gross exposure	9.670	1.583	-	11.253	-	1.479	1.479
Impairment	(6.732)	(233)	-	(6.965)	-	(1.479)	(1.479)
Net	2.938	1.350	-	4.288	-	-	-
Rate of impairment	70%	15%	-	62%	-	100%	100%

For the purpose of credit monitoring and the management of credit risk, the Bank divides its credit portfolio into the following groups:

- Performing loans – loans that are neither past due nor impaired
- Past due but unimpaired loans
- Non-performing loans for which impairment has been recognised.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of credit risk per geographic location

Geographic risk is highly concentrated on the state of Bosnia and Herzegovina. Geographic risk concentrations on net amounts of balance sheet exposure are as follows:

	Bosnia and Herzegovina	EU countries	Ne-EU countries	Total
31 December 2020				
Current accounts with the Central Bank and other banks	277.220	107.665	41.383	426.268
Reserves with the Central Bank	190.280	-	-	190.280
Placements with other banks	-	29	-	29
Financial assets at FVOCI	55.069	77	-	55.146
Financial assets at Amortized Cost	5.832	-	-	5.832
Loans and receivables from customers	1.578.987	-	-	1.578.987
Income tax prepayment	5.005	-	-	5.005
Other assets (without fixed assets)	3.488	2.417	-	5.905
	2.115.881	110.188	41.383	2.267.452

	Bosnia and Herzegovina	EU countries	Ne-EU countries	Total
31 December 2019				
Current accounts with the Central Bank and other banks	367.776	83.388	13.387	464.551
Obligatory reserves with the Central Bank	191.510	-	-	191.510
Placements with other banks	-	68	-	68
Financial assets at FVOCI	57	69	-	126
Financial assets at Amortized Cost	6.134	-	-	6.134
Loans and receivables from customers	1.587.533	-	-	1.587.533
Income tax prepayment	3.356	-	-	3.356
Other assets (without fixed assets)	4.665	3.011	-	7.676
	2.161.031	86.536	13.387	2.260.954

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.8. COVID 19 considerations

Retail segment

In March 2020 started decline in lending activity for individuals as result of COVID19 crises and continue in April. During the May credit activity was slightly higher than in previous two months, but still focus was on moratorium and collection activities. In second half of 2020 new production continued to gradually to recover reaching in Q4 almost 90% of previous year. Loan portfolio during the 2020 decreased for 3.4 mil BAM or 0,5% comparing the end of 2019.

In first two months of 2020 Retail had a growth in deposits. In May Retail had a significant deposit outflow, which is stabilized by the end of the month and continue until end of the year. As of 31.12.2020 deposit portfolio increased by 9 mil BAM or 1,3 % compering to 31st of December 2019.

During the lock down all branches worked with shortened working time adjusted to the current epidemic measures. From middle of May all branches are in full capacity and standard working hours with one shift.

During March and April number of transactions decreased significantly. In May number of transactions have been increased and reach 82% of regular number transaction.

Corporate & SME Segment

During March 2020, April and May, the credit activity of Corporate and SME clients are decreased due to the influence of COVID19. The Bank is committed to implement special measures prescribed by the Decisions of the Federal Banking Agency and the Banking Agency of the Republika Srpska. In the mentioned period, the largest number of requests for approval of special measures were processed in order to facilitate business for clients. The last quarter of 2020 recorded an increase in lending activity, and the year ended with the volume of loans in the Corporate and SME segment at almost the same level as in 2019.

COVID 19 had the greatest impact on fees. In the period January-September 2020, Bosnia and Herzegovina recorded a decline in exports of 15.4% compared to the same period in 2019, while imports recorded a decline of 17.50%. Due to a significant reduction in international payment transactions, the fees for export and import remittances are significantly lower than the fees realized during the year 2019.

Also, during the lock down, retailer stores were closed, which resulted in a reduction of the volume of card transactions performed at the bank's POS terminals. Considering that tourism in Bosnia and Herzegovina was also significantly affected, the volume of foreign card transactions recorded a significant decline compared to 2019 data. This resulted in a decline in acquiring income.

COVID 19 effects to Expected Credit Loss calculations

In application of International Financial Reporting Standard 9: Financial instruments, Bank uses macroeconomic forecasts of European Central Bank as well as stress test coefficients as multipliers for credit risk parameters.

After the outbreak of the economic crisis caused by the COVID-19 pandemic, in June 2020 ECB has issued new macroeconomic forecasts and stress test coefficients, and the Bank has, in accordance with the parent company Intesa Sanpaolo instructions, included these indicators in the calculation of the expected credit losses, and increased the provisions for expected credit losses based on forecasted impacts of the crisis on the global economy and the Bank's loan portfolio.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.8. COVID 19 considerations (continued)

COVID 19 effects to Expected Credit Loss calculations (continued)

The starting input parameters in the calculation had not been updated with the data from the year 2020, but include values as of 31 December 2019, while the macroeconomic scenarios are applied in accordance with ECB estimates.

In December 2020, the European Central Bank published updated projections of macroeconomic recovery after the crisis caused by the COVID-19 pandemic and the Bank included updated macroeconomic indicators in the calculation of expected credit losses.

Since there are no specific coefficients for Bosnia and Herzegovina, Bank used coefficient for the category „Rest of the world“, meaning that macroeconomic scenarios represent the average trends of global economy due to effects of the COVID-19 pandemic. Parameters for the „Rest of the world“ category are compared with the specific parameters for Croatia, and the fact that they show a greater impact of the crisis on the credit portfolio compared to impact expected in Croatia, confirms the correctness and prudence of choice.

Based on the new projections, the ISP Group instructed all foreign Banks to update the IFRS 9 parameters by including the new projections into it, and applying correction based on the effects of moratoria, in accordance with the last EBA instructions for the application of moratoria.

In response to the COVID-19 pandemic, Bank has adopted a set of policy measures to mitigate the economic impact of the crisis. Related measures were available to all affected clients, both legal entities and individuals. The Bank's mitigation measures offered to clients, was mainly related to Moratorium on loan repayment, while the e Bank also offered to the clients long term solutions through specialized products for restructuring all obligations. Loan repayment moratorium for short-term and long-term loans, revolving, overdraft and loans with bullet repayment was, according to Federal Banking Agency decisions, available from 1 March 2020 to 31 December 2020. This COVID-19 related measure for moratorium was available to all the clients of the Bank affected by the economic impacts of the crises caused by pandemic of virus "COVID-19".

Bank's Legal entities segment

Up to December 2020, the total number of approved moratoriums was 298 loans with an exposure of BAM 119.56 million in Bank's Legal entities segment, out of which 262 loans with an exposure of BAM 98.4 million have expired. Number of active moratorium as of December 31, 2020 was 36 loans with total exposure of 21 million BAM.

Bank's Retail segment

Up to December 2020, the total number of approved moratoriums was 3,883 loans with an exposure of BAM 65.07 million, out of which 3,151 loans with an exposure of BAM 49.26 million have expired. Number of active moratorium as of December 31, 2020 was 732 loans with total exposure of 15 million BAM

Share of active moratoriums as of as of December 31, 2020 in total portfolio was 2,2%.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk management

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables show the remaining contractual maturities of the Bank's assets and liabilities as at 31 December 2020 and 31 December 2019, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2020						
Aktiva						
Cash and cash equivalents	458.909	-	-	-	-	458.909
Reserves with the Central Bank	190.280	-	-	-	-	190.280
Placements with other banks	29	-	-	-	-	29
Financial assets at fair value through other comprehensive income	-	-	55.016	-	130	55.146
Financial assets at fair value	107	-	360	-	-	467
through profit or loss	-	-	-	5.832	-	5.832
Financial assets at Amortized Cost	83.974	127.228	409.110	665.422	293.253	1.578.987
Loans and receivables from customers	11.239	-	-	-	-	11.239
Income tax prepayment and other assets	-	-	-	-	29.361	29.361
Total assets	744.538	127.228	464.486	671.254	322.744	2.330.250
Liabilities and equity						
Due to banks and other financial institutions	25.411	89.055	138.732	92.040	42.291	387.529
Due to customers	1.075.910	52.631	109.474	313.675	32.922	1.584.612
Financial liabilities at fair value through profit or loss	98	-	8	-	-	106
Other liabilities and deferred tax	31.518	-	-	-	-	31.518
Provision for liabilities and charges	-	-	-	5.589	-	5.589
Share capital and reserves	-	-	-	-	320.896	320.896
Total liabilities and equity	1.132.937	141.686	248.214	411.403	396.109	2.330.250
Maturity gap	(388.399)	(14.458)	216.272	259.950	(73.765)	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk management (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2019						
Aktiva						
Cash and cash equivalents	499.752	-	-	-	-	499.752
Reserves with the Central Bank	191.510	-	-	-	-	191.510
Placements with other banks	68	-	-	-	-	68
Financial assets at fair value through other comprehensive income	-	-	-	-	126	126
Financial assets at fair value through profit or loss	637	-	153	-	-	790
Financial assets at Amortized Cost	-	-	-	6.134	-	6.134
Loans and receivables from customers	88.890	118.082	428.831	664.097	287.653	1.587.533
Income tax prepayment and other assets	13.329	-	-	-	-	13.329
Property and equipment and intangible assets	-	-	-	-	31.286	31.286
Total assets	794.186	118.062	428.984	670.231	319.065	2.330.528
Liabilities and equity						
Due to banks and other financial institutions	21.545	73.426	251.231	94.383	26.229	466.814
Due to customers	880.006	40.705	174.075	407.350	16.777	1.518.913
Financial liabilities at fair value through P&L	508	-	66	-	-	574
Other liabilities	29.700	-	-	-	-	29.700
Provisions for liabilities and charges	-	-	-	4.993	-	4.993
Share capital and reserve	-	-	-	-	309.534	309.534
Total liabilities and equity	931.759	114.131	425.372	506.726	352.540	2.330.528
Maturity gap	(137.573)	3.931	3.612	163.505	(33.475)	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk management (continued)

Future cash flows for interest bearing liabilities

The estimated future cash flows for the Bank's interest bearing liabilities, including expected interest as at 31 December 2020 and as at 31 December 2019 are shown in the following table:

	Up to 1 month	Total expected outflow				Total	Carrying value
		1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
31 December 2020							
Liabilities							
Due to banks and other financial institutions	25.499	89.184	139.680	94.634	42.889	391.886	387.529
Due to customers	1.075.771	54.077	112.192	324.469	33.481	1.599.990	1.584.612
Total expected outflow	1.101.270	143.261	251.872	419.103	76.370	1.991.876	1.972.141

	Up to 1 month	Total expected outflow				Total	Carrying value
		1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
31 December 2019							
Liabilities							
Due to banks and other financial institutions	31.257	41.772	176.414	413.044	13.693	676.180	466.814
Due to customers	878.194	77.890	261.644	85.939	30.266	1.333.933	1.518.913
Total expected outflow	909.451	119.662	438.058	498.983	43.959	2.010.113	1.985.727

The following table sets out the components of the Bank's liquidity reserves:

	2020	2019
Balance with central banks	275.233	367.776
Cash and balances with other banks	151.501	96.818
Other cash and cash equivalents	32.640	35.201
Total liquidity reserves	459.374	499.795

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk

The Bank is exposed to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Management Board sets limits and guidelines for monitoring and mitigating market risks which is regularly monitored by the Risk Management Department.

5.3.1 Foreign exchange risk

Exposure to currency risk arises from credit, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal and internal limits for each currency as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, and foreign currency risk.

Overall exposure to foreign exchange risks is monitored within Risk Management Department using techniques such as Value-at-Risk ("VaR") and stress testing.

FX Value-at-Risk is an individual, concise, statistical measurement of possible losses in the portfolio. VaR is a measurement of loss under normal movements of risk factors on the market. The likelihood of losses higher than VaR occurring is expected to be low.

The main model assumptions are:

- Being based on the historical methodology
- 99 percent as a confidence interval for Value-at-Risk computation
- One-day held period

The model covers foreign currency risk – valid for foreign currency transactions and positions denominated on foreign currencies; resulting from foreign currency rate volatility.

The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based on risk source (risk factors). These features of a more detailed risk monitoring system allow the determination of an efficient limit structure which can be compared through different organisational units.

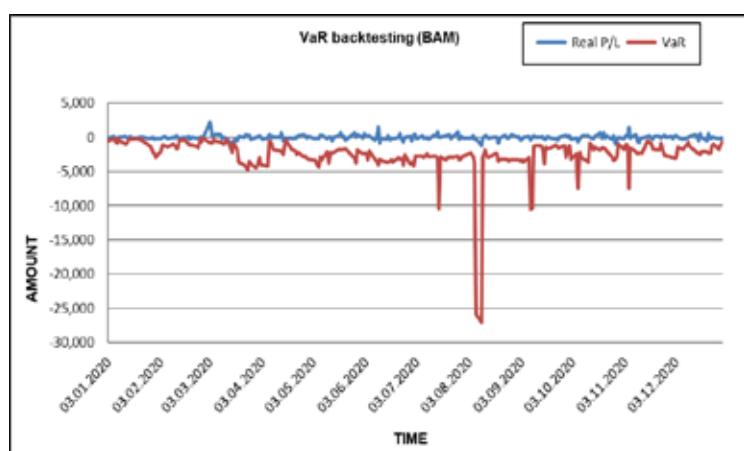
The quality of the implemented risk measurement model is constantly assessed. The Bank performs back-testing of the computed VaR measures with the actual gain and losses for the same period.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)



During 2020, the Bank improved the model for calculation of VaR in accordance with best practices and as a result, the Bank did not record any back-testing exceptions (results for 2019: there was no exceptions) when actual losses exceeded the daily VAR amount.

The Bank is exposed to foreign currency risk when there is no matching between assets and liabilities and off-balance sheet positions due to cash flows denominated in foreign currencies. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate values. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The Bank considers that it is not currently exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = BAM 1.955830). Exposure is more prominent for USD and CHF. The Bank performs stress testing based on the assumption of a 10% increase or decrease in foreign currency rates against the relevant local currency. The sensitivity rate of 10% is used when reporting internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Stress testing is performed on an annual basis. The results of the most recent test performed are presented here below:

31 December 2020

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(4.605)	461	(461)
GBP	(4.697)	470	(470)
USD	(75.900)	7.590	(7.590)
HRK	(25.191)	2.519	(2.519)
CAD	2.788	(279)	279
SEK	(3.091)	309	(309)
Other	27.433	(2.744)	2.744
EUR	(5.592.561)	-	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

31 December 2019

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(6.201)	620	(620)
GBP	8.698	(870)	870
USD	(23.935)	2.393	(2.393)
HRK	(793)	79	(79)
CAD	6.973	(697)	697
SEK	5.399	(540)	540
other	16.019	(1.602)	1.602
EUR	28.545.103	-	-

The analysis outlined above is based on the open foreign currency position of the Bank, which includes all asset and liability and off-balance-sheet positions.

If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency increases/(decreases) in relation to the BAM, the Bank will experience a foreign exchange gain/(loss).

If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency (increases)/decreases in relation to BAM, the Bank will experience a foreign exchange (loss)/gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 31 December 2019. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency. The Bank has a number of agreements governed by a foreign currency clause. The BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table below in the column "EURO linked". The Bank had the following significant currency positions:

31 December 2020	EURO	EURO linked	EURO total	USD	Other FX	BAM	Total
Assets							
Cash and cash equivalents	89.992	-	89.992	40.162	24.287	304.468	458.909
Reserves with the Central Bank	-	-	-	-	-	190.280	190.280
Placement with other banks	29	-	29	-	-	-	29
Financial assets at fair value through other comprehensive income	77	-	77	-	-	55.069	55.146
Financial assets at fair value through profit or loss	-	-	-	-	297	170	467
Financial assets at Amortized Cost	-	-	-	-	-	5.832	5.832
Loans and receivables from customers	-	893.454	893.454	-	-	685.533	1.578.987
Income tax prepayment	-	-	-	-	-	5.005	5.005
Deferred tax assets	-	-	-	-	-	329	329
Other asset	2.289	-	2.289	26	-	3.590	5.905
Property and equipment and intangible assets	-	-	-	-	-	29.361	29.361
Total assets	92.387	893.454	985.841	40.188	24.584	1.279.637	2.330.250
Liabilities and equity							
Due to banks and other financial Institutions	379.861	6.700	386.561	-	126	842	387.529
Due to customers	421.470	92.087	513.557	39.805	23.599	1.007.651	1.584.612
Financial liabilities at fair value through profit or loss	-	-	-	-	-	106	106
Other liabilities	11.296	-	11.296	427	806	18.921	31.450
Provision for liabilities and charges	-	-	-	-	-	5.589	5.589
Deferred tax liabilities	-	-	-	-	-	68	68
Share capital and reserves	-	-	-	-	-	320.896	320.896
Total liabilities and equity	812.627	98.787	911.414	40.232	24.531	1.354.073	2.330.250
Net foreign exchange position	(720.240)	794.667	(74.427)	(44)	53	(74.436)	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

31 December 2019	EURO	EURO linked	EURO total	USD	Other FX	BAM	Total
Assets							
Cash and cash equivalents	79.793	-	79.793	12.095	11.708	396.156	499.752
Obligatory reserves with the Central Bank	-	-	-	-	-	191.510	191.510
Placements with other banks	68	-	68	-	-	-	68
Financial assets at fair value through other comprehensive income	74	-	74	-	-	52	126
Financial assets at fair value through profit or loss	32	-	32	-	-	758	790
Financial assets at Amortized Cost	-	-	-	-	-	6.134	6.134
Loans and receivables from customers	-	935.274	935.274	-	-	652.259	1.587.533
Income tax prepayment	-	-	-	-	-	3.356	3.356
Deferred tax assets	-	-	-	-	-	332	332
Other asset	2.868	-	2.868	29	-	6.744	9.641
Property and equipment and intangible assets	-	-	-	-	-	31.286	31.286
Total assets	82.835	935.274	1.018.109	12.124	11.708	1.288.587	2.330.528
Liabilities and equity							
Due to banks and other financial institutions	458.138	7.000	465.138	-	458	1.218	466.814
Due to customers	409.887	142.321	552.208	26.086	11.138	929.481	1.518.913
Financial liabilities at fair value through profit or loss	-	-	-	-	-	574	574
Other liabilities	3.405	-	3.405	15	11	6.218	29.649
Provision for liabilities and charges	-	-	-	-	-	4.993	4.993
Deferred tax liability	-	-	-	-	-	51	51
Share capital and reserves	-	-	-	-	-	309.534	309.534
Total liabilities and equity	871.430	149.321	1.020.751	26.101	11.607	1.272.069	2.330.528
Net foreign exchange position	(788.595)	785.953	(2.642)	(13.977)	101	16.518	-

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.2 Interest rate risk

Interest rate risk is defined as the exposure of a Bank's financial condition to adverse movements in interest rates, referring to the banking book, meaning the set of on- and off-balance-sheet financial assets and liabilities which are part of the core lending and deposit collecting activities performed by the Bank.

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

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonisation between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is floating and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and floating), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any mismatch among the abovementioned elements results in exposure of the Bank to interest rate risk.

The adopted system operates at an analytical level commensurate to the complexity and risk of the banking book, and ensures that the risk profile can be examined from two separate, but complementary, perspectives:

- The economic value perspective, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows;
- The earnings perspective, focused on analysing the impact that changes in interest rates and related volatilities generate on the net interest income and, therefore, on the related effects on interest margin.

The Bank uses the following methods to measure interest rate risks:

- Shift sensitivity of fair value;
- Shift sensitivity of the interest margin.

The shift sensitivity of fair value measures the changes in economic value of a financial portfolio resulting from a parallel shift in the discount curves. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis. The operating limit currently in force for shift sensitivity of fair value (by +100 bp parallel shift of yield curves) amounts to BAM 5,867 / BAM -15,647 thousand (EUR 3,000 / EUR 8,000 thousand). The limit is set up by the Bank with the aim of keeping exposure within low levels which are compatible with self-imposed risk parameters.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.2 Interest rate risk (continued)

If changes in interest rates had been 100 basis points higher and all other variables were held constant at 31 December 2020, the effect, in terms of economic value of interest risk-sensitive balance-sheet portfolios, would have been BAM -13,657 thousand (31 December 2019: BAM -11,959 thousand).

In 2019 the Bank established the limit by time-buckets on the following way:

Shift Sensitivity Limit (+100 bp)

TOTAL	0-18 months	18 months - 5 years	above 5 years
BAM 5,867 thousand / BAM -15,647 thousand (3 mio EUR / -8 mio EUR)	+/- BAM 3,912 thousand (+/- 2 mio EUR)	BAM 5,867 thousand / BAM -7,823 thousand (3 mio EUR / -4 mio EUR)	BAM 5,867 thousand / BAM -15,647 thousand (3 mio EUR / -8 mio EUR)

The results of the analysis of the shift sensitivity of fair value are below the current operating limit and are presented in the table below:

Shift Sensitivity (+100 bp)

	31 December 2020				31 December 2019			
	TOTAL	0-18 month	18 months - 5 years	over 5 years	TOTAL	0-18 month	18 months - 5 years	over 5 years
EUR	-4.607	-991	1.362	-4.978	-4.895	-53	1.345	-6.188
USD	323	49	173	102	282	40	180	61
CHF	12	8	4	0	12	9	3	0
KM	-9.414	-1.447	-3.573	-4.394	-7.396	-181	-3.012	-4.203
O t h e r currencies	30	2	28	0	3	2	1	0
Total	-13.656	-2.379	-2.006	-9.271	-11.994	-183	-1.483	-10.330

The sensitivity of the interest margin quantifies instead the short-term (twelve months) impact on the interest margin of a parallel, instantaneous and permanent shock in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin. The operating limit currently in force for shift sensitivity of interest margin (by -50 bp parallel shift of yield curves) amounts to BAM -5,867 thousand (EUR -3,000 thousand).

The result of shift sensitivity of the interest margin, if changes in interest rates market moving had been 100 basis points higher and all other variables were held constant at 31 December 2020 is an increase of BAM 4,543 thousand (31 December 2019: BAM 4,240 thousand), while if changes in interest rates market moving had been 100 basis points lower the result is decrease of BAM 2,613 thousand as of 31 December 2020 (31 December 2019: decrease of BAM 3,046 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-50 bps. Increase by 50 bps of interest rates would increase the result for the year by BAM 2,419 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by BAM 2,478 thousand as of 31 December 2020 (31 December 2019: BAM 2,150 thousand for +50 bps and decrease of BAM 2,706 thousand for -50 bps).

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Market risk (continued)

5.3.2 Interest rate risk (continued)

In order to measure the Bank's vulnerability under stressful market conditions the interest rate risk measurement system adopted by the Bank allows a meaningful evaluation of the effect of stressful market conditions on the Bank ("scenario analysis"), or rather abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e. basis risk), changes in the slope and the shape of the yield curve (i.e. yield curve risk), changes in the liquidity of key financial markets or changes in the volatility of market rates.

5.4 Capital management

The Bank's objectives for capital management, which is a broader concept, in the opinion of the Management Board, than the 'equity' shown in the statement of financial position, are as follows:

- to comply with the capital requirements set by the regulators of the banking markets in the local environment;
- 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 position to support the development of its business activities.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina for supervisory purposes. The required information is filed with the Agency on a quarterly basis.

The Bank's regulatory capital for monitoring adequacy according to the Agency's methodology consists of:

- Tier 1 Capital or Core Capital: share capital (net of the carrying value of treasury shares and priority shares), share premium, retained earnings and reserves created by appropriations of retained earnings; amount of revaluation reserves arising from the effects of changes in the fair value of assets and audited profit for the current period, upon approval and retention by the General Shareholders Assembly;
- Tier 2 Capital or Supplementary Capital: priority shares, qualifying principal amounts of subordinated loan capital, collective impairment allowances in accordance with FBA regulation and Adjustment for shortfall in regulatory reserve until 31.12.2019. From 01.01.2020 collective impairment allowances in accordance with FBA regulation and Adjustment for shortfall in regulatory reserve are not any more part of Tier 2 Capital.
- Deductible items.

Risk-weighted assets are measured by means of a hierarchy of weightings in accordance with FBA regulation classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Capital management

The table below summarises the computation of regulatory capital and the capital adequacy ratio of the Bank as of 31 December 2020 and 31 December 2019, taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2019	31 December 2019
Tier 1 capital		
Share capital	44.776	44.776
Share premium	57.415	57.415
Retained earnings and other reserves	198.753	154.268
Intangible assets	(3.667)	(4.780)
Total qualifying Tier 1 Capital	297.277	251.679
Tier 2 capital		
General provisions – FBA regulations	-	17.457
Priority shares	6	6
Adjustment for shortfall in regulatory reserve	-	(10.909)
Total qualifying Tier 2 Capital	6	6.554
Total regulatory capital	297.283	258.233
Capital requirements (*)		
Risk weighted assets	1.403.449	1.396.593
Operational risk	111.437	163.017
Total	1.514.886	1.559.610
Capital adequacy ratio	19,62%	16,56%

(*) Capital requirements stated above are calculated in accordance with FBA regulatory requirements.

Regulation before 01.01.2020

In accordance with the Agency regulations, Tier 1 capital does not include the balance on the regulatory reserve for credit losses (BAM 18,286 thousand at 31 December 2019) which is part of net equity in the statement of financial position. However, general provisions calculated in accordance with Agency rules (BAM 17,457 thousand at 31 December 2019) are included as Tier 2 capital.

In addition, an adjustment is made for the shortfall in regulatory reserves in respect of any additional requirements calculated at the reporting date (date of submission of the capital adequacy calculation to the Agency, which, in accordance with local regulations, is performed on a quarterly basis). For 2019 this amounted to BAM 10,909 thousand.

Notes to the financial statements (continued)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Capital management (continued)

Regulation after 01.01.2020

In July 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses which is explained in Accounting Summary Policies - Impairment.

According FBA Decision, General Assembly of the Bank in March 2020 adopted Decision of Reallocation of some components of Own funds where:

- Increase Tier 1, Retained earnings and other reserves, for balance on the Regulatory Reserve for credit losses in the amount of 16,457 thousand BAM (18,286 thousand BAM less for Income Tax);
- Decrease Tier 1, Retained earnings and other reserves based on effects of the first application of the Federal Banking Agency Decision on Credit Risk Management and determination of expected credit losses from July 2019 in the amount of 7,773 thousand BAM.
- Increase Tier 1 based on revaluation reserves of fixed assets from the period until 2000 in the amount of 366 thousand BAM.

Leverage ratio reached 11.97% as of 31 December 2020 (regulatory limit: 6.0%).

Notes to the financial statements (continued)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

The fair value of foreign currency forward derivatives is estimated using available market data for FX spot and cash curves of relevant currencies. Based on such inputs, forward points and forward rates are computed, which are then used for daily mark-to-market of outstanding deals.

The fair value of equity securities classified through other comprehensive income and at fair value through profit or loss traded on an active market is based on closing bid prices at the reporting date for these securities.

Notes to the financial statements (continued)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.2 Financial instruments at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

31 December 2020	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	22 a)				
Treasury bills issued by the Federation of Bosnia and Herzegovina		-	55.016	-	55.016
Equity securities issued by non-resident legal entities		-	76	-	76
Equity securities issued by resident legal entities		-	54	-	54
Financial assets at fair value through profit and loss	22 b)				
Equity shares		297	-	-	297
Derivatives held for trading – OTC product		-	170	-	170
Total		297	55.316	-	55.613

Financial liabilities available at fair value through profit and loss	22 c)				
Derivatives held for trading – OTC product		-	106	-	106
Total		-	106	-	106

31 December 2019		Level 1	Level 2	Level 3	Ukupno
Financial assets at fair value through other comprehensive income	22 a)				
Equity securities issued by non-resident legal entities		-	72	-	72
Equity securities issued by resident legal entities		-	54	-	54
Financial assets at fair value through profit and loss	22 b)				
Equity shares		33	-	-	33
Derivatives held for trading – OTC product		-	757	-	757
Total		33	883	-	916

Financial liabilities available at fair value through profit and loss	22 c)				
Derivatives held for trading – OTC product		-	574	-	574
Total		-	574	-	574

Notes to the financial statements (continued)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2020	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	32.640	426.269	458.909	458.909
Reserves with the Central Bank	-	-	190.280	190.280	190.280
Placements with other banks	-	29	-	29	29
Financial assets at amortized cost	-	5.832	-	5.832	5.832
Loans and receivables from customers	-	289.579	1.255.006	1.544.585	1.578.987
Total		328.080	1.871.555	2.199.635	2.234.037

Liabilities					
Due to banks and other financial institutions	-	199.584	175.510	375.094	387.529
Due to customers	-	1.074.832	512.125	1.586.957	1.584.612
Total	-	1.274.416	687.635	1.962.051	1.972.141

31 December 2019	Level 1	Level 2	Level 3	Total fair value	Carrying value
Aktiva					
Cash and cash equivalents	-	35.201	464.551	499.752	499.752
Reserves with the Central Bank	-	-	191.510	191.510	191.510
Placements with other banks	-	68	-	68	68
Financial assets at amortized cost	-	6.134	-	6.134	6.134
Loans and receivables from customers	-	290.562	1.279.326	1.569.888	1.587.533
Total		331.965	1.935.387	2.267.352	2.284.997
Liabilities					
Due to banks and other financial institutions	-	294.266	135.538	429.804	466.814
Due to customers	-	905.837	600.632	1.506.479	1.518.913
Total	-	1.200.103	736.170	1.936.273	1.985.727

Notes to the financial statements (continued)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value (continued)

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the methods, assumptions and limitations described below apply in accordance with the approach revised at Intesa Sanpaolo Group.

Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value. Obligatory reserve with the Central Bank is classified as Level 3, as well as, on demand balances versus financial institutions in consideration of the fact that the setting of their exit price could include subjective valuations of the counterparty's credit risk difficult to quantify.

Placements with other banks

Placements with banks mostly represent overnight and short term deposits; hence there is no significant difference between the fair value of these deposits and their carrying value. Their classification to Level 2 of the fair value hierarchy depends on the absence, or low relevance, of non-observable parameters in setting their exit price.

Loans and receivables from customers, amounts due to customers, banks and other financial institutions

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, net of collective impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

For the purpose of division by fair value level, non performing/impaired assets are classified in Level 3, since the exit price is significantly influenced by the forecasts for losses determined by the credit officer based on future cash flow expectations and the related collection schedules. This entity specific assessment component outweighs other components (as, for example market interest rates), leading to attribution of Level 3 in the hierarchy.

Performing loans with original maturity equal or lower than 12 months, as well as short-term liabilities to customers and banks are classified into Level 2 of the fair value hierarchy, due to the absence or low relevance of non-observable parameters in setting their exit prices.

Medium-long term loans and liabilities with customers, banks and other financial institutions are classified into Level 3 of the fair value hierarchy, considering the relevance of entity specific assessment components in estimating the exit price.

Notes to the financial statements (continued)

7. OPERATING SEGMENTS

On a regular basis, the Bank's management analyses the overall results of the Bank with reference to the contributions by individually significant operating segments. Corporate, Retail and Treasury business lines have been identified as relevant operating segments, insofar as financial products managed by each of them and the respective counterparties with whom each segment enters into negotiation are specific for each segment and are not managed by / related to any of the others.

Even though lending and fund collection are actually performed by all operating segments, the financial characteristics of the loans, deposits and credit lines managed are specifically designed for each of them and are applicable only to counterparties related to each specific segment.

The financial results of each operating segment are recorded through a combined methodology of "direct" and "indirect" allocation of income and cost. Income is mainly directly allocated to the respective segment where it was generated, while costs are directly allocated whenever they are identified as immediately generated within the operating segment and are indirectly charged to the operating segments whenever they are sustained by central organisational units.

An internal transfer rate methodology is also applied for allocation of the cost of funding to the operating segments.

Profit or loss statement items in the tables presented below on segment information are in the format used for management reporting purposes.

Notes to the financial statements (continued)

7. OPERATING SEGMENTS (continued)

Segmental information for the year ending 31 December 2020

	Retail	Corporate	Treasury	Total
Interest income	49.300	24.483	256	74.039
Interest expense	(5.379)	(4.332)	(2.145)	(11.856)
Net interest income	43.921	20.151	(1.889)	62.183
Fee and commission income	21.932	8.159	475	30.566
Fee and commission expense	(5.291)	(694)	(217)	(6.202)
Net fee and commission income	16.641	7.465	258	24.364
Net profit of trading activities and foreign exchange	-	-	2.376	2.376
Other operating income/expense	(5.138)	(2.286)	(791)	(8.215)
Operating income/expense	(5.138)	(2.286)	1.585	(5.839)
Personnel expense	(15.503)	(5.353)	(482)	(21.338)
Other administrative expense	(12.475)	(2.781)	(737)	(15.993)
Depreciation expense	(4.908)	(718)	(47)	(5.673)
Operating expense	(32.886)	(8.852)	(1.266)	(43.004)
Profit before impairment losses, and other provisions and income tax	22.538	16.478	(1.312)	37.704
Reversal of Impairment / (Impairment losses) and provisions	(10.814)	(4.157)	(1.505)	(16.476)
PROFIT BEFORE INCOME TAX	11.724	12.321	(2.817)	21.228
Income tax				(2.983)
NET PROFIT FOR THE YEAR				18.245

Notes to the financial statements (continued)

7. OPERATING SEGMENTS (continued)

Segmental information as at 31 December 2020

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	32.640	-	426.269	458.909
Obligatory reserves with the Central Bank	-	-	190.280	190.280
Placements with other banks	-	-	29	29
Financial assets at fair value through other comprehensive income	-	-	55.146	55.146
Financial assets at fair value through profit or loss	-	-	467	467
Financial assets at amortized cost	-	-	5.832	5.832
Loans and receivables from customers	684.359	894.628	-	1.578.987
Other unallocated amounts	-	-	-	40.600
TOTAL ASSETS	716.999	894.628	678.023	2.330.250
Due to banks and other financial institutions	-	13.367	374.162	387.529
Due to customers	703.195	881.417	-	1.584.612
Financial liabilities at fair value through profit or loss	-	-	106	106
Other unallocated amounts	-	-	-	37.107
TOTAL LIABILITIES	703.195	894.784	374.268	2.009.354

Notes to the financial statements (continued)

7. OPERATING SEGMENTS (continued)

Segmental information for the year ending 31 December 2019

	Retail	Corporate	Treasury	Total
Interest income	51.108	26.051	880	78.039
Interest expense	(6.700)	(4.609)	(1.564)	(12.873)
Net interest income	44.408	21.441	(683)	65.166
Fee and commission income	23.529	9.287	392	33.208
Fee and commission expense	(6.052)	(761)	(231)	(7.044)
Net fee and commission income	17.477	8.526	161	26.164
Net profit of trading activities and foreign exchange	-	-	2,768	2,768
Other operating income/expense	(4.009)	(1.691)	(270)	(5.970)
Operating income/expense	(4.009)	(1.691)	2.498	(3.202)
Personnel expense	(15.929)	(4.777)	(518)	(21.224)
Other administrative expense	(12.916)	(3.564)	(1.144)	(17.624)
Depreciation expense	(4.922)	(790)	(47)	(5.759)
Operating expense	(33.767)	(9.131)	(1.709)	(44.607)
Profit before impairment losses, and other provisions and income tax	24.109	19.145	267	43.521
Impairment losses and provisions	(4.134)	(1.224)	(129)	(5.487)
PROFIT BEFORE INCOME TAX	19.975	17.921	138	38.034
Income tax				(4.111)
PROFIT BEFORE INCOME TAX				33.923

Notes to the financial statements (continued)

7. OPERATING SEGMENTS (continued)

Segmental information as at 31 December 2019

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	35.201	-	464.550	499.752
Obligatory reserves with the Central Bank	-	-	191.510	191.510
Placements with other banks	-	-	68	68
Financial assets at fair value through other comprehensive income	-	-	126	126
Financial assets at fair value through profit or loss	-	-	790	790
Financial assets at amortized cost	-	-	6.134	6.134
Loans and receivables from customers	693.533	894.000	-	1.587.533
Other unallocated amounts	-	-	-	44.615
TOTAL ASSETS	728.734	894.000	663.178	2.330.528

Due to banks and other financial institutions	-	20.015	446.799	466.814
Due to customers	692.349	826.564	-	1.518.913
Financial liabilities at fair value through profit or loss	-	-	574	574
Other unallocated amounts	-	-	-	34.693
TOTAL ASSETS	692.349	846.579	447.373	2.020.994

8. INTEREST INCOME

	2020.	2019.
Retail clients	46.593	48.147
Corporate clients	27.011	29.276
Banks and other financial institutions	263	493
Interest on amortized cost assets	141	116
Interest on financial assets through other comprehensive income	31	7
	74.039	78.039

Notes to the financial statements (continued)

9. INTEREST EXPENSE

	2020.	2019.
Retail clients	4.514	5.855
Corporate clients	3.757	3.959
Banks and other financial institutions	3.477	2.961
Other	108	98
	11.856	12.873

10. FEE AND COMMISSION INCOME

	2020.	2019.
Credit card business	8.356	10.222
Domestic payment transactions	6.147	5.880
Account service fee	4.637	4.376
Foreign payment transactions	3.455	3.769
Guarantees	2.311	2.293
Loans to clients	1.811	2.567
FX transactions	1.294	1.712
Agency services	69	74
Other	2.486	2.315
	30.566	33.208

Other fee and commission income includes ATM and mobile banking fees from retail customers.

11. FEE AND COMMISSION EXPENSE

	2020.	2019.
Credit card operations	4.628	5.485
Banks services	827	783
Domestic payment transactions	235	269
Other	512	507
	6.202	7.044

Notes to the financial statements (continued)

12. NET TRADING INCOME

	2020.	2019.
Net gains from foreign exchange spot trading	2.594	2.544
Net gains on equity securities	(32)	9
Net gains/losses on financial instruments at fair value through profit or loss – Equity shares	(67)	32
Net gains/losses on financial instruments at fair value through profit or loss - Derivatives held for trading – OTC product	(119)	183
	2.376	2.768

13. OTHER OPERATING INCOME / (EXPENSE)

	2020.	2019.
Savings deposit insurance	(3.067)	(2.802)
Card intermediation expenses	(2.455)	(2.457)
Consultancy and the Federal Banking Agency expenses	(1.509)	(1.455)
Net charge to profit and loss statement, property (Note 24)	(796)	187
Net charge to profit or loss statement, property (Note 25)	(225)	-
Other income / (expense)	(429)	(50)
Income from claims settled by insurance companies and recharges from customers	266	607
	(8.215)	(5.970)

14. PERSONAL EXPENSES

	2020.	2019.
Net salaries	13.928	13.442
Tax and contributions	7.179	7.213
Provisions for liabilities and charges (Note 30)	(126)	30
Other expenses	357	539
	21.338	21.224

Personnel expenses include BAM 3,633 thousand (31 December 2019: BAM 3,735 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid. The Bank had 562 employees as at 31 December 2020 (556 as at 31 December 2019).

Notes to the financial statements (continued)

15. ADMINISTRATIVE EXPENSES

	2020.	2019.
Maintenance expenses	4.633	4.461
Rent and other rent-related expense	1.456	1.607
Telecommunication and post expense	2.798	2.934
Security and transport costs	2.211	2.339
Consultancy expenses	704	953
Representation and marketing expense	600	845
Material expenses	988	702
Energy	718	776
Net of provisions for liabilities and charges (Note 30)	294	1.529
Other insurance charges	457	535
Other costs	1.134	943
	15.993	17.624

16. NET IMPAIRMENT LOSSES AND OTHER PROVISIONS

The charge to profit or loss statement in respect of impairment losses and provisions is analysed as follows:

	2020.	2019.
Net impairment losses and provisions		
- for cash and cash equivalents (Note 19)	28	(11)
- for reserves with Central bank (Note 20)	1	-
-for Financial assets at Amortized cost (Note 22.c)	(302)	(69)
- for loans to customers (Note 23)	(13,830)	(5,333)
- for other assets (Note 24)	(586)	(595)
- for off-balance sheet items (Note 30)	(315)	509
- for financial assets at fair value through other comprehensive income	(1,472)	12
	(16.476)	(5.487)

Notes to the financial statements (continued)

17. INCOME TAXES

	2020.	2019.
Current tax	2.961	4.178
Deferred tax (Note 31)	22	(67)
Total Income tax	2.983	4.111

Income tax recognised in the profit or loss statement comprises current tax. Official corporate income tax rate is 10% (2019: 10%).

	2020.	2019.
Profit before income tax	21.228	38.034
Tax calculated at rate of 10%	2.123	3.803
Non-deductible expenses and deferred tax	860	308
Income tax expense	2.983	4.111
Average effective income tax rate	13,95%	10,8%

18. BASIC AND DILUTED EARNINGS PER SHARE

	2020.	2019.
Net profit (BAM'000)	18.425	33.923
Weighted average number of ordinary shares outstanding	447.760	447.760
Basic and diluted earnings per share (BAM)	41,15	75,76

Notes to the financial statements (continued)

19. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Current account with the Central Bank	275.233	367.776
Current accounts with other banks	151.501	96.818
Cash in hand in domestic currency	27.246	27.968
Cash in hand in foreign currency	5.394	7.233
	459.374	499.795
Less: impairment allowance	(465)	(43)
	458.909	499.753
Balance as at 1 January	43	-
Impact of first-time adoption – FBA impairments	450	-
Net charge to profit or loss statement (Note 16)	(28)	-
Balance at the end of period	465	43

Notes to the financial statements (continued)

20. RESERVES WITH THE CENTRAL BANK

	31 December 2020	31 December 2019
Obligatory reserve	190.471	191.510
	190.471	191.510
Less: impairment allowance	(191)	-
	190.280	181.510
Balance as at 1 January		
Impact of first-time adoption – FBA impairments	192	-
Net charge to profit or loss statement (Note 16)	(1)	-
	191	-

The minimum obligatory reserve is calculated as a percentage of the average balance of total deposits and borrowed funds for each business day during the 10 calendar days, in arrears. The obligatory reserve rate is 10% at deposits and borrowed funds regardless of the currency in which the funds are denominated.

The interest rate (negative) on minimum reserve requirements is 0.5% in 2020. Cash held as an obligatory reserve in the account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

21. PLACEMENTS WITH OTHER BANKS

	31 December 2020	31 December 2019
Placements with banks	29	68

As at 31 December 2020, the Bank had placement as follows:

Placement with bank:	Original currency	Original currency	BAM	Maturity	Interest rate
Intesa Sanpaolo S.p.A.	EUR	15	29	01.01.2021	-
			29		

Notes to the financial statements (continued)

22. FINANCIAL ASSETS AND LIABILITIES

a) Financial assets at fair value through other comprehensive income

	31 December 2020	31 December 2019
Debt instruments		
Treasury bills issued by the Federation of Bosnia and Herzegovina	55.016	-
	55.016	-
Equity instruments		
Equity securities at fair value	130	126
	130	126
	55.146	126

b) Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Financial assets		
Equity shares designated at fair value through profit or loss	297	33
Derivatives held for trading	170	757
	467	790

Derivatives held for trading are represented by foreign currency swaps, details of which are presented in the table below:

	31 December 2020.	31 December 2020.	31 December 2019.	31 December 2019.
Financial assets	Notional amount	Fair value	Notional amount	Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	12.700	170	71.913	757

Notes to the financial statements (continued)

22. FINANCIAL ASSETS AND LIABILITIES (continued)

c) Financial assets at amortized cost

	31 December 2020	31 December 2019
Debt instrument		
Bonds issued by the Canton	6.203	6.203
Less: impairment allowance	(371)	(69)
	5.832	6.134
Balance as at 1 January	69	-
Net charge to profit or loss statement (Note 16)	302	-
Balance at the end of period	371	69

The interest rate on Canton bonds is 2.3%.

d) Financial liabilities at fair value through profit or loss

	31 December 2020	31 December 2019
Financial liabilities		
Derivatives held for trading	106	574
	106	574

Derivatives held for trading are represented by foreign currency swaps, of which are presented in the table below:

	31 December 2020.	31 December 2020.	31 December 2019.	31 December 2019.
Financial liabilities	Notional amount	Fair value	Notional amount	Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	12.688	106	57.202	574

Notes to the financial statements (continued)

23. LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2020	31 December 2019
Short-term loans		
Corporate		
- in BAM and BAM linked to foreign currency	312.231	322.117
- in foreign currency	236	-
Retail		
- in BAM and BAM linked to foreign currency	73.570	76.407
	386.037	398.524
Long-term loans		
Corporate		
-in BAM and BAM linked to foreign currency	601.132	591.380
Retail		
-in BAM and BAM linked to foreign currency	663.442	661.071
-in foreign currency	-	13
	1.264.574	1.252.464
Total loans	1.650.611	1.650.988
Less: impairment allowance	(71.624)	(63.455)
	1.578.987	1.587.533

Loans and receivables from customers are presented including accrued interest in the amount of BAM 6,085 thousand (2019: BAM 5,097 thousand), and net of up-front fees in the amount of BAM 11,849 thousand (2019: BAM 11,795 thousand).

As of 31 December 2020, the net amount of short-term and long-term loans in domestic currency includes loans disbursed and repayable in domestic currency index-linked to the BAM:EUR exchange rate in the amount of BAM 131,977 thousand and BAM 789,974 thousand, respectively (31 December 2019: BAM 177,908 thousand and BAM 788,722 thousand, respectively).

Movements in the provision for impairment of loans and receivables are summarised as follows:

	2020.	2019.
Balance as at 1 January	63.455	75.136
Impact of first time adoption – FBA Impairments	6.509	-
Net charge to profit or loss statement (Note 16)	13.830	5.333
Unwinding of discount	(347)	(205)
Write-offs	(11.843)	(13.153)
Sales and other transfers	20	(3.656)
Balance as at 31 December	71.624	63.455

Notes to the financial statements (continued)

23. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Concentration of credit risk by industry:

Economic sector risk concentration in the gross amount of loans and receivables is as follows:

	31 December 2020	31 December 2019
Trade	308.047	331.534
Manufacturing, agriculture, forestry, mining and energy	300.587	272.938
Services, finance, sport, tourism	86.005	75.260
Construction industry	52.773	74.567
Administrative and other public institutions	70.572	70.496
Transport and telecommunications	47.628	48.541
Other	47.987	40.161
Citizens	737.012	737.491
	1.650.611	1.650.988

24. OTHER ASSETS

	31 December 2020	31 December 2019
Receivables from card operations	2,200	3.953
Prepaid expenses	1,616	2.068
Fees receivable	1,144	1.107
Assets held for sale	1,031	1.031
Assets acquired upon foreclosure of loans	273	1.752
Other assets	2,029	1.318
Total other assets	8.293	11.229
Less: impairment allowance	(2.388)	(1.588)
	5.905	9.641

The movement in the impairment allowance for other assets are summarised as follows:

Balance as at 1 January	1.588	1.925
Impact of first time adoption – FBA Impairments	314	-
Net charge to profit or loss statement (Note 16)	586	595
Net charge to profit or loss statement - Assets acquired upon foreclosure of loans and Assets Held for Sale (Note 13)	796	(165)
Transfers – other	-	(329)
Write-offs and sale of property	(896)	(438)
Balance as at 31 December	2.388	1.588

Notes to the financial statements (continued)

25. PROPERTY AND EQUIPMENT

	Land and buildings	Computers and other equipment	Assets in the course of construction	Leasehold improvements	Total
Cost					
At 1 January 2019	11.664	20.212	42	9.958	41.876
Additions	-	-	1.197	-	1.197
Assets with Right of Use – IFRS 16	15.445	454	-	-	15.899
Disposals	-	(1.914)	-	(1.428)	(3.342)
Transfers	-	821	(1.063)	242	-
At 31 December 2019	27.109	19.573	176	8.772	55.630
Additions	-	-	1.967	-	1.967
Assets with Right of Use – IFRS 16	1.116	95	-	-	1.211
Adjustment in Fair Value– P&L effect (Note 13)	(225)	-	-	-	(225)
Adjustment in Fair Value - FVOCI effect	1.208	-	-	-	1.208
Disposals	(1.023)	(535)	-	(466)	(2.024)
Transfers	-	1.220	(1.223)	3	-
At 31 December 2020	28.185	20.353	920	8.309	57.767
Accumulated depreciation					
At 1 January 2019	3.159	16.519	-	9.255	28.933
Charge for the year	321	1.080	-	258	1.659
Charge for the year – IFRS 16	2.024	116	-	-	2.140
Disposals	(265)	(1.944)	-	(1.397)	(3.606)
At 31 December 2020	5.239	15.771	-	8.116	29.126
Charge for the year	321	1,159	-	252	1,732
Charge for the year – IFRS 16	2,251	106	-	-	2,357
Disposals	(316)	(381)	-	(445)	(1,142)
At 31 December 2020	7,495	16,655	-	7,923	32,073
Carrying Value					
At 31 December 2019	21.870	3.802	176	658	26.506
At 31 December 2020	20,690	3,698	920	386	25,694

Notes to the financial statements (continued)

25. PROPERTY AND EQUIPMENT (continued)

Movement of Assets with Right of Use, in accordance with IFRS 16 – Leasing, effective from 1 January 2019 are as below:

	Buildings	Computers and other equipment	Total
Cost			
At 1 January 2019	-	-	-
First time adoption of IFRS 16	10.720	472	11.192
Movements during the year	4.725	(19)	4.707
At 31 December 2019	15.445	453	15.898
Movements during the year	165	(114)	51
At 31 December 2020	15,610	339	15,949
At 1 January 2019	-	-	-
Charge for the year – IFRS 16	2.024	116	2.140
Movements during the year	(264)	(37)	(301)
At 31 December 2019	1.760	79	1.839
Charge for the year – IFRS 16	2,251	106	2.357
Movements during the year	(286)	(76)	(362)
At 31 December 2020	3.725	109	3.834
Carrying Value			
At 31 December 2019	13.685	375	14.060
At 31 December 2020	11.885	230	12.115

Notes to the financial statements (continued)

26. INTANGIBLE ASSETS

Cost	Software and licence	Assets in the course of construction	Total
At 1 January 2019	15,504	699	16,203
Additions	-	1.191	1.191
Disposals	(894)	-	(894)
Transfers	1.085	(1.085)	-
At 31 December 2019	15.695	805	16.500
Additions	-	472	472
Transfers	707	(707)	-
At 31 December 2020	16.402	570	16.972
Amortisation			
At 1 January 2019	10.622	-	10.622
Charge for the year	1.960	-	1.960
Disposals	(861)	-	(861)
At 31 December 2019	11.721	-	11.721
Charge for the year	1,584	-	1,584
At 31 December 2020	13,305	-	13,305
Carrying Value			
At 31 December 2019	3.975	805	4.780
At 31 December 2020	3.097	570	3.667

Notes to the financial statements (continued)

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks	31 December 2020	31 December 2019
Current accounts and term deposits		
Demand deposits		
-in BAM	842	1.218
-in foreign currencies	12.923	5.045
Term deposits		
-in BAM	6.700	7.000
-in foreign currencies	185.819	288.004
	206.284	301.267
Borrowings		
Long-term borrowings		
-foreign banks	167.881	145.535
	167.881	145.535
Total Due to Banks	374.165	446.802
Due to other financial institutions		
Long-term borrowings		
-in foreign currencies	13.364	20.012
Total borrowings from other financial institutions	13.364	20.012
Total Due to Banks and other financial institutions	387.529	466.814

Current accounts, deposits and borrowings from banks presented above include accrued interest in the amount of BAM 162 thousand (2019: BAM 137 thousand).

Borrowings from other financial institutions are presented including accrued interest in the amount of BAM 108 thousand (2019: BAM 127 thousand).

Notes to the financial statements (continued)

28. DUE TO CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits:		
Retail clients:		
-in BAM	234.782	207.812
-in foreign currencies	84.210	74.711
Corporate clients:		
-in BAM	609.763	508.180
-in foreign currencies	126.962	64.128
Total demand deposits	1.055.717	854.831
Term deposits:		
Retail clients:		
-in BAM	134.419	140.573
-in foreign currencies	249.785	269.249
Corporate clients:		
-in BAM	108.875	201.330
-in foreign currencies	23.917	39.024
Total term deposits	516.996	650.176
Liabilities based on Asset with Right of Use – IFRS 16		
- Obligation for renting office space	11.680	13.545
- Obligation for renting other equipment	219	361
Total Liabilities – IFRS 16	11.899	13.906
Total Due to customers	1.584.612	1.518.913

Amounts due to customers are presented including accrued interest in the amount of BAM 5,525 thousand (2019: BAM 6,020 thousand).

In Retail banking, interest rates on demand deposits are 0.05% (2019: 0.05%). The interest rates on time deposits are in the range of 0.01% to 1.50% (2019: 0.01% to 2.00%).

For Small Corporate clients, interest rates on demand deposits range from 0.00% to 1.00% (2019: from 0.00% to 1.00%). The interest rates on time deposits are in the range of 0.00% to 2.30% (2019: 0.00% to 2.30%).

In Corporate banking, interest rates on demand deposits are from 0.00% to 0.35% (2019: 0.05%). The interest rates on time deposits are in the range of 0.00% to 2.58% (2019: 0.00% to 2.55%).

Notes to the financial statements (continued)

29. OTHER LIABILITIES

	31 December 2020	31 December 2019
Liabilities to shareholders	8.194	8.194
Loan repayments before due dates	8.062	7.004
Credit card liabilities	2.724	3.720
Liabilities for employees' bonuses	2.083	2.440
Liabilities to vendors	2.222	1.935
Liabilities in respect of managed funds (Note 36)	26	1
Other liabilities	8.139	6.355
	31.450	29.649

30. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2020	31 December 2019
Provisions for off-balance-sheet credit risk	2.264	1.664
Provisions for legal proceedings	2.655	2.504
Provisions for retirement employee benefits	670	825
	5.589	4.993

Movement in provisions for liabilities and charges for the year ended 31 December 2020 are summarized as follows:

	Provisions for legal proceedings (Note 15)	Provisions for retirement employee benefits (Note 14)	Provisions for off-balance-sheet credit risk (Note 16)	Total
Balance at 1 January 2019	2.016	805	2.242	5.063
Net charge/(benefit) to profit or loss statement	1.529	30	(509)	1.050
Reductions arising from payments	(1.041)	(10)	(69)	(1.120)
Stanje na dan 31. decembar 2019.	2.504	825	1.664	4.993
Balance at 1 January 2020	2.504	825	1.664	4.993
Impact of first-time adoption-FBA Impairments	-	-	309	309
Net charge to profit or loss statement	294	(126)	315	483
Reductions arising from payments	(143)	(29)	(24)	(196)
Balance at 31 December 2020	2.655	670	2.264	5.589

Notes to the financial statements (continued)

30. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The calculation of provisions for retirement benefits of BAM 580 thousand as of 31 December 2020 (2019: BAM 540 thousand) is performed by an independent actuary, applying a discount rate of 5% over the working life and average salary of each employee.

Provisions for unused days of vacation of BAM 90 thousand as of 31 December 2020 (2019: BAM 285 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

31. DEFERRED TAX BALANCES

The deferred tax liability relates to taxable temporary differences arising on fair value adjustments of financial assets through other comprehensive income. The effect of the fair value adjustment, net of relating tax is recognised in equity. Deferred tax assets relate to temporary differences arising on provisions that will be recognised for tax purposes in the moment of realization.

The movement of deferred tax balances is presented in the table below:

	Deferred tax liabilities	Deferred tax assets
As at 1 January 2019	49	255
Recognised in other comprehensive income		
Decrease in deferred tax liabilities	(8)	-
Recognised in profit or loss		
Decrease in deferred tax assets for provisions for litigations	-	91
Decrease in deferred tax assets for other provisions		(14)
Increase in deferred tax assets for other provisions	10	-
As at 31 December 2019	51	332
As at 1 January 2020	51	332
Recognised in other comprehensive income		
Decrease in deferred tax liabilities	-	-
Recognised in profit or loss		
Increase in deferred tax assets for provisions for litigations	-	15
Decrease in deferred tax assets for other provisions	-	(18)
Increase in deferred tax liabilities for other provisions	17	-
As at 31 December 2020	68	329

Notes to the financial statements (continued)

32. SHARE CAPITAL

	31 December 2020 and 31 December 2019		Total
	Class ES Ordinary shares	Class EP Preference shares	
Number of shares	447.760	60	447.760
Pair value (BAM)	100	100	100
Total	44.776	6	44.776

Each registered ordinary share carries the right of one vote per share, while preference shares are non-voting.

Preference shareholders are entitled to receive dividends when declared, non-cumulatively, with priority rights over the ordinary shareholders in receipt of dividends.

The shareholding structure of the Bank as at 31 December 2020 is as follows:

- Privredna banka Zagreb d.d. 99.99%
- Other 0.01%

The shareholding structure of the Bank as at 31 December 2019 was as follows:

- Privredna banka Zagreb d.d. 99.99%
- Other 0.01%

33. SHARE-BASED PAYMENTS

In 2012 the Bank purchased 78,028 equity shares representing an interest in the capital of Intesa Sanpaolo SpA (the

The purchase of equity shares is related to the application of the remuneration policy for the Bank's employees and was accounted for according to the provisions of IFRS 2 Share Base Payments as a cash-settled shared-based payment transaction, insofar the transaction occurred between entities belonging to the same group.

In 2012 the Bank purchased 78,028 equity shares representing an interest in the capital of Intesa Sanpaolo SpA (the ultimate majority shareholder of the Bank).

During 2020, remaining part of the shares have been transferred to the beneficiaries (7.054). As of 31 December 2020, the Bank don't has equity shares of Intesa Sanpaolo SpA.

In 2020 the Bank purchased 2.137 equity shares of Privredna banka d.d. Zagreb. During 2020, part of the shares has been transferred to the beneficiary (774). As at 31 December Bank has 1.363 equity shares of Privredna banka d.d. Zagreb in its portfolio of financial assets at Fair Value through Profit and Loss (with fair value measured based on equity shares quotation on the Zagreb Stock Exchange).

The residual shares will be assigned to beneficiaries when vesting conditions are met.

Notes to the financial statements (continued)

34. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2020	31 December 2019
Contingent liabilities		
Performance guarantees	90.472	90.275
Payment guarantees	45.037	50.616
Letters of credit	6.882	892
Total contingent liabilities	142.391	141.783
Commitments		
Undrawn lending commitments	408.019	210.603
Total commitments	408.019	210.603
Total contingent liabilities and commitments	550.410	352.386

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Contingents and Commitments.

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	1,026	279	359	1,664	1,315	709	218	2,242
First time adoption of FBA Impairments	261	30	18	309	0	0	0	0
Transfers - Stage 1	7	-6	-1	0	1,974	-1,601	-373	0
Transfers - Stage 2	-190	191	-1	0	-150	178	-28	0
Transfers - Stage 3	-134	-53	187	0	-4	-159	163	0
Net remeasurement of loss allowance	300	-55	-36	209	-2,359	1,277	526	-556
New financial assets originated or purchased	565	192	55	812	1,267	333	257	1,857
Financial assets that have been derecognized	-353	-140	-213	-706	-1,017	-389	-404	-1,810
Total effect through Profit and Loss (Note 30)	512	-3	-194	315	-2,109	1,221	379	-509
Other movements	-	-	-24	-24	-	-69	0	-69
Balance as at 31 December	1,482	438	344	2,264	1,026	279	359	1,664

Notes to the financial statements (continued)

35. RELATED-PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo S.p.A Group ("Intesa Sanpaolo Group"). The key shareholder of the Bank is Privredna banka Zagreb d.d. 99.99% (2019: Privredna banka Zagreb d.d. 99.99%) of the Bank's shares and the ultimate parent company is Intesa Sanpaolo S.p.A. The Bank considers that it has an immediate related-party relationship with its key shareholders and their subsidiaries; its associates; Supervisory Board members and Management Board members and other executive management ("key management personnel"); and close family members of key management personnel.

Related party transactions are part of the Bank's regular operations.

The overview of related party transactions as at 31 December 2020 and 31 December 2019 is presented below:

	31 December 2020	31 December 2019
Assets		
Receivables from key management personnel and their close family members	302	265
Bank accounts and loans – Intesa Sanpaolo Group	50.533	51.685
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	61	-
Other receivables – Intesa Sanpaolo Group	767	17
	51.663	51.967
Liabilities		
Deposits – key management personnel and their close family members	2.660	3.340
Borrowings and term deposits – Intesa Sanpaolo Group	186.790	284.380
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	106	508
Other liabilities – Intesa Sanpaolo Group	430	423
	189.986	288.651
Financial commitments and contingencies		
Financial Guarantees	4.515	-
Undrawn lending commitments – key management personnel and close family members	167	142
	4.682	142

Notes to the financial statements (continued)

35. RELATED-PARTY TRANSACTIONS (continued)

	2020	2019
Income		
Interest income – key management personnel and close family members	18	24
Interest income – Intesa Sanpaolo Group	184	125
Other Income – Intesa Sanpaolo Group	207	194
	409	343
Expenses		
Interest expense – key management personnel and close family members	5	19
Interest expense – Intesa Sanpaolo Group	214	234
Other expenses – Intesa Sanpaolo Group	2.428	2.423
	2.647	2.676

The remuneration of key management personnel was as follows:

	2020	2019
Net salaries for key management personnel	1.213	1.044
Taxes and contributions on net salaries	947	627
Bonuses to management	905	675
Other management benefits	244	252
	3.310	2.598

Notes to the financial statements (continued)

36. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets.

	31. decembar 2020.	31. decembar 2019.
Liabilities		
Banks and insurance companies	28.566	65.143
Government organisations	7.812	7.918
Associations and Agencies	800	801
Other	60	423
Total	37.238	72.285
Assets		
Loans to companies	36.940	72.002
Loans to citizens	272	282
Total	37.212	72.284
Amounts due to original creditors – managed funds (Note 29)	26	1

37. EVENTS AFTER THE REPORTING DATE

After the Balance Sheet date and until the date these Financial Statements were signed, there were no significant events that would require reconciliation or disclosure in the Financial Statements.

