Raiffeisen Bank d.d. Bosna i Hercegovina

Separate Financial Statements for the year

ended 31 December 2020

Contents:

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

The Management Board is required to prepare separate 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 judgments 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 of the Bank together with the annual separate financial statements, following which the Supervisory Board and the General Assembly is required to approve the separate financial statements.

The separate financial statements set out on pages 10 to 108 were authorised by the Management Board on 27 May 2021 for issue to the Supervisory Board, and are signed bellow to signify this, on behalf of the Bank, by:

For and on the behalf of Management Board

Edin Hrnjica

Raiffeisen BANK dd Bosna i Hercegovina 7

Acting President of Management Board	**Acting Member of Management Board**
Edin Hrnjica	Andreea Achim

Raiffeisen Bank d.d. Bosna i Hercegovina

Zmaja od Bosne bb

71000 Sarajevo

Bosna i Hercegovina

27 May 2021

Independent Auditors’ report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina

Opinion

We have audited the separate financial statements of Raiffeisen Bank d.d. BiH (“the Bank”), which comprise the separate statement of financial position as at 31 December 2020, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2020 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Federation of Bosnia and Herzegovina.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the separate financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

KPMG

Independent Auditors' report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina *(continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and receivables from customers

As at 31 December 2020, gross loans and receivables amounted to BAM 2,573 million, impairment allowance amounts to BAM 193 million and impairment loss recognised in the income statement amounts to BAM 33.9 million (31 December 2019: gross loans and receivables: BAM 2,683 million, impairment allowance: BAM 193 million and impairment loss recognised in the income statement: BAM 26.6 million).

Refer to Note 2.5 Changes in accounting policies due to the application of the Decision on credit risk management and determination of expected credit losses and Note 5 Transition to calculation of expected credit losses in accordance with the new regulatory requirements.

Refer to Note 3.11.1 Financial assets (iv) Impairment, Note 4 Critical accounting judgements and key sources of estimation uncertainty, Note 20 Loans and receivables to customers, and Note 6.1 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board's best estimate of the expected credit losses within the loans and receivables from customers at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment. On 1 January 2020, in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina (the "Agency"), the Bank applied a new impairment calculation model which incorporates the requirements of IFRS 9 "*Financial Instruments*" applied by the Bank in earlier periods with the prescribed minimum requirements for provisioning. The calculation of allowances for credit losses is based on the expected credit loss (ECL) model, that uses a dual-measurement approach, under which the impairment allowance is measured as either 12-month or life time expected credit losses, depending on whether there has been a significant increase in credit risk.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the regulatory and financial reporting framework. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Bank's IT control environment for data security and access, assisted by our own IT specialists; • Evaluating and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances; • Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;

Independent Auditors' report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina *(continued)*

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter (continued)</th></tr>
<tr><td>Impairment allowances for retail and non-retail performing exposures (Stage 1 and Stage 2 in the provisioning regulations hierarchy) and non-performing (Stage 3) retail exposures (together "collective impairment allowance") are determined by modelling techniques increased in case of specific non-retail exposures for management overlays.

Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and significant management judgment are incorporated into the model assumptions, as well as specific rules of the Agency regarding various minimum provisioning requirements.

For non-performing non-retail exposures (Stage 3), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. The process involves a high level of subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from collateral, as well as the haircuts to be applied on the estimated value of collateral and minimum period of realization of collateral.

In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the separate financial statements.

Accordingly, we considered the area to be our key audit matter.</td><td>• With respect to the adoption of the new requirements of the Agency:
  • Obtaining understanding of the overall transition process activities and testing whether the prescribed minimum requirements were applied at the transition date, as well as evaluating completeness and accuracy of the related disclosures;
• With respect to the applicable impairment accounting requirements and with the assistance of our own financial risk management specialist:
  • Obtaining an understanding of key internal rating models for loans to customers, and assessing the relevance and reliability of the key data used therein (for example certain KPIs calculated based on customers' latest available financial statements);
  • Evaluating the overall modelling approach of calculation of ECLs, including the calculation of main risk parameters for specific representative portfolios (probability of default (PD), loss given default (LGD), best estimate of expected loss (BEEL), exposure at default (EAD) and macroeconomic factors;
  • Critically assessing the reasonableness of the key macroeconomic assumptions used by the Bank in its ECL models under different scenarios by reference to publicly available information and through corroborating inquiries of the selected members of the Management Board;
  • Testing accuracy of input data used for establishing main risk parameters and obtaining explanations for exceptions where necessary;
  • Independent recalculation of the ECL for selected representative portfolios, using the above estimated LGDs, BEELs and PDs and reconciling it with actual ECL recognized;
• Obtaining an understanding of the model overlay assessment of specific non-retail exposures, assessing the reasonableness of the underlying assumptions and the overall impairment provisions for non-retail exposures based on inquiries with the Management Board and review of publicly available information.
• Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the separate financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watch-listed, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;</td></tr>
</table>

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter *(continued)*
	• For the sample selected, taking into account client business, market conditions and payment history; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3; • For non-retail loans classified in Stage 3, challenging key assumptions applied in the Management's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant, with the assistance of our own valuation specialists. • Assessing the adequacy of expected credit losses with respect to compliance with the various minimum provisioning requirements prescribed by the Agency; • Critical review of the adequacy of total impairment provisions, including the gross share of performing and non-performing exposures in total gross exposure and the level of provision coverage of performing and non-performing exposures; • Evaluating the accuracy and completeness of the financial instruments disclosures relating to expected credit losses against the requirements of the relevant financial reporting framework.

Independent Auditors' report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina *(continued)*

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Independent Auditors' report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina *(continued)*

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 auditors' 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors’ report to the shareholders of Raiffeisen Bank d.d. Bosna i Hercegovina *(continued)*

Auditors’ Responsibilities for the Audit of the Separate 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 provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor’s report is Vedran Vukotić.

KPMG B-H d.o.o. za reviziju

Registered Auditors

Zmaja od Bosne 7-7A
71000 Sarajevo

Bosnia and Herzegovina

D.O.O. ZA REVIZIJU KPMG B-H SARAJEVO

27 May 2021

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

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

	Notes	**2020**	**2019**
Interest income calculated using the effective interest rate	*8*	144,052	151,136
Other interest income	*8*	613	624
Interest expense	*9*	(24,732)	(23,914)
Net interest income		**119,933**	**127,846**
Fee and commission income	*10*	91,059	96,038
Fee and commission expense	*11*	(22,659)	(22,895)
Net fee and commission income		**68,400**	**73,143**
Net income from foreign currency trading	*12*	13,731	12,445
Net gain/(loss) from other financial instruments at fair value through profit and loss	*13*	(228)	9
Other operating income	*14*	8,267	7,665
Net operating income		**210,103**	**221,108**
Administrative expenses	*15*	(99,935)	(101,555)
Depreciation and amortization	*27,28,29,30*	(14,441)	(13,268)
Operating expense		**(114,376)**	**(114,823)**
Profit before impairment losses, provisions and income tax		**95,727**	**106,285**
Impairment losses, net	*16*	(46,383)	(31,050)
		(46,383)	**(31,050)**
PROFIT BEFORE TAX		**49,344**	**75,235**
Income tax expense	*16*	(4,723)	(18,334)
NET PROFIT FOR THE YEAR		**44,621**	**56,901**
Other comprehensive income			
Other comprehensive income		11	8
Total other comprehensive incomer		***11***	***8***
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**44,632**	**56,909**
Earnings per share (BAM)	*38*	**45.13**	**57.55**

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

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

	Notes	**31 December 2020**	**31 December 2019**
ASSETS			
Cash and cash equivalents	*18*	1,690,128	1,473,344
Obligatory reserves at the Central Bank of BiH	*19*	409,037	398,999
Loans and receivables to customers	*20*	2,390,437	2,490,432
Financial assets at fair value through other comprehensive income	*21*	556	545
Financial assets at fair value through profit and loss	*22*	-	6,966
Investments in securities at amortized cost	*23*	122,561	143,178
Investments in subsidiaries	*24*	11,050	11,050
Investments in associates and joint ventures	*25*	3,827	3,827
Deferred tax assets	*17*	53	107
Current tax prepayment		10,310	359
Other assets and receivables	*26*	87,500	36,444
Investment property	*27*	29,951	30,656
Property and equipment	*28*	105,412	105,444
Right-of-use assets	*29*	10,183	11,215
Intangible assets	*30*	18,584	16,710
TOTAL ASSETS		**4,889,589**	**4,729,276**
LIABILITIES			
Borrowings from banks and other financial institutions	*31a*	126,787	163,746
Deposits from banks and other financial institutions	*31b*	24,326	173,919
Due to customers	*32*	3,955,130	3,682,424
Subordinated debt	*33*	61,804	61,804
Provisions for liabilities and charges	*34*	39,680	24,242
Lease liabilities	*35*	10,080	10,986
Other liabilities	*36*	96,144	49,096
Deffered tax liabilities	*17*	977	514
TOTAL LIABILITIES		**4,314,928**	**4,166,731**
EQUITY AND RESERVES			
Share capital	*37*	247,167	247,167
Share premium		4,473	4,473
Fair value reserves		326	315
Retained earnings		322,695	310,590
TOTAL EQUITY AND RESERVES		**574,661**	**562,545**
TOTAL LIABILITIES, EQUITY AND RESERVES		**4,889,589**	**4,729,276**

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

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

	Notes	31 December 2020	31 December 2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the year		44,621	56,901
Adjustments for:			
Depreciation and amortisation		14,441	13,268
Impairment losses, net	16	46,383	31,050
Loss/(profit) from sale of tangible assets and investment property		-	405
Write-off of tangible and intabgible assets		41	102
Net (gain)/loss from other financial instrument at fair value through profit and loss		228	(9)
Net change in provisions for liabilities and charges		(1,239)	(2,457)
Net interest income		(119,933)	(127,846)
Written off liabilities		-	-
Dividend income		(3,362)	(3,921)
Income tax expense		4,723	18,334
		(14,097)	**(14,173)**
Changes in operating assets and liabilities:			
Net change in obligatory reserves with CBBH		(10,038)	(22,738)
Net (decrease) in loans and receivables given to banks before impairment		(1,913)	-
Net change in loans given to customers, before impairment		52,921	(94,034)
Net change in other assets and receivables, before impairment		(56,832)	10,454
Net change in deposits from banks and other financial institutions		(149,059)	101,690
Net change in due to customers		272,465	154,015
Net change in other liabilities		47,048	14,185
Paid income tax		(13,544)	(16,200)
Received interest		139,486	145,298
Paid interest		(24,719)	(28,187)
Received dividends		3,362	3,921
NET CASH FLOW REALISED IN OPERATING ACTIVITIES		**245,080**	**256,231**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from financial assets at fair value through profit or loss		6,958	74,627
Proceeds from financial assets at amortised costs		33,919	185,257
Acquisition of financial assets at amortised costs		(16,416)	(179,423)
Purchase of assets held for sale		-	71
Investment in associates and joint ventures		-	(3,825)
Purchase of property and equipment		(6,240)	(6,303)
Purchase of intangible assets		(6,390)	(4,610)
Proceeds from property and equipment sold		248	-
Proceeds from sale of intangible assets		704	-
Proceeds from investment property sold		-	904
NET CASH FLOW REALISED IN FINANCING ACTIVITIES		**12,783**	**66,698**
FINANCING ACTIVITIES			
Proceeds of borrowings from banks and other financial institutions		45,149	78,009
(Repayment) of borrowings from banks and other financial institutions		(82,413)	(19,230)
Proceeds of subordinated debt		-	4
(Repayment) of subordinated debt		-	-
Paid dividends		-	(64,451)
Paid lease liabilities		(3,815)	(3,810)
NET CASH FLOW (USED) IN FINANCING ACTIVITIES		**(41,079)**	**(9,478)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**216,784**	**313,451**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	*18*	**1,473,344**	**1,159,893**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*18*	**1,690,128**	**1,473,344**

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

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

	Issued share capital	Share premium	Fair value reserves	Retained earnings	Total
Balance as at 31 December 2019	**247,167**	**4,473**	**315**	**310,590**	**562,545**
First time adoption FBA Decision (Note 5)	**-**	**-**	**-**	**(32,516)**	**(32,516)**
Balance as of January 1, 2020 (change in valuation)	**247,167**	**4,473**	**315**	**278,074**	**530,029**
Distribution of dividends*	-	-	-	-	-
Net profit for the year	-	-	-	44,621	44,621
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	-	-	11	-	11
Total comprehensive income	**-**	**-**	**11**	**-**	**11**
Balance as at 31 December 2020	**247,167**	**4,473**	**326**	**322,695**	**574,661**

*Pursuant to Article 8 Preservation of the Bank's Capital, Decision on Interim Measures Applied by the Bank for Recovery from the Negative Economic Consequences Caused by the Covid-19 Viral Disease, the Bank did not make any dividend payments during 2020.

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

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

	Issued share capital	Share premium	Fair value reserves	Regulatory reserves for loan losses	Retained earnings	Total
Balance as at 1 January 2019	**247,167**	**4,473**	**307**	**102,443**	**215,697**	**570,087**
Distribution of dividends	-	-	-	-	(64.451)	(64.451)
Net profit for the year	-	-	-	-	56.901	56.901
Transfer of regulatory reserves for credit losses to retained earnings *	-	-	-	(102,443)	102,443	-
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	-	-	*8*	-	-	*8*
Total comprehensive income	**-**	**-**	**8**	**-**	**-**	**8**
Balance as at 31 December 2019	**247,167**	**4,473**	**315**	**-**	**310,590**	**562,545**

*As explained in Note 3.18, following on the Decison on terms for inclusion of formed regulatory reserves for loan lossess in Common Equity Tier 1 of the bank published by the Banking Agency of FBiH on 8 November 2018, as well as Decision on inclusion of regulatory reserves for loan losses in Common Equity Tier 1 of the Bank number 1-9-5710/2019-3 issued by the Bank's Assembly on 17 December 2019, regulatory reserves for loan losses in the amount of BAM 102,443 have been included within Common Equity Tier 1 i.e. allocated to retained earnings of the Bank.

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

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

1. GENERAL

History and incorporation

Raiffeisen Bank d.d. Bosnia and Herzegovina, Sarajevo (the "Bank") is a joint stock company incorporated in Bosnia and Herzegovina and it commenced operations in 1993.

Principal activities of the Bank are:

1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- term and long-term loans and guarantees to the local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive branch network in Bosnia and Herzegovina.

The registered address of the Bank is Zmaja od Bosne bb, Sarajevo. As at 31 December 2020 the Bank had 1,278 employees (31 December 2019: 1,341 employees).

The Supervisory Board, Management Board and Audit Committee

During 2020 and on the date of this report, the members of the Supervisory Board were:

Supervisory Board

Peter Jacenko	President
Markus Kirchmair	Deputy Chairman since 28 July 2020
Sabine Zucker	Deputy Chairman since 29 June 2020
Markus Plank	Member since 30 June 2019
Johannes Kellner	Member
Elisabeth Geyer - Schall	Member
Zinka Grbo	Member
Jasmina Selimović	Member

During 2020 and on the date of this report, the members of the Audit Committee were:

Audit Committee

Renate Kattinger	Chairman
Nedžad Madžak	Member
Abid Jusić	Member
Vojislav Puškarević	Member
Benina Veledar	Member

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

1. GENERAL *(continued)*

During this report and on 31 December 2020 Management Board consists of directors and executive directors. The following persons performed these functions during the year and on the day of this report:

Management Board

Karlheinz Dobnigg	President of the Management Board until March 19, 2021
Edin Hrnjica	Acting President of the Management Board since April 07, 2021 till July 06, 2021
Heribert Fernau	Member of the Management Board till December 31, 2020
Andreea Achim	Acting Member of the Management Board since April 07, 2021 till July 06, 2021
Mirha Hasanbegović	Member of the Management Board till March 19, 2021
Maida Zahirović Salom	Member of the Management Board till November 30, 2020
Ante Odak	Member of the Management Board

During 2020/2021, there were significant changes in the composition of the Bank's Management Board. Four of the five members of the Management Board resigned, including the President of the Management Board, and their successors were elected as outlined above.

2. BASIS OF PRESENTATION

2.1. Reporting framework

The financial statements have been prepared in accordance with the legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina (“FBiH”), which are based on the FBiH Law on Accounting and Auditing, the FBiH Banking Law and bylaws of the Banking Agency of the Federation of Bosnia and Herzegovina ("Agency" or "FBA") adopted on the basis of the mentioned laws.

- The FBiH Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”).
- The Law on Banks of the FBiH prescribes the preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing of the FBiH, this law, and bylaws adopted on the basis of both laws.
- The Agency adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (the “Decision”), applicable from 1 January 2020 and which resulted in certain differences resulting from the calculation of impairment for credit losses due to the application of minimum rates prescribed 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 arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRS).

The main differences between the legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina (ie primarily the requirements of the Decision) and the requirements for recognition and measurement under IFRS are explained below.

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

2. BASIS OF PRESENTATION *(continued)*

2.1. Reporting framework *(continued)*

In accordance with the provisions of the Decision as at 31 December 2020 the Bank calculated an impairment for credit losses that is higher by BAM 32,749 thousand than the amount obtained by calculating the result of the Bank's internal model for calculating expected credit losses, compliant with the requirements of IFRS 9, with details as follows:

- Application of Article 23 of the Decision prescribing the application of minimum impairment rates for all exposures allocated to credit risk level 1 - calculated difference in the amount of BAM 6,816 thousand,
- Application of Article 24 of the Decision prescribing the application of minimum impairment rates for all credit exposures in credit risk level 2 - calculated difference in the amount of BAM 17,622 thousand,
- Application of minimum impairment rates prescribed in Article 25 of the Decision for exposures at credit risk level 3 (non-performing assets) - calculated difference in the amount of BAM 7,823 thousand.
- application of the minimum impairment rates prescribed in Article 26 of the Decision for trade receivables, receivables based on factoring and financial leasing and other receivables - the difference in the amount of BAM 488 thousand.

The table below presents the effects of the previously described difference between the legal accounting regulations applicable to banks in the FBiH and the requirements for recognition and measurement under International Financial Reporting Standards:

	January 1, 2020	**December 31, 2020**
Assets	(23,374)	(22,992)
Liabilities	9,142	9,757
Equity	(32,516)	(32,749)

This is the first set of financial statements in which the Bank has applied the Decision on credit risk management and determination of expected credit losses. Changes in significant accounting policies are described in Note 2.5 *Changes in accounting policies* and Note 5 *Transition to the calculation of expected credit losses in accordance with the new regulatory requirements*.

As explained in Note 2.5, the Bank did not revise the comparative data for 2019. The effects of the first application of the Decision are recognized against the initial balance of retained earnings and reserves on January 1, 2020.

Where accounting policies are consistent with International Financial Reporting Standards, there is a link in these financial statements to the relevant IFRSs.

2. BASIS OF PRESENTATION *(continued)*

2.1. Reporting framework *(continued)*

These financial statements represent separate financial statements of the Bank. As explained in Note 24 the Bank is the parent company within the Raiffeisen Bank BH Group. The Bank did not prepare consolidated financial statements as it uses the exemption in accordance with legal accounting regulations and IFRS 10 “Consolidated Financial Statements” based on which the ultimate parent company, Raiffeisen Bank International AG, a company founded in Austria, presents and prepares the consolidated financial statements in accordance with IFRSs that are available for public use.

These separate financial statements were authorised by the Management Board on 27 May 2021 for submission to the Supervisory Board.

2.2. Basis for measurement

These separate financial statements have been prepared on the historical or amortised cost basis, except for financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

2.3. Functional and presentation currency

These separate financial statements are presented in thousands of Bosnian marks (’000 BAM) which is the functional currency of the Bank. Bosnian Mark is pegged to Euro (1 EUR = 1.95583 BAM).

2.4. Use of estimates and judgements

The preparation of separate 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. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are disclosed prikazane su u Bilješci 4.

2.5. Changes in accounting policies

As previously stated in Note 2.1 Reporting Framework, as of January 1, 2020, the Bank applied the *Decision on Credit Risk Management and Determination of Expected Credit Losses* issued by the Banking Agency of the Federation of Bosnia and Herzegovina, which resulted in changes in accounting policies and adjustments. amounts previously recognized in separate financial statements.

As prescribed by the Decision, the Bank did not revise the comparative data for 2019. The effects of the first application of the Decision are recognized against the initial balance of retained earnings and reserves on January 1, 2020. Other basic accounting policies applied in the preparation of the separate financial statements are the same as in the preparation of the separate annual financial statements as at 31 December 2019.

The implementation of the new Decision has resulted in changes in accounting policies related to the measurement of financial assets. A detailed description of the changes is disclosed in Note 3 Significant accounting policies and Note 5 Transition to the calculation of expected credit losses in accordance with the new regulatory requirements of these separate financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the previously described changes in Note 2.5, the Bank has consistently applied the accounting policies further described below to all periods disclosed in these separate financial statements.

3.1 Foreign currency transactions

Transactions in currencies other than Bosnian Marks ("BAM") are initially recorded at the exchange rates prevailing on the dates of transactions. Monetary assets and liabilities are translated at rates prevailing on the reporting date. Non-monetary items carried at fair value denominated in foreign currencies are translated at prevailing rates on the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the 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 December 2020	EUR 1 = BAM 1.95583	USD 1 = BAM 1.59256
31 December 2019	EUR 1 = BAM 1.95583	USD 1 = BAM 1.74799

3.2. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest rate method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- gross carrying amount of the financial asset; or
- the amortized costs of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but not expected credit loss ("ECL"). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying value

The amortised cost of a financial asset or a financial liability is the amount at which the financial assets or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance (or impairment).

"Gross carrying amount of financial assets" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2. Interest income and expense *(continued)*

Calculation of interest income and expense

Effective interest rate on a financial asset or financial liability is calculated on initial recognition of a financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect the movements in market rates of interest.

However, for financial assets that have been credit-impaired sustainably to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of financial assets. If the asset is no longer credit-impaired, the calculation of interest income returns to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate on the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense is recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounted estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

Calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs included incremental costs that are directly attributed to the acquisition or issue of a financial asset or financial liability.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss are recognized in net profit or loss from other financial instruments at fair value through profit or loss.

3.3. 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 effective interest rate, and are recognised in interest income and expense.

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 recognised in the profit and 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 controls over a service to a customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3. Fee and commission income and expenses *(continued)*

The table below shows the nature and timing of the satisfaction of performance obligation, including significant payment terms and 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 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 recognised at the point in time when the transaction takes place.

A contract with a customer that results in a recognised 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.

3.4. Net trading income

"Net trading income" comprises gains less losses, related to trading assets and liabilities, and includes all fair value changes, interest, dividends and exchange rate differences.

3.5. Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss 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 fair value through profit and loss and, from 1 January 2018, also non-trading assets mandatorily measured at fair value through profit and loss. This line item includes fair value changes, interest, dividends and foreign exchange differences.

3.6. Dividend income

Dividend income is recognised in the income statement when the right to receive income is established and when the amount of dividends can be reliably measured.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7. Leases

At inception of a contract, the Bank assesses whether a contact 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. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definiton of a lease in accordance with IFRS 16 „Leases“.

This policy is applied to the contracts entered into on or after 1 January 2019.

i) As a lessee

Bank recognizes right-of-use asset and a lease liabiliy from 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 at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlzing asset or the site on which it is located, less any lease incentives recevied.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, or over the period for which the lease is expected to be active. In addition, right-of-use asset is periodicaly reduced by impairment losses, if applicable, or adjusted for a particular remeasurement of lease obligations.

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. The Bank applies an incremental borrowing rate of 2% as a discount rate.

The Bank determines the incremental borrowing rate by obtaining data on interest rates from various external sources of financing and makes certain adjustments to reflect the terms of the lease and the types of assets that are subject of the lease.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; less any prepayments received in connection with the lease; variable payments that depend on a particular index or rate and that are initially measured against that index or rate on the first day of the lease;
- 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

The lease liability is measured at amortised cost using the effective interest rate 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 purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, the carrying amount of the asset is properly adjusted for use or the difference is recorded in the income statement if the carrying amount of the asset is reduced to zero.

The Bank discloses assets with the right of use and the lease liability as a separate item in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7. Leases *(continued)*

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (limited amount of assets are 5,000 EUR) and short-term leases.

The income statement and other comprehensive income show interest expense on the lease liability separately from the depreciation of the right of use asset. Interest expense on a lease liability is a component of finance costs.

ii) As a Lessor

Payments made under operating leases are recognized as income using the straight-line method over the life of the lease, and are recognized in the statement of financial position in the event of a mismatch between the actual time of payment and the lease expense.

3.8. Income tax

Tax expense, on income tax base, is the sum of current tax liabilities and deferred taxes.

Current income tax

Net income differs from taxable income of the period reported in income statement and statement of comprehensive income, as it includes items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable or are deductible. The Bank's current tax liabilities are calculated by applying tax rates that are in effect or in the process of being adopted at the reporting date.

Deferred income tax

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

The book value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3.9. Investments in subsidiaries

A subsidiary is an entity which is controlled by the Bank. Control is achieved in such a way that the Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary entity and has the ability to affect those returns through its power over the subsidiary entity.

Investments in subsidiaries in these separate financial statements are stated at cost less any impairment, if needed.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10. Investments in associates and joint ventures

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

A joint ventures refers to the investment into jointly controlled entity. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures in these separate financial statements are stated at cost of acquisition less any impairment, if they exist.

3.11. Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities 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 any transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities at fair value through profit and loss.

3.11.1. Financial assets

(i) Classification and subsequent measurement

During initial recognition, Bank classifies its financial assets in the following measurement categories:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets at fair value through profit and loss (FVPL)

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

1. Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, bonds and 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”)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities

3.11.1. Financial assets *(continued)*

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

- **Financial assets at amortised 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 fair value through profit and loss, are measured at amortized cost. After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss (ECL) allowance recognised and measured as described in Note 3.11.1 (iv).

Interest income is calculated using the effective interest rate and it is included in the line *„Interest income calculated 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 through other comprehensive income**

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 fair value through profit and loss, are measured at fair value through other comprehensive income.

Measurements in fair value of a financial asset measured through other comprehensive income are recognised through other comprehensive income except for recognition of gains or losses on impairment, interest income and foreign exchange differences that are recognised in profit or loss, except in case of equity investments where unrealised gains/losses are never reclassified to profit or loss.

When the financial asset through other comprehensive income is derecognised, the cumulative gain or loss previously recognised through other comprehensive income is reclassified from equity to income statement. Interest income is calculated using the effective interest rate method.

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

Financial assets are subsequently measured at fair value through profit or loss unless subsequently measured at amortised cost or at fair value through other comprehensive income. Gains and losses arising from changes in the fair value of a financial asset at fair value through profit or loss are recognised in the income statement.

In addition, the Bank has the option to designate, on initial recognition, financial assets that otherwise meet the requirements to be measured at amortised cost or at FVOCI at fair value through profit and loss, if doing so significantly reduces the accounting mismatch that would otherwise arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

Purpose of managing financial assets (Business model)

All financial assets, except for equity securities that fall into the category of investments in associates and subsidiaries, joint investments and associates, are grouped into business models that indicate the way in which a group of financial assets are jointly managed as a whole to achieve a particular business objective and define the way in which financial assets are expected 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 go through the SPPI test, and the following financial assets are allocated to this model:
  - cash on transaction accounts with other banks,
  - placements with other banks,
  - loans to customers,
  - 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 (fail SPPI test) - 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 realise cash flows by selling assets and making short-term profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

Contractual cash flow characteristics (SPPI)

Test of features of contractual cash flows from the point of view of solely payment of principal and interest 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.

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.

2. 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 at fair value through other comprehensive income when those investments are held for purposes other than to generate investment returns. When this choice is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including disposals. 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 fair value through profit and loss are included in the “Net trading income” line in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

(ii) Derecognition of financial assets

The Bank derecognizes financial assets (in whole or in part) when the contractual rights to receive the cash flows from the financial instrument expire or when it loses control over contractual rights over that financial asset. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when rights have been realized, transferred or expired.

When the financial assets is derecognised, the difference between the carrying amount (or the carrying amount allocated to the portion of the assets that is derecognised) and the amount received (including any new assets less any new liabilities) and any cumulative gain or loss previously recognized through comprehensive income is recognised in the income statement.

From 1 January 2018 any cumulative gain or loss recognised through other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities, but are directly recognised in retained earnings.

(iii) Modification of financial assets

Modification of financial assets is a process where the terms of the original contract are modified as a result of:

1) caused by current borrowers' needs (for example a reduction in the effective interest rate due to market changes, collateral substitution) and not caused by financial difficulties of the borrower,

2) caused by the current financial difficulties of the borrower or the difficulties that will arise soon, or by deteriorating the borrowers creditworthiness.

Modification of financial assets occurs when changes to some or all of the contract's provisions have been made.

In the case of a financial asset that represents a debt instrument (securities and loans and receivables), the Bank determines whether the modification is significant or whether the difference between the present value of the remaining modified cash flows discounted using the original effective interest rate and the current value of the modified cash flows discounted using the original effective interest rate is more than 10%.

If the modification is significant, the Bank ceases to recognize the original financial asset and begins to recognize new financial assets at fair value plus transaction costs and recalculates the new effective interest rate for the asset. The modification date is consequently considered to be the date of initial recognition for the purpose of calculating the impairment, including the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the modification was driven by the debtor being unable to meet the originally agreed payments. The differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the modification of the financial asset is not significant and the modification did not result in derecognition of the financial asset, then the Bank recalculates the gross carrying amount of the asset based on the revised cash flows of the financial asset and recognizes the modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting modified cash flows at the original effective interest rate (or using an effective interest rate adjusted for credit risk in the case of POCI assets).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

If the modification occurs because of the financial difficulties of the debtor, the gain or loss is recorded together with the impairment loss. In other cases, it is recorded as interest income calculated using the effective interest rate method.

(iv) Impairment

The Agency's decision which is based on 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).

The Agency's decision which is based on IFRS 9 requires companies 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 period 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:

- 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 in the calculation, as well as the expected future changes of the macroeconomic scenario.

ECL measurement

Expected credit losses under the internal impairment model are measured as follows:

- *financial assets that are not impaired at the reporting date*: as the present value of the missing cash (ie the difference between the cash flows to the entity under the contract and the cash flows that the bank expects to receive);
- *financial assets that are impaired at the reporting date:* as the difference between the gross carrying amount and the present value of expected future cash flows;
- *undrawn credit liabilities:* as the present value of the difference between the agreed cash flow to the Bank if the liability is unused and the cash flow that the Bank expects to receive; and
- *financial guarantee agreements:* expected payments to settle the guarantee holder less the amount that the Bank expects to reimburse.

See Note 6.1.3. which explains in detail the internal impairment model.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

(iv) Impairment (continued)

Policy applicable from 1 January 2020 – Decision on credit risk management and determination of expected credit losses.

As disclosed in Notes 2.1, 2.5 and 5, as of January 1, 2020, the Bank measures expected credit losses in accordance with the requirements of the Decision on Credit Risk Management and Determination of Expected Credit Losses. The requirements of the new Decision regarding impairment are based on the model of expected credit losses of IFRS 9, with certain specifics (for example, the prescribed minimum rates of expected credit losses for credit risk levels). Following the new requirements of the regulator, the Bank updated the impairment methodology in accordance with the requirements of the new Decision, and defined minimum criteria for measuring expected losses in accordance with the distribution of exposure to credit risk levels, as described below.

Until 1 January 2020, the Bank applied rules for measuring and valuing credit losses based solely on IFRS 9 models, while from 1 January 2020, in addition to the existing requirements of IFRS 9, it implemented the rules of the Decision setting certain minimum percentages of provisions, as listed below.

1 Credit risk level 1:

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

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

If the Bank, in accordance with its internal methodology, determines the amount of expected credit losses higher than those arising from the above provisions of the Decision, the Bank shall apply the higher amount.

2 Credit risk level 2:

For exposures allocated to credit risk level 2, the Bank determines and recognizes the expected credit losses in the amount higher of the following:

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

3 Credit risk level 3:

The minimum rates of expected credit losses allocated to Level 3 depend on whether the exposure is secured by eligible collateral or not, and accordingly, the minimum rates are as follows:

a) exposures secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
from 181 to 270 days	25%
from 271 to 365 days	40%
from 366 to 730 days	60%
from 731 to 1460 days	80%
over 1460 days	100%

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. *Financial assets and liabilities (continued)*

3.11.1. *Financial assets (continued)*

(iv) Impairment (continued)

Policy applicable from 1 January 2020 – Decision on credit risk management and determination of expected credit losses (continued)

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. In doing so, the estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable. In the event 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.

b) exposures not secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
from 181 to 270 days	45%
from 271 to 365 days	75%
from 366 to 456 days	85%
over 456 days	100%

In the case of restructured exposures, the Bank will maintain the expected credit losses at the level of coverage formed on the date of approval of the restructuring, which cannot be lower than 15% of the exposure, for all 12 months of the recovery period. For the third and each subsequent restructuring of a previously restructured exposure that was allocated to credit risk level 3 or POCI assets at the time of restructuring, the Bank determines and recognizes the expected credit losses in the amount of 100% of the exposure.

For exposures related to cases when the debtor has not fulfilled its obligation to the bank no later than 60 days from the day when the protest was performed on the basis of a previously issued guarantee, the Bank determines and recognizes the expected credit loss in the amount of 100% of the exposure.

If the Bank, in accordance with its internal methodology, determines the amount of expected credit losses higher than the amounts arising from the provisions of the Decision, the Bank determines and recognizes these amounts in the books.

The minimum rates of expected credit losses for trade receivables, factoring and financial leasing receivables and other receivables are applied according to the table bellow:

Days past due	Minimum expected credit loss
there is no material past due amount	0,5%
up to 30 days	2%
from 31 to 60 days	5%
from 61 to 90 days	10%
from 91 to 120 days	15%
from 121 to 180 days	50%
from 181 to 365 days	75%
over 365 days	100%

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. *Financial assets and liabilities (continued)*

3.11.1. *Financial assets (continued)*

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is impaired include the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.1. Financial assets *(continued)*

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 amortised 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 recognised 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 recognised in the fair value reserve.

See also Note 6.1.3.

POCI assets – purchased or originated credit-impaired assets

Purchased or originated credit-impaired financial asset is an asset where there is objective evidence of impairment (default) at initial recognition.
Such assets are identified in the following cases:

- bank repurchases at a significant discount an asset for which there is objective evidence of impairment, or
- there is a significant modification of the instrument which is already in default, or
- the significant modification of the instrument is a reason for default, or
- bank grants a new loan to a customer whose significant portion of the portfolio is already in default

The Bank does not purchase any impaired assets (bad debts), therefore POCI assets are instruments that are initially recognised, or, subsequently recognised due to a significant modification, which were in default at recognition.

Write-offs

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 impairement losses on financial instrument in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Banks's procedures.

The Bank writes 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 Board determines that there are no realistic prospect of recovery.

Policy applicable from 1 January 2020 - Decision on credit risk management and determination of expected credit losses

In accordance with the Decision on Credit Risk Management and Determination of Expected Credit Losses, effective from January 1, 2020, the Bank writes off the balance sheet exposure two years after the Bank has recognized expected credit losses in the amount of 100% of the gross book value of that exposure. and declared it fully due.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.2. Financial liabilities

(i) Classification

The Bank classifies financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. The classification depends on the intention for which the financial instruments have been acquired. The Management determines the classification of financial instruments at initial recognition and reviews that classification at each reporting date.

Financial liabilities at fair value through profit or loss

Financial liabilities 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 has no financial liabilities classified at fair value through profit or loss.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not at fair value through profit and loss and include due to customers, due to banks and other financial institutions and subordinated debt.

(ii) Initial and subsequent measurement

Financial liabilities at fair value through profit or loss are initially recognised at fair value, while transaction costs are immediately expensed. Subsequent measurement is also at fair value.

Gains and losses arising from a change in the fair value of financial liabilities at fair value through profit or loss are recognised in the income statement.

Other financial liabilities are initially measured at fair value including transaction costs. Subsequent to initial recognition the Bank measures other financial liabilities at amortised cost using the effective interest rate.

(iii) Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.2. Financial liabilities *(continued)*

(iv) Modification of 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.

3.11.3 Offsetting of financial assets and liabilities

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.

3.11.4 Fair value measurement of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (Level 1 of the fair value hierarchy).

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (Level 2 and Level 3 of the fair value hierarchy). The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.4 Fair value measurement of financial assets and financial liabilities *(continued)*

If an asset or liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustments of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand.

The Bank recognises transfers between levels of the fair value hierarchy as of the reporting period during which the change occurred.

3.11.5. Specific financial instruments

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents inlcude cash, balances with the Central Bank and funds held at the current accounts with other banks and higly liquid financial assets with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Placements with banks and the obligatory reserve with the Central Bank

Placements with banks with maturity over 3 months and the obligatory reserve with the Central Bank are classified as loans and receivables and are carried at amortized cost less impairment losses.

Loans and receivables

Loans to customers are presented at amortised cost net of impairment allowances to reflect the estimated revocable amounts.

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

- loans and receivables measured at amortised cost (see Note 3.11.1), thet are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- loans and receivables at fair value through profit or loss, measured at fair value with changes in fair value that are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11. Financial assets and liabilities *(continued)*

3.11.5. Specific financial instruments *(continued)*

Investment securities

The ‘financial assets at fair value through profit and loss” caption in the statement of financial position includes:

- debt investment securities measured at fair value through profit and loss.

The ‘financial assets at amortised cost” caption in the statement of financial position includes

- debt investment securities measured at amortised cost;

The ‘financial assets at fair value thru other comprehensive income” caption in the statement of financial position includes

- equity investments measured at fair value through other comprehensive income; and

The Bank elects to present in other comprehensive income 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 other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

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.

Borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are classified as other financial liabilities and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the profit or loss statement over the period of the borrowings using the effective interest rate method.

Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs and subsequently stated at their amortised cost using the effective interest method.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Property and equipment

Recognition and measurement

Property and equipment are 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 recognised in the income statement as incurred.

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

Estimated depreciation rates during 2019 and 2020 were as follows:

Buildings	2%
Vehicles	14%
Office equipment	7%-33.3%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income in the period they occur.

3.13 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.

Estimated depreciation rates were as follows:

Lease hold improvements	20%
Other intangible assets	16.6-33.3%

3.14 Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

Buildings	2%

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.15 Impairment of non-financial assets

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

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.16 Provisions for liabilities and charges

Provisions are recognised 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 recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.17 Employee benefits

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels), Republika Srpska and Brčko District.

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

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 3 average net salaries of the employee disbursed by the Bank or 3 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments is recognised when earned.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Equity and reserves

Share capital

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

Regulatory reserves for credit losses

The regulatory reserve for credit losses represents the surplus of impairment allowances calculated in accordance with regulations as prescribed by the Federal Banking Agency ("FBA") over impairment allowances recognised in accordance with IFRS. The reserve is presented directly within equity (as a non-distributable reserve) and until 2012 any increase of the surplus was covered by transfers from retained earnings, after approval by shareholders.

Prior to 2012, the need for transfers from retained earnings to an earmarked reserve within equity (regulatory reserve for credit losses) was calculated for the whole credit-risk portfolio on a net basis, thereby taking into account both instances where application of FBA regulations would have resulted in a higher provision and instances where the application of FBA regulations would have resulted in a lower provision. However, from 2012, banks are required to calculate the requirement for regulatory reserves for credit losses taking into account only instances where higher provisions would have resulted from the application of the FBA rules. Retroactive application of this change in FBA rules is not required.

Based on the Decision of Minimum Standards for Capital Management and Asset Classification issued by the FBA in February 2013 any increase of the surplus of regulatory provisions no longer needs to be presented as a reserve movement within equity but will be exclusively computed as a deduction of regulatory capital for the purpose of capital adequacy calculations. Accordingly, the balance of the regulatory reserve presented in the financial statements as of 31 December 2012 has been carried forward unchanged to 31 December 2018.

During 2019, based on the Decison on terms for inclusion of regulatory reserves for credit losses in issued share capital of the Bank published by Banking Agency of FBiH on 8 November 2018, the Bank's Assembly issued a Decision to trasfer the total amount regulatory reserves for credit losses as at 31 December 2018 in the amount of BAM 102,443 to Common Equity Tier 1 of the Bank i.e. allocated to retained earnings of the Bank.

Retained earnings

Profit for the period after appropriations to owners is allocated to retained earnings.

Fair value reserves

Fair value reserves comprises changes in fair value of financial assets available-for-sale (from 1 January financial assets at fair value through other comprehensive income).

Dividends

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

3.19 Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The Bank does not have preference shares.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20. Standards issued but not yet adopted and interpretation

Several new standards and accompanying additions are in place for the accounting period starting on 1 January 2020. The Bank believes that the new standards and amendments to the standards will not have a significant impact on the separate financial statements in the period of first application.

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.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk 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.

- Note 3.11.1 (i): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 6.1.3 (i): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 and 31 December 2019 are included in the following notes.

- Note 6.1.3: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 3.11.4: determination of the fair value of financial instruments with significant unobservable inputs
- Note 3.11.1.(iv): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

COVID-19

Significant judgments and estimates relating to impairment for expected credit losses are particularly complex in the current uncertain environment caused by the onset of the COVID-19 pandemic and as described in more detail in the Note 6.1.1. *Credit quality analysis*. The COVID 19 pandemic continues to develop and the economic environment in which the Bank operates is subject to volatility, which could have a further impact on financial results as the duration of the COVID 19 pandemic and the effectiveness of measures taken by governments and the banking regulator are uncertain. We continue to monitor and evaluate the impact of the COVID 19 pandemic on key accounting judgments, estimates and assumptions.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

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.

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

(d) Litigation and claims

The total amount of legal proceedings is BAM 55,541 thousand (2019: BAM 55,960 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 34, the Bank provided BAM 13,035 thousand (2019: BAM 14,734 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for management to evaluate the financial impact of changes to the assumptions based on which provisions are quantified as at the reporting date.

(e) Provisions for serverance payments

In calculating provisions for severance payments, the Bank discounts expected future cash flows on those payments, using discount rates that, according to the management's judgment, best reflect the time value of money.

5. TRANSITION TO CALCULATION OF EXPECTED CREDIT LOSSES IN ACCORDANCE WITH NEW REGULATORY REQUIREMENTS

Estimated impact of the adoption of the Decision on credit risk management and calculation of expected credit losses - First adoption ("FTA")

On June 20, 2019, the Banking Agency of the Federation of Bosnia and Herzegovina issued a new Decision on Credit Risk Management and Determination of Expected Credit Losses (Official Gazette of the FBiH No. 44/19 of June 26, 2019), the application of which is binding on all banks. starting on January 1, 2020.

The requirements of the new Decision in the area of impairment are based on the model of expected credit losses of IFRS 9, with certain specifics prescribed, which mostly refer to the prescribed minimum rates of expected credit losses for credit risk levels (for details see Note 3.11.1. (iv)). In accordance with the above, the banks were obliged to calculate the effects of the first time adoption of this Decision as of December 31, 2019, ie the opening balance as of January 1. 2020, and recognize them in the equity accounts on that day without correction of the comparative information for 2019.

The effects of the first time adoption are the difference between the expected credit losses determined in accordance with the provisions of this Decision and those identified and accounted for by the Bank in accordance with its internal methodology in accordance with IFRS 9, when the expected credit losses determined this way are smaller. In line with the requirements of the Decision, the effects are calculated for each individual exposure.

The impact of the transition to the calculation of expected credit losses in accordance with the new Decision on January 1, 2020 on the Bank's financial statements was a decrease in net assets in the amount of BAM 32,516 thousand, arising from:

- Decrease in the amount of BAM 23,374 thousand from additional impairment of financial assets,
- Increase in provisions for financial guarantees and loan commitments in the amount of BAM 9,142 thousand.

The Bank has an adequate capital adequacy ratio following the adoption of the Decision. Capital adequacy ratios as at 31 December 2020 are presented in Note 6.4.

The impact of the adoption of the Decision on credit risk management and the calculation of expected credit losses is presented in the table below:

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

5. TRANSITION TO CALCULATION OF EXPECTED CREDIT LOSSES IN ACCORDANCE WITH NEW REGULATORY REQUIREMENTS (continued)

Estimated impact of the adoption of the Decision on credit risk management and calculation of expected credit losses - First adoption ("FTA") (continued)

	Notes	**December 31, 2019 IFRS 9**	**Re-measurement**	**January 1, 2020. FBA decision**
ASSETS				
Cash and cash equivalents	*18*	1,473,344	(1,913)	1,471,431
Obligatory reserves at the Central Bank of BiH	*19*	398,999		398,999
Loans and receivables to customers	*20*	2,490,432	(20,173)	2,470,259
Financial assets at fair value through other comprehensive income	*21*	545	-	545
Financial assets at fair value through profit and loss	*22*	6,966	-	6,966
Investments in securities at amortized cost	*23*	143,178	(463)	142,715
Investments in subsidiaries	*24*	11,050	-	11,050
Investments in associates and joint ventures	*25*	3,827	-	3,827
Deferred tax assets	*17*	107	-	107
Current tax prepayment		359	-	359
Other assets and receivables	*26*	36,444	(825)	35,619
Investment property	*27*	30,656	-	30,656
Property and equipment	*28*	105,444	-	105,444
Right-of-use assets	*29*	11,215	-	11,215
Intangible assets	*30*	16,710	-	16,710
TOTAL ASSETS		**4,729,276**	**(23,374)**	**4,705,902**
LIABILITIES				
Borrowings from banks and other financial institutions	*31a*	163,746	-	163,746
Deposits from banks and other financial institutions	*31b*	173,919	-	173,919
Due to customers	*32*	3,682,424	-	3,682,424
Subordinated debt	*33*	61,804	-	61,804
Provisions for liabilities and charges	*34*	24,242	9,142	33,384
Lease liabilities	*35*	10,986	-	10,986
Other liabilities	*36*	49,096	-	49,096
Deffered tax liabilities		514		514
TOTAL LIABILITIES		**4,166,731**	**9,142**	**4,175,873**
EQUITY AND RESERVES				
Share capital	*37*	247,167	-	247,167
Share premium		4,473	-	4,473
Fair value reserves		315	-	315
Retained earnings		310,590	**(32,516)**	278,074
TOTAL EQUITY AND RESERVES		**562,545**	**(32,516)**	**530,029**
TOTAL LIABILITIES, EQUITY AND RESERVES		**4,729,276**	**(23,374)**	**4,705,902**

6. 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, interest rate and other price 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.

As previously disclosed, the COVID-19 pandemic represents a significant new event that has significantly affected the Bank's risk management.

6.1 Credit risk

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 Supervisory Board of the Bank makes a decision on the composition and authorizations of the Credit Committee and the Credit Committee for problematic loans. The Credit Committee, within its authority, may delegate credit approvals to lower levels of decision making and appoint credit decision-makers. Credentials and procedures of the Credit Committee and the Credit Committee for Problematic Loans are defined in the Rulebook on the Work of these Bodies.

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.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis

6.1.1.1 Maximum exposure to credit risk before collateral held or other credit enhancement

The maximum credit risk exposure of the statement of financial position items is shown as follows:

	Notes	**31 December 2020**	**31 December 2019**
Cash and accounts with banks (excluding cash in the cash register)	*18*	649,730	582,021
Loans and advances to banks at amortised cost	*18*	418,336	452,605
Obligatory reserves at the Central Bank of BiH	*19*	409,037	398,999
Loans and advances to customers at amortised cost	*20*	2,379,808	2,489,717
Loans and advances to customers at fair value through profit or loss	*20*	10,629	715
Financial assets at fair value through profit and loss	*22*	-	6,966
Investments in securities at amortized cost	*23*	122,561	143,178
		3,990,101	**4,074,201**

The maximum credit risk exposure of off-balance sheet items is shown as follows:

	Notes	**31 December 2020**	**31 December 2019**
Credit commitments	*34*	681,495	658,098
Financial guarantees	*34*	290,252	315,170
		971,747	**973,268**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis

6.1.1.1 Maximum exposure to credit risk before collateral held or other credit enhancement

The following table shows the information on credit quality of financial assets measured at amortized cost. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranted.

Explanation of terms „Stage 1", „Stage 2" and „Stage 3" is included in Note 3.11.1.

			2020		
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks at amortised cost					
Excellent	-	-	-	-	-
Strong	221,760	-	-	-	221,760
Good	197,301	-	-	-	197,301
Satisfactory	-	-	-	-	-
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**419,061**	**-**	**-**	**-**	**419,061**
Less: loss allowance	**(725)**	**-**	**-**	**-**	**(725)**
Net carrying amount	**418,336**	**-**	**-**	**-**	**418,336**

			2019		
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks at amortised cost					
Excellent	336,660	-	-	-	336,660
Strong	76,946	-	-	-	76,946
Good	-	-	-	-	-
Satisfactory	-	-	-	-	-
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**452,606**	**-**	**-**	**-**	**452,606**
Less: loss allowance	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount	**452,605**	**-**	**-**	**-**	**452,605**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

	2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost*					
Excellent	629	1	-	-	630
Strong	117,274	1,879	-	-	119,153
Good	967,359	61,854	-	94	1,029,307
Satisfactory	823,029	144,131	-	118	967,278
Substandard	68,140	179,324	-	194	247,658
Credit impaired	-	-	180,846	17,987	198,833
Unrated	1,217	1,818	7,297	-	10,332
Total gross amount	**1,977,648**	**389,007**	**188,143**	**18,393**	**2,573,191**
Less: loss allowance	**(14,685)**	**(38,171)**	**(127,274)**	**(13,253)**	**(193,383)**
Net carrying amount	**1,962,963**	**350,836**	**60,869**	**5,140**	**2,379,808**

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost					
Excellent	6,377	16	-	-	6,393
Strong	1,426,634	34,948	-	261	1,461,843
Good	191,981	33,307	-	-	225,288
Satisfactory	510,467	181,677	-	55	692,199
Substandard	10,415	84,221		257	94,893
Credit impaired	4	(4)	177,720	20,120	197,840
Unrated	63	1,276	-	2,939	4,278
Total gross amount	**2,145,941**	**335,441**	**177,720**	**23,632**	**2,682,734**
Less: loss allowance	**(13,740)**	**(15,951)**	**(146,906)**	**(16,420)**	**(193,017)**
Net carrying amount	**2,132,201**	**319,490**	**30,814**	**7,212**	**2,489,717**

*During 2020, the Bank changed the scale on the basis of which the credit quality assessment of financial assets is performed, which resulted in significant differences in the amounts at the level of individual grades in 2020 compared to 2019, as shown in the table above.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

	2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Investments in securities at amortized cost					
Excellent	70,845	-	-	-	70,845
Strong	-	-	-	-	-
Good	11,606	12,104	-	-	23,710
Satisfactory	29,101	-	-	-	29,101
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**111,552**	**12,104**	**-**	**-**	**123,656**
Less: loss allowance	**(529)**	**(566)**	**-**	**-**	**(1,095)**
Net carrying amount	**111,023**	**11,538**	**-**	**-**	**122,561**

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Investments in securities at amortized cost					
Excellent	80,832	-	-	-	80,832
Strong	-	-	-	-	-
Good	32,362	7,115	-	-	39,477
Satisfactory	23,285	-	-	-	23,285
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**136,479**	**7,115**	**-**	**-**	**143,594**
Less: loss allowance	**(371)**	**(45)**	**-**	**-**	**(416)**
Net carrying amount	**136,108**	**7,070**	**-**	**-**	**143,178**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Excellent	578	275	-	**853**
Strong	75,219	12,907	-	**88,126**
Good	373,481	54,813	-	**428,294**
Satisfactory	128,195	30,291	-	**158,486**
Substandard	1,641	13,350	-	**14,991**
Credit impaired	-	-	4,736	**4,736**
Unrated	-	195	-	**195**
Total gross amount	**579,114**	**111,831**	**4,736**	**695,681**
Less: loss allowance	**(3,546)**	**(7,059)**	**(3,581)**	**(14,186)**
Net carrying amount	**575,568**	**104,772**	**1,155**	**681,495**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Excellent	29,505	877	-	**30,382**
Strong	231,175	12,851	-	**244,026**
Good	150,229	39,745	-	**189,974**
Satisfactory	149,351	36,741	-	**187,092**
Substandard	1,851	6,461	-	**8,312**
Credit impaired	-	-	232	**232**
Unrated	1,564	822	-	**2,386**
Total gross amount	**564,675**	**97,497**	**232**	**662,404**
Less: loss allowance	**(2,200)**	**(2,057)**	**(49)**	**(4,306)**
Net carrying amount	**562,475**	**95,440**	**183**	**658,098**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantees				
Excellent	370	28	-	**398**
Strong	69,847	5,547	-	**75,394**
Good	64,874	23,294	-	**88,168**
Satisfactory	61,092	54,309	-	**115,401**
Substandard	1,040	16,790	-	**17,830**
Credit impaired	-	-	1,900	**1,900**
Unrated	-	276	-	**276**
Total gross amount	**197,223**	**100,244**	**1,900**	**299,367**
Less: loss allowance	**(1,321)**	**(6,343)**	**(1,451)**	**(9,115)**
Net carrying amount	**195,902**	**93,901**	**449**	**290,252**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantees				
Excellent	1,788	25	-	**1,813**
Strong	33,603	1,298	-	**34,901**
Good	66,296	35,184	-	**101,480**
Satisfactory	113,959	48,982	-	**162,941**
Substandard	4,824	9,994	-	**14,818**
Credit impaired	-	-	877	**877**
Unrated	-	657	-	**657**
Total gross amount	**220,470**	**96,140**	**877**	**317,487**
Less: loss allowance	**(1,015)**	**(592)**	**(710)**	**(2,317)**
Net carrying amount	**219,455**	**95,548**	**167**	**315,170**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

Loans and advances to customers at fair value through profit or loss	**2020**	**2019**
Excellent	-	-
Strong	1	447
Good	6,007	-
Satisfactory	3,354	169
Substandard	1,169	33
Credit impaired	98	66
Unrated	-	-
Total	**10,629**	**715**

Financial assets at fair value through profit and loss	**2020**	**2019**
Excellent	-	-
Strong	-	6,966
Good	-	-
Satisfactory	-	-
Substandard	-	-
Credit impaired	-	-
Unrated	-	-
Total	**-**	**6,966**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.1 Credit quality analysis *(continued)*

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

Following table presents information on the loan balance and customer advances which were received in stages 1, 2 and 3.

	2020			
	Stage 1	Stage 2	Stage 3	**Total**
Loans and reviewable to customers at amortised cost – gross carrying amount				
Current	1,818,101	311,253	55,007	**2,184,361**
Overdue < 30 days	159,547	58,042	9,368	**226,957**
Overdue > 30 days < 90 days	-	19,712	8,941	**28,653**
Overdue > 90 days	-	-	114,827	**114,827**
Total:	**1,977,648**	**389,007**	**188,143**	**2,554,798**

	2018			
	Stage 1	Stage 2	Stage 3	**Total**
Loans and reviewable to customers at amortised cost – gross carrying amount				
Current	2,067,403	266,774	17,004	**2,351,181**
Overdue < 30 days	78,530	56,021	8,166	**142,717**
Overdue > 30 days < 90 days	8	12,646	5,373	**18,027**
Overdue > 90 days	-	-	147,177	**147,177**
Total:	**2,145,941**	**335,441**	**177,720**	**2,659,102**

6. FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit quality analysis *(continued)*

COVID-19

The COVID-19 pandemic had a negative impact on the operations of a certain part of legal entities, and on a part of private individuals with the possible consequence of the emergence of liquidity difficulties in settling their financial obligations. In order to reduce long-term negative impacts on the economy, the Bank has taken a number of measures within the framework set by the Banking Agency of the Federation of Bosnia and Herzegovina, EBA guidelines and similar measures have been applied by other credit institutions in the market. In accordance with the above, since the beginning of the pandemic in 2020, the Bank has approved measures to clients affected by the negative effects of the pandemic. During the state of "Natural or other disasters in the territory of Bosnia and Herzegovina", the Bank granted clients a temporary moratorium measure. During the moratorium, the Bank did not calculate penalty interest on the amount of overdue receivables. On the other hand, the regular calculation of interest was further performed and it was attributed to the final repayment plan after the final modality was agreed.

Upon expiration of temporary measures (measures during the state of natural disaster), special measures approved by the Bank to clients, private and legal persons, were:

- moratorium, ie delay in repayment of credit obligations for a maximum of 6 months (not counting the temporary moratorium),
- introduction of a "grace" period for repayment of the principal of credit obligations in the case of loans that are repaid in annuity for a period not exceeding 6 months,
- extension of the maturity for repayment of annuity loans,
- extension of the maturity of single-maturity loans, including revolving loans and overdrafts on transaction accounts for a maximum period of 6 months, whereby clients could use during that period the part of the exposure that was unused on the day of modification,
- granting an additional amount of exposure for the purpose of overcoming current liquidity difficulties,
- other measures taken by the bank in order to facilitate the servicing of the client's credit obligations and the establishment of sustainable business flow of the client.

The measures are applied as individual or may include a combination of the same.

The goal is to choose measures that will enable clients to remedy the negative consequences of the virus pandemic on business in the coming period and to properly service credit obligations.

For individuals, the Bank considered a moratorium to be the most appropriate measure, and approved only this measure. For legal entities, the measures were approved in accordance with the analysis on the basis of which the Bank estimated that the approved measures will help the client to settle its obligations properly in the future.

In accordance with the regulatory framework, the measures were approved as of December 31, 2020. Approval of the moratorium measure or other special measures did not in itself cause reclassification of exposures into restructured exposures or reclassification of clients to a higher level of risk or default status, and instead, regular credit risk analysis was conducted for all exposures and in line with available data and information collected from clients the Bank assessed the likelihood of clients being unable to timely fulfill their obligations.

The table below presents the total exposure of loans for which one of the possible measures was approved as of December 31, 2020.

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

6. FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit quality analysis *(continued)*

COVID-19 (continued)

	2020							
	Stage 1		Stage 2		Stage 3		**Total**	
	Number of accounts	Exposure BAM '000	Number of accounts	Exposure BAM '000	Number of accounts	Exposure BAM '000	Number of accounts	Exposure BAM '000
Non retail	**51**	**20,514**	**129**	**47,468**	**21**	**33,801**	**201**	**101,783**
Moratoria	1	1,197	3	10,647	0	-	4	11,844
Other	50	19,317	126	36,821	21	33,801	197	89,939
Retail (Pi & Micro)	**901**	**17,511**	**547**	**9,964**	**89**	**1,608**	**1,537**	**29,083**
Moratoria	814	15,634	493	8,653	86	1,490	1,393	25,777
Other	87	1,877	54	1,311	3	118	144	3,306
Total:	**952**	**38,025**	**676**	**57,432**	**110**	**35,409**	**1,738**	**130,866**

In addition to approving measures for clients affected by the COVID 19 pandemic and monitoring the client in order to identify increased risk due to the COVID-19 pandemic, activities in risk management were focused on activities related to updating macroeconomic scenarios in calculating expected losses and generating adequate amounts of expected losses for customers whose business has been affected or is expected to be significantly affected by the impact of the COVID-19 pandemic.

The impairment calculation according to the internal methodology was adjusted for the portfolio covered by special Covid-19 measures for the Non-retail and Retail segment as follows:

- since March 2020, the contracts for which the Covid-19 measure was active have been assigned the level of credit risk they had in February 2020;
- the minimum percentage of coverage of provisions at the level of the contract that has an active Covid-19 measure was the percentage of coverage of provisions that they had as of February 29, 2020.

Upon expiration of the approved temporary moratorium measure, the DPD counter is started and continues to count the days past due onwards to those recorded on February 29, 2020, in case the materiality threshold is met. In case the materiality threshold is not met, the DPD counter is reset.

In order to best assess expected credit losses, the Bank assessed the vulnerability of individual industries and the possibility of recovery due to the negative effects of COVID 19 on industries and accordingly classified exposures to customers based on the client industry or the client employer industry into risk categories. The risk of the industry was assigned on the basis of the "Industry matrix" approach harmonized at the Group level, where those inustries who first felt the negative impact of the pandemic were assessed as high-risk and include accommodation industries, food preparation and serving (Entertainment - Hotels & leisure), transportation (Transportation & Infrastructure), trade (Food & Drug Retailing, Household Durables & Specialty Retail, Textiles & Apparels, Luxury Goods) and the automotive industry, as evidenced by the applications for interim measures in the Bank.

A common feature of the credit risk of the Retail portfolio was belonging to a high-risk industrial activity, and for the Non Retail portfolio it was belonging to a high-risk industrial activity and approved measures, and for such clients the Bank performed regular monitoring during the year based on all available information. to best assess the level of credit risk and expected credit losses.

6. FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit quality analysis *(continued)*

COVID-19 (continued)

In addition, in the Non-retail segment, the so-called Post Model Adjustment (PMA) was applied on the part of the portfolio for which a significant increase in the level of credit risk in the post COVID period was estimated and the need to record additional amounts of expected credit loss. PMA is the application of a holistic approach to identify a significant increase in credit risk for certain exposures or groups of exposures for which additional credit quality information is available that cannot be included / identified through standard credit quality indicators. Post-model adjustment is applied when the existing calculated credit risk parameters cannot fully reflect the credit risk on the part of the portfolio and a higher percentage of provision coverage is assigned to it after the applied provision calculation methodology has been applied. Assigning a credit risk level 2 and increased expected credit losses, it resulted in a significant increase in the percentage of coverage of that part of the portfolio by expected credti losses ranging from 15% to 30% at the level of individual exposure.

As part of credit risk management activities, macroeconomic adjustments were made to the parameters for IFRS 9 provisions. Adjustments were made to reflect the latest changes caused by the development of the COVID-19 pandemic. The calculation of macroeconomic factors (Macroeconomic Overlay Factors, hereinafter "MOFs") ensures that the default rate trends that will occur in the case of different macroeconomic scenarios are included. The macroeconomic factors calculated in this way reflect the state of default rates only for the duration of the macroeconomic scenario, and do not necessarily cover the entire life expectancy of the financial instrument. During 2020, the MOF reflected the latest changes in the economy and the development of the COVID-19 pandemic. The Bank made changes to the MOF during four accounting periods, namely March, May, July and December 2020, in order to ensure that they adequately reflect the impact of the COVID-19 pandemic on future economic trends and the calculation of expected credit losses. One of the most important parameters that influenced the macroeconomic adjustements is the movement of the GDP of Bosnia and Herzegovina, and the MOFs were adjusted with the expected movement of the same according to the official forecasts of the Agency for Statistics of BiH.

Cash and cash equivalents

Within cash and cash equivalents the Bank held BAM 61,530 thousand at 31 December 2019 (2018: BAM 37,234 thousand) with other banks that are rated, based on S&P's at least AA- to BBB-.

6.1.2 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.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.2 Collateral held and other credit enhancements *(continued)*

	31 December 2020	31 December 2019
LTV ratio		
Less than 50%	53,110	42,562
51–70%	73,168	56,680
71–90%	74,097	78,062
91–100%	10,345	11,956
More than 100%	10,683	13,995
Total	**221,403**	**203,255**

Credit-impaired loans	**2020**
Less than 50%	1,704
51–70%	3,637
More than 70%	3,896
Total	**9,237**

6.1.3 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.

Quantitative criteria

For corporate clients, the quantitative criteria assesses whether the risk of default on liabilities has increased significantly from the initial recognition through the threshold of 250% increase in the likelihood of default. Quantitative criteria are set individually for each product. No grouping of exposure is carried out, i.e. measuring a significant increase in credit risk on a collective basis.

As a quantitative measure in case of retail clients, a comparison is made of the remaining probability of default on the reporting date with the corresponding expected conditional PD from the original vintage curve (ie consideration of the PD at the beginning, given the condition that the observed risk party survives, i.e., fully repayable or defaulted, until the reporting date). This increase in credit risk is measured through a relative approach and compared to a fixed threshold value (SICR threshold). Threshold levels are calculated at the portfolio level, for all portfolios that are included in a life-based PD models based on estimates.

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.3 Amounts arising from ECL (*continued)*

Qualitative criteria

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:

- 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 the existence of any of the above mentioned guidlines represents a condition for change of credit risk level.

ii. Credit risk grades

The Bank uses internal credti risk gradings that reflect its assessment of the probability of default of individual counteparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of loan application is fed into this rating model. In addition, the model enables expert judgement form the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The following are additional considerations for each type of portfolio held by the Bank.

Retail clients (Private Individuals and Micro)

After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their creditworthiness - such as unemployment and previous delinquency history - is also incorporated into the behavioral score. This score is mapped to a PD.

Corporate clients

For corporate business, the rating is determined at the borrower level. An underwriter will incorporate any updated or new infromation/credit assessments into the credit system on an ongoing basis. In addition the Underwriter will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Clients that meet a definition of a corporate client are treated through Corporate rating model that includes: the Large Corporate Rating Model and the Regular Corporate Rating Model. According to the general concept, borrower rating scale within corporate clients includes 25 rating grades for non-default clients and 1 grade for default clients.

In addition, for the category of small and medium-sized businesses, the Bank uses the SMB rating model. According to the general concept, the SMB client ranking scale includes a total of 25 rating grades for non-default clients in order to obtain all of the foreseen risk categories according to the internal rating system and 1 grade for default clients.

Local and regional governments

For local and regional government, the Bank uses the Local and Regional Governments rating model. According to the general concept of the LRG ranking scale, clients include 9 rating ratings for non-default clients and one rating for default clients.

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.3 Amounts arising from ECL (*continued)*

Project financing

For project financing purposes, the Bank uses the Project finance rating model. According to the general concept of rating scale PF clients include 4 rating ratings for non-default clients and one rating for default clients.

Financial institutions

For financial institutions, the Bank uses the following rating models: FI (Bank) Rating Model, Insurance Rating Model, Sovereigns Rating Model and Funds Rating Model. In the process of ranking clients in the category of financial institutions, the final rating is determined at the level of the RBI Responsible Unit. According to the general concept, the client rating scale for the given rating model has 9 grades for non-defalted clients, and one grade for default clients, with the exception of FI Rating model that includes 25 grades for non-default and 1 for default.

* Micro client is a legal entity whose annual income is less than EUR 1 million and exposure less than EUR 100 thousand, and persons organized as independent employees

iii. Definition of default

The default of the Bank's exposures is determined on the basis of the regulatory requirements defined in Article 178 of Regulation (EU) 575/2013, EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA Regulatory Technical Standards on materiality threshold of credit obligations past due under Art.178 EU Regulation 575/2013 and CNB Decision amending the decision implementing Regulation (EU) no. 575/2013 in the valuation of assets and off-balance sheet items and the calculation of regulatory capital and capital requirements.

In the retail segment, the default is determined on the facility level for private individuals, whereas, for all legal entities (including Micro and SME customers), the default status is determined on the obligor level.

Non-retail portfolio

Staging criteria are selected in line with IFRS 9, and based on risk parameters available in the Bank. By assigning a default status, the client moves to the individual estimate of potential losses (ILLP), thus obtaining the Stage 3 status under IFRS 9 methodology, which at that moment represents an non-performing asset.

The default status, i.e. individual loan loss provision, is granted for all debt placements of the borrower or to a group of debtors who:

- have not paid their liabilities towards the Bank for more than 90 days, taking into account the materiality threshold of EUR 250 and 2,5% until 30 November 2019, and EUR 500 and 1,0% after 30 November 2019 (see bellow for more details) of the value of total contracted loan placements (quantitative criteria)
- or that obligations towards the Bank are most likely not to be settled from the borrowers primary sources of funding (qualitative criterion).

The Bank (or RBI Group) has defined qualitative indicators that are currently being used to identify the likelihood that a client will not be able to settle his liabilities to the Bank (e.g. initiated bankruptcy proceedings, write-off part of the receivables, interest payments, cross-default etc.)

In non-retail segment, the Bank implemented a new default definition for non-retail customers as of 30 November 2019. The major change is the change in the materiality threshold which is used to calculate days past due as one of the default indicators (overdue payment) as explained above.

IFRS 9 requires the use of several scenarios (minimum 2) within ILLP calculation, taking into account the following principles:

- The certainty of scenarios
- Possibility of documenting those scenarios
- Historical parameters / indicators

6. FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.3 Amounts arising from ECL (continued)

iii. Definition of default ***(continued)***

A scenario that is likely to happen/will be realized in the next period will be given a weight of 90% probability, while scenarios whose probability is less realistic will be given the weight of 10% probability, as a unified rule for all clients. The weights will be revised annually. In the case of a client who is going concern as a second scenario, it is possible to use collateral through a legal case where on the basis of historical observations it is concluded that a weighting of 10% should be used (analysis based on historical changes in the last 5 years, the transfer of clients from the early stage to the late stage - analysis will be revised annually).

IFRS 9 distinguishes loans valued at fair value and amortized cost.

Retail portfolio (Private Individuals and Micro)

As a rule, in the Retail segment of business by assigning default status, the client is moved to Stage 3 according to IFRS 9 methodology, which at that moment represents a non-performing asset.

Provisions for loan losses must be granted to all placements of a debtor or group of debtors who:

- are over 90 days late with liability payments towards the Bank considering the materiality threshold of EUR 10 until 30 November 2019, and EUR 100 and 1% of the value of total contracted loan placements from 30 November 2019 (quantitative criteria);
- or are most likely not to settle their liabilities towards the Bank (qualitative criterion).

In its internal procedures, the Bank has defined qualitative criteria for which credit exposure of a client is given a status of high probability of not meeting liabilities towards the Bank (e.g. bankruptcy of the debtor, cross-default, poor restructuring, etc.)

The Bank also implemented the new default definition in the retail segment as of 30 November 2019 by conducting a retrospective calculation of historical daily default data for the past 10 years (5 years for the Micro segment). On the basis of such retrospective calculation, the Bank determined default data as at 30 November 2019 and related detailed information on default events.

The biggest methodological change in the default definition in the retail segment relates to:

1. Change in days past due counter:
    - Materiality threshold of past due amount for the calculation of days past due (DPD) is EUR 100 and 1 % of balance-sheet exposure, instead of the previous EUR 10 and no threshold,
    - the logic of counting of days past due (DPD) has changed, and, rather than considering the actual age of the amount past due, the counter counts how many days the debt exceeds the materiality threshold. This change is reflected in the fact that, when partial payment is made on an obligation, the number of days past due cannot be reduced, that is, the new counter can only be reset to zero when the debt due falls below one of the materiality thresholds (absolute or relative).

2. Introduction of the pulling effect – if a private individual's exposure in default exceeds 20% of this obligor's total exposure, all other exposures of that individual should be also considered defaulted.

3. Change of distressed restructuring rules and introduction of additional unlikeliness to pay indicators, such as significant indebtedness and the loss of sufficient recurring income.

4. Determination of the default status at the client level for the Micro segment.

Furthermore, the rules for fulfilment of the criteria for exiting the status of un-fulfilled obligations are also changed

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.3 Amounts arising from ECL (*continued)*

iv. Inclusion of forward looking element

Multiple macroeconomic scenarios are also included in ECL calculation. The Bank applies three perspective global economic scenarios (baseline, upside and downside) and this approach is considered sufficient for the calculation of unbiased expected loss in most economic environments. In calculating the expected credit loss, the Bank allocates weights of 50%: 25%: 25% for each of the three macroeconomic scenarios (baseline, upside and downside).

The Probability of Default (PD) is, where relevant, adapted to the macroeconomic status. The macroeconomic model also includes information about the future. The baseline macroeconomic forecasts with a two year horizont are reviewed and updated at least once every quorter and are submitted to the responsible units within the RBI Group.

Forward-looking information is considered in the credit risk assessment. This means that lifelong PD, historical rating and its accompanying PD include information about the future.

Adjustment is made using macroeconomic perspectives in the observed period.

The basic scenario with the prescribed addendum are aimed at reflecting the effects of the possibility of realization of alternative macroeconomic scenarios.

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.3 Amounts arising from ECL (*continued)*

v. 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 3.11.1. (iii).

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.

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.

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 3.11.1). 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.

vi. 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).

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.3 Amounts arising from ECL (*continued)*

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.

(vi) Loss allowance

The following table shows reconciliation from the opening to the closing balance of the loss allowance per categories of financial instruments.

Loans and receivables to customers at amortised cost					**2020**					**2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**13,740**	**15,951**	**146,906**	**16,420**	**193,017**	**10,735**	**15,912**	**137,613**	**20,437**	**184,697**
First time adoption of FBA decision (Note 5)	3,020	10,242	6,900	-	20,162	-	-	-	-	-
Transfer to stage 1	5,886	(3,405)	(2,481)	-	-	5,561	(4,292)	(1,269)	-	-
Transfer to stage 2	(1,834)	3,659	(1,825)	-	-	(773)	3,283	(2,510)	-	-
Transfer to stage 3	(428)	(4,321)	4,749	-	-	(235)	(4,554)	4,789	-	-
Net change in loss allowance	(5,700)	16,046	23,247	315	33,908	(1,548)	5,602	25,932	(3,366)	26,620
Write-offs and other changes*	-	-	(50,222)	(3,482)	(53,704)	-	-	(17,649)	(651)	(18,300)
Balance at 31 December 2020	**14,684**	**38,172**	**127,274**	**13,253**	**193,383**	**13,740**	**15,951**	**146,906**	**16,420**	**193,017**

* The significant increase in write-offs compared to the previous year is the result of the implementation of the FBA Decision on credit risk management and the determination of expected credit losses. This also had an impact on the reduction of impairment in stage 3. For details on the write-off accounting policy, see Note 3.11.1.

* The significant increase in impairment in stage 2 was mainly due to the application of an "overlay model" for exposures for which the Bank estimated that the impairment calculated by the internal model of expected credit losses did not adequately reflect the increased level of risk and applied a higher amount that was determined to be sufficient.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.1 Credit risk *(continued)*

6.1.4 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location.

Geographic concentration in net carrying amounts of credit exposure is as follows:

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
31 December 2020				
Accounts with the Central Bank of BiH and other banks	606,003	433,269	28,794	**1,068,066**
Obligatory reserves at the Central Bank of BiH	409,037	-	-	**409,037**
Loans and receivables to customers	2,390,437	-	-	**2,390,437**
Financial assets at fair value through other comprehensive income	355	201	-	**556**
Financial assets at amortised cost	33,604	70,721	18,236	**122,561**
	3,439,436	**504,191**	**47,030**	**3,990,657**
31 December 2019				
Accounts with the Central Bank of BiH and other banks	520,574	486,296	27,756	**1,034,626**
Obligatory reserves at the Central Bank of BiH	398,999	-	-	**398,999**
Loans and receivables to customers	2,490,432	-	-	**2,490,432**
Financial assets available for sale	363	182	-	**545**
Financial assets held to maturity	43,115	80,830	19,233	**143,178**
	3,453,483	**567,308**	**46,989**	**4,067,780**

Economic sector risk concentration in presented in Note 20 .

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.2 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 Bank maintains liquidity in accordance with the regulations of the Banking Agency governing liquidity risk and group and internal acts for maintaining the liquidity reserve.

Special attention is paid to liquidity measures prescribed by regulatory requirements:

- Liquidity coverage ratio (LCR) monitored on a daily basis and reported to the regulator on a monthly basis, and represents the ratio of liquidity coverage in the period of 30 days
- Maturity matching of financial assets and financial liabilities

LCR and maturity matching of financial assets and financial liabilities were maintained at levels above regulatory and internally defined limits (internally defined limits are: LCR above 120%).

Regulatory limits for maturity matching of financial assets and financial liabilities:

- Maturity matching of the remaining maturity to the agreed maturities of assets and liabilities, in such a way that the Bank:
    - engages at least 65% of sources of funds with a maturity of up to 30 days in placements (asset instruments) with a maturity of up to 30 days;
    - engages at least 60% of sources of funds with a maturity of up to 90 days in placements (asset instruments) with a maturity of up to 90 days;
    - engages at least 55% of sources of funds with a maturity of up to 180 days in placements (asset instruments) with a maturity of up to 180 days.

	December 31, 2020	December 31, 2019
Protective layer of liquidity	1,279,305	1,012,409
Net cash outflows	325,348	168,514
Liquidity coverage ratio (LCR)	393%	601%

Faced with greater market fluctuations and uncertainty caused by the COVID-19 pandemic; In March 2020, the Bank declared the first stage of the liquidity crisis and the Contingency Committee held daily meetings with close monitoring of outflows (deposits, cash), including deposit movements, activation of moratorium on loans, movements in the market value of liquid assets and the availability of additional liquidity through repo and other money market transactions, as well as simulations / estimates of liquidity positions according to group and local standards. As an additional precautionary mechanism, additional daily reporting of the Agency in the movement of liquidity indicators and daily movement of customer deposits by segments was introduced in March. With the completion of the first "lockdown" and market stabilisation, the conditions were created for the abolition of the first stage of the liquidity crisis, and reporting to the regulator was reduced to a weekly level.

Negative developments were not significant and the Bank managed to maintain a high level of liquidity during the crisis period without significant outflows of deposits and negative impact on both regulatory and internal liquidity indicators.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.2 Liquidity risk management

Maturity analysis

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, although not short-term but depends on the liabilities on which it is calculated, have been classified in the maturity period within one month.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2020						
Assets						
Cash and cash equivalents	1,682,173	7,955	-	-	-	**1,690,128**
Obligatory reserves at the Central Bank of BiH	409,037	-	-	-	-	**409,037**
Loans and receivables to customers	195,186	151,755	541,248	1,025,193	477,055	**2,390,437**
Financial assets at fair value through other comprehensive income	556	-	-	-	-	**556**
Financial assets at amortised cost	-	3,989	14,588	103,984	-	**122,561**
Total financial assets	**2,286,952**	**163,699**	**555,836**	**1,129,177**	**477,055**	**4,612,719**
Liabilities						
Due to banks and other financial institutions	26,421	7,411	19,182	84,831	13,268	**151,113**
Due to customers	2,837,465	97,824	316,628	649,635	53,578	**3,955,130**
Subordinated debt	-	-	-	61,804	-	**61,804**
Lease liabilities	287	493	2,139	5,580	1,581	**10,080**
Total financial liabilities	**2,864,173**	**105,728**	**337,949**	**801,850**	**68,427**	**4,178,127**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.2 Liquidity risk management *(continued)*

Maturity analysis (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						
Assets						
Cash and cash equivalents	1,473,344	-	-	-	-	**1,473,344**
Obligatory reserves at the Central Bank of BiH	398,999	-	-	-	-	**398,999**
Loans and receivables to customers	235,967	146,850	626,693	1,011,065	469,857	**2,490,432**
Financial assets at fair value through other comprehensive income	545	-	-	-	-	**545**
Financial assets at fair value through profit and loss	6,966	-	-	-	-	**6,966**
Financial assets at amortised cost	3,619	-	29,916	109,643	-	**143,178**
Total financial assets	**2,119,440**	**146,850**	**656,609**	**1,120,708**	**469,857**	**4,513,464**
Liabilities						
Due to banks and other financial institutions	56,569	65,234	73,392	130,061	12,409	**337,665**
Due to customers	2,596,382	68,327	301,442	659,140	57,133	**3,682,424**
Subordinated debt	-	-	-	61,804	-	**61,804**
Lease liabilites	260	520	2,438	6,000	1,768	**10,986**
Total financial liabilities	**2,653,211**	**134,081**	**377,272**	**857,005**	**671,310**	**4,092,879**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.2 Liquidity risk management *(continued)*

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which Bank may have the liability to make the payment. Tabel includes the payment of interest rates and principal:

Maturity for non-derivative financial liabilities

	Carrying amount	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Gross nominal outflow
31 December 2020							
Due to banks and other financial institutions	151,113	26,493	7,499	20,337	88,185	13,499	156,013
Due to customers	3,955,130	2,837,508	97,961	318,664	677,861	58,335	3,990,329
Subordinated debt	61,804	-	1,132	3,374	75,086	-	79,592
Lease liabilities	10,080	320	562	2,317	5,896	1,635	10,730
		2,864,321	**107,154**	**344,692**	**847,028**	**73,469**	**4,236,664**

	Carrying amount	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Gross nominal outflow
31 December 2019							
Due to banks and other financial institutions	337,665	56,922	65,455	75,937	133,767	12,691	344,772
Due to customers	3,682,424	2,596,442	68,432	303,538	690,785	62,750	3,721,947
Subordinated debt	61,804	-	1,144	3,374	79,510	-	84,028
		2,653,684	**135,671**	**385,809**	**909,809**	**79,892**	**4,164,865**

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

	2020	**2019**
Balance with the Central Bank	607,019	520,574
Current accounts with other banks	43,757	61,530
Cash and cash equivalents	622,062	438,718
Loans and receivables to banks (MM placements)	417,290	452,522
	1,690,128	**1,473,344**

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3 Market risk

Market risks are defined as risks of possible losses due to changes in market prices of trading and banking book positions. Market risk estimates are based on changes in currency exchange rates, interest rates, credit spreads, the cost of equity and goods and other market parameters.

The Bank's market risk management is conducted in accordance with local law and the decisions and instructions of local regulators and in accordance with RBI Group standards (RBI Group regulatory framework and the decision of the RBI Board) and is defined in the internal rules, procedures and policies that are subject to regular internal audits with the aim of complying with regulatory changes, as well as improving the process of (market) risk management due to changes in market conditions, defined strategies and business goals. The process of managing market risk in itself includes mitigation, assessing and limiting exposure before taking risk, and the assessment and control of underwritten risk of the entire bank portfolio i.e. trading and banking book. Despite the existence of restrictions imposed by the regulator, the Bank limits the exposure to market risks in accordance with its business strategies harmonised at the level of RBI, the approval process of the product and a limit system on market risk positions, i.e. establishing limits on the open positions of market risk, limits on the Bank`s portfolio sensitivity in accordance to changes of risk factors and establishing a system of limits on Value at Risk (“VaR”) at the level of the book (trading and banking), at the level of segments (Assets and Liabilities management and Capital Markets) and at the level of the entire portfolio. In addition, for financial instruments carried at fair value, a limit is established on the reduction of their market value, so-called Stop loss limits.

Another important part in the process of managing market risk is stress testing of the Bank’s portfolio on extreme changes of market conditions and the calculation of portfolio sensitivity towards crisis scenarios, as well as the impact it has on the financial results. Stress testing of extreme changes in market conditions is performed by RBI on a daily basis.

Bank is exposed to financial results of foreign exchange, change of interest rates, and change of securities prices in its portfolio.

6.3.1 Foreign exchange risk

Foreign exchange risk is the risk that changes in currency exchange rates affecting the Bank`s portfolio exists to the extent that assets and liabilities in one currency are not matched in value or maturity. Given that local currency BAM is pegged to EUR foreign exchange risk is limited.

In addition to the VaR limit system, the Bank limits its exposure with the use of foreign exchange limits on open positions for each currency, a limit on the entire long or short position of the Bank, as well as stop loss limits.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3.1 Foreign exchange risk *(continued)*

The carrying amounts of the Bank's monetary assets and liabilities per currency at the reporting period date were as follows:

As at 31 December 2020	KM	EUR*	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	1,147,000	344,823	110,995	87,310	1,690,128
Obligatory reserves at the Central Bank of BiH	409,037	-	-	-	409,037
Loans and receivables to customers	1,308,845	1,081,592	-	-	2,390,437
Financial assets at fair value through other comprehensive income	355	201	-	-	556
Financial assets at amortised cost	14,266	90,619	17,676	-	122,561
	2,879,503	**1,517,235**	**128,671**	**87,310**	**4,612,719**
LIABILITIES					
Due to banks and other financial institutions	22,806	128,224	-	83	151,113
Due to customers	2,352,588	1,390,910	125,534	86,098	3,955,130
Subordinated debt	-	61,804	-	-	61,804
Lease liabilities	10,080	-	-	-	10,080
	2,385,474	**1,580,938**	**125,534**	**86,181**	**4,178,127**

* The Bank has a number of agreements governed by a foreign currency clause. Tha 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 above in the column "EURO".

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3.1 Foreign exchange risk *(continued)*

As at 31 December 2019	**KM**	**EUR***	**USD**	**Other currencies**	**Total**
ASSETS					
Cash and cash equivalents	846,966	415,976	111,164	99,238	1,473,344
Obligatory reserves at the Central Bank of BiH	398,999	-	-	-	398,999
Loans and receivables to customers	1,224,722	1,265,710	-	-	2,490,432
Financial assets at fair value through other comprehensive income	355	190	-	-	545
Financial assets at fair value through profit and loss	-	6,966	-	-	6,966
Financial assets at amortised cost	23,494	104,645	15,039	-	143,178
	2,494,536	**1,793,487**	**126,203**	**99,238**	**4,513,464**
LIABILITIES					
Due to banks and other financial institutions	305,046	12	32,607	-	337,665
Due to customers	2,114,570	1,248,038	123,534	96,282	3,682,424
Subordinated debt	-	61,804	-	-	61,804
	10,986	-	-	-	10,986
	2,430,602	**1,309,854**	**156,141**	**96,282**	**4,092,879**

* The Bank has a number of agreements governed by a foreign currency clause. Tha 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 above in the column “EURO”.

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3.1 Foreign exchange risk *(continued)*

6.3.1.1 *Foreign currency sensitivity analysis*

The following table outlines five greatest Values-at-Risk (VaR) recorded as at 31 December 2020 and their values as at 31 December 2019. VaR is a calculation based on 99% reliability statistical model and under presumption that portfolio is constant during 1 day.

(in BAM '000)		**VaR**	
	31 December 2020		**31 December 2019**
Currency		**Currency**	
USD	<1	JPY	<1
NOK	<1	TRY	<1
CZK	<1	CHF	<1
CAD	<1	CNY	<1
HRK	<1	CZK	<1

The following table details the Bank's sensitivity to a 10% increase or decrease in foreign currency rates against the relevant local currencies. The sensitivity rate of 10% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

(in BAM '000)	**USD effect (BAM '000)**		**TRY effect (BAM '000)**	
	2020	**2019**	**2020**	**2019**
Profit or loss	(142)	(83)	1	2

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3.2 Interest rate risk

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 harmonization between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is variable, 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, floating and variable), 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 incongruity among the abovementioned elements results in exposure of the Bank to interest rate risk.

6.3.2.1 *BPV interest rate sensitivity analysis*

For positions of interest rate risk, on daily basis, sensitivity analysis is made for one base point during parallel movement of yield curve (Basis point value, 1 BPV), which gives values of gains and losses of portfolio for a particular day.

In the table below, changes of present value of portfolio with interest rate growth for 1 base point as at 31 December 2020 and 31 December 2019 are presented, expressed in thousands of BAM for following currencies: BAM, EUR and USD, while for other currencies changes of present values are immaterial.

Currency	**31 December 2020**	**31 December 2019**
BAM	(71)	(24)
EUR	37	48
USD	(2.7)	0.1
Total BPV (in BAM ‘000)	**(36.7)**	**24.1**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.3.2 Interest rate risk *(continued)*

6.3.2.1 BPV interest rate sensitivity analysis (continued)

In the instance of a change (increase) of interest rates by 1 Basis Points (parallel movement of yield curve for +0.01%), the effects on the present value of Bank's portfolio as at 31 December 2020 would be the following:

- for BAM – present value of portfolio decrease in the amount of BAM 71 thousand, incurring loss

- for EUR – present value of portfolio increase in the amount of BAM 37 thousand, incurring profit

- for USD – present value of portfolio increase in the amount of BAM 2.7 thousand, incurring profit.

In the instance of a change of yield curve by 50 Basis, effects on present value of portfolio for 31 December 2020 and 31 December 2019 are shown in the table below for currencies with material exposure:

Currency	**31 December 2020**	**31 December 2019**
BAM	(1,597)	(1,414)
EUR	1,848	2,419
USD	(132)	3
Total BPV (in BAM '000)	**119**	**1,008**

In the instance of a change (increase) of interest rates by 50 Basis Points (parallel movement of yield curve for 0.05%), the Bank would realize:

- for BAM - present value of portfolio decrease in the amount of BAM 1,597 thousand as at 31 December 2020.

- for EUR - present value of portfolio increased in the amount of BAM 1,848 thousand as at 31 December 2020.

- for USD - present value of portfolio decrease in the amount of BAM 132 thousand as at 31 December 2020.

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.4 Capital risk management

In compliance with laws, regulations and internal acts the Bank monitors and reports quarterly to regulators on its capital, risk-weighted exposures and capital adequacy ratios.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2019, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations in line with Basel III methodology had a capital adequacy ratio of 16,72%.

The regulatory capital of the Bank consists of Tier 1 and Tier 2 capital. The Tier 1 capital consists of Common equity CET 1 capital and Additional Tier 1 capital AT 1. The Tier 1 capital of the Bank (fully equal to Common equity Tier 1) consists of issued share capital, share premium, retained earnings and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), reduced for intangible assets and deferred tax assets.

Tier 2 capital consists of subordinated debt, general credit risk adjustments for credit losses, calculated as 1.25% of the risk-weighted exposure amount, minus the missing loan loss provisions for credit losses under regulatory requirements (please see Note 3.20).

As at 31 December 2018, total FBA credit loan loss provisions (allowance for credit losses under regulatory requirements) calculated by the Bank, have exceeded the impairment calculated in accordance with IFRS 9, for BAM 96,782 thousand which is lower than BAM 102,443 thousand, that have already been recognised as regulatory reserve for credit losses within capital as at 31 December 2018. Consequently, reduction in regulatory capital for the purpose of calculating capital adequacy has not been recorded at 31 December 2018.

As as explained in Note 3.20, following on the transfer of the regulatory reserves for credit losses in the amount of BAM 102,443 thousand to CET 1 i.e. retained earnings of the Bank, the total amount of missing allowances for credit losses under regulatory requirements calculated as at 31 December 2019 in the amount of BAM 91,912 thousand are shown as missing loan loss provisions in the Tier 2 capital of the Bank. As of 1 January 2020, the new regulatory requirements will be enforced (please see Note 3.22.1) thus the Bank will no longer be obliged to calculate regulatory reserves for credit losses for capital adequacy calculation purposes.

The minimum capital requirements are as follows:

- Common Equity Tier 1 capital ratio 6.75%
- Tier 1 capital ratio 9%
- Total capital ratio 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection buffer for capital preservation that is to be maintained in the form of Tier 1 capital in the amount of 2.5% of the total exposure amount.

The total risk weighted exposure amounts used to calculate capital adequacy includes:

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

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

6.4 Capital risk management *(continued)*

The Bank’s capital adequacy ratio of the Bank, as at 31 December 2020 and 31 December 2019 is above the prescribed limit of 12%. Following table presents the structure of equity and capital requirements of the Bank on 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Common equity Tier 1 (CET 1)		
Issued share capital – ordinary shares	247,167	247,167
Share premium	4,473	4,473
Retained earnings and other reserves*	221,121	253,689
Accumulated comprehensive income	325	315
Common Equity Tier 1 – regulatory asjustments:		
Intangible assets	*(14,882)*	*(12,595)*
Deferred tax assets	*(53)*	*(107)*
Significant incestments in financial sector entities	*(15,199)*	*(14,895)*
Common equity Tier 1 (CET 1)	**442,953**	**478,047**
Additional Tier 1 equity (AT 1)	**-**	**-**
TOTAL TIER 1 EQUITY	**442,953**	**478,047**
Tier 2 Capital (T2)		
Subordinated debt	49,423	61,804
General credit risk adjustments for credit losses	-	30,629
Missing loan losses provisions	-	(91,912)
TOTAL TIER 2 CAPITAL (T 2)	**49,423**	**521**
TOTAL REGULATORY CAPITAL (*unaudited*)	**492,376**	**478,568**
Risk weighted exposure amounts (*unaudited*)	**2,668,388**	**2,862,378**
Common Equity Tier 1 capital ratio	***16.60%***	***16.70%***
Tier 1 capital ratio	***16.60%***	***16.70%***
Total capital ratio	***18.45%***	***16.72%***

*Not including profit for 2019 in the amount of BAM 57,467 thousand, given that the Bank plans to pay it to shareholders upon termination of Article 8 Preservation of the Bank's capital, Decision on temporary measures applied by the Bank for recovery from the negative economic consequences caused by the "Covid-19" viral disease.

The Bank is obligated to ensure and maintain financial leverage rate as an additional security and simple capital hedge, in the amount of at least 6%.

The Bank's financial leverage ratio is the ratio of the amount of the Tier 1 capital to the total risk weighted exposure of the Bank as at the reporting date, presented as a percentage, and as at 31 December 2020 it is significantly above the stated minimum, amounting to 8.67%

7. 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.

7.1 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.

Fair value of available-for-sale equity securities and securities at fair value through profit or loss traded on an active market is measured using the price of these instruments at the reporting date at closing bid prices.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

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 recognized 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	*21*				
Equity securities issued by non-resident legal entities		523	-	33	**556**
Financial assets at fair value through profit and loss	*22*				
Debt instruments		-	-	-	**-**
Loans to customers		-	-	10,629	**10,629**
Total		**523**	**-**	**10,662**	**11,185**

31 December 2019	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through other comprehensive income	*21*				
Equity securities issued by non-resident legal entities		512	-	33	**545**
Financial assets at fair value through profit and loss	*22*				
Debt instruments		6,966	-	-	**6,966**
Loans to customers		-	-	715	**715**
Total		**7,478**	**-**	**748**	**8,226**

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

7.3 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	-	-	1,690,128	**1,690,128**	**1,690,128**
Obligatory reserves with the Central Bank of BiH	-	-	409,037	**409,037**	**409,037**
Loans and receivables from customers	-	-	2,390,437	**2,390,437**	**2,390,437**
Investments in securities at amortized cost	123,388	2,766	-	**126,154**	**122,561**
Total	**123,388**	**2,766**	**4,489,602**	**4,615,756**	**4,612,163**
Liabilities					
Due to banks and other financial institutions	-	-	151,113	**151,113**	**151,113**
Due to customers	-		3,955,130	**3,955,130**	**3,955,130**
Subordinated debt	-	-	61,804	**61,804**	**61,804**
Lease liabilities	-	-	10,080	**10,080**	**10,080**
Total	**-**	**-**	**4,178,127**	**4,178,127**	**4,178,127**

31. December 2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Cash and cash equivalents	-	-	1,473,344	**1,473,344**	**1,473,344**
Obligatory reserves with the Central Bank of BiH	-	-	398,999	**398,999**	**398,999**
Loans and receivables from customers	-	-	2,490,432	**2,490,432**	**2,490,432**
Investments in securities at amortized cost	121,532	22,706	-	**144,238**	**143,178**
Total	**121,532**	**22,706**	**4,362,775**	**4,507,013**	**4,505,593**
Liabilities					
Due to banks and other financial institutions	-	-	337,665	**337,665**	**337,665**
Due to customers	-		3,682,424	**3,682,424**	**3,682,424**
Subordinated debt	-	-	61,804	**61,804**	**61,804**
Lease liabilities			10,986	**10,986**	**10,986**
Total	**-**	**-**	**4,092,879**	**4,092,879**	**4,092,879**

7. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

7.3 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 following methods, assumptions and limitations described below were applied by the Bank in accordance with the Group:

Cash and cash equivalents

The carrying values of cash, balances with banks and with the Central Bank are generally deemed to approximate their fair value dut to the short term maturity. Loans and receivables to banks are mostly represented by overnight and short term deposits; therefore, there is no significant difference between fair value of those deposits and their book value.

Loans and receivables from customers,

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, reduced for group impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

Amounts due to customers

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the date of reporting. The estimated fair value of fixed-maturity deposits is based on disounted cash flows using rate currently offered for deposits of similar remaining maturities.Considering that maturity of most liabilities to customers is short term, fair value is approximately equal to the carrying amount.

Amounts due to banks and other financial institutions

Most of the banks borrowings are short-term and carryies variable interest rate, and thus Management estimates that its carrying amount reflect their fair value.
Subordinated loan carries variable interest rate and thus its carrying value reflects its fair value.

Lease liabilities

The carrying value of lease liabilities approximately equals to its fair value as there is no signifficant difference between incremental borrowing rate and market rate.

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

8. INTEREST INCOME

	31 December 2020	31 December 2019
Interest income calculated using the effective interest rate method		
Investments in securities at amortized cost	2,764	3,578
Loans and receivables:		
Retail clients	109,608	110,682
Corporate clients	31,242	34,591
Foreign banks	438	2,285
Other interest income	613	624
Total interest income	**144,665**	**151,760**

9. INTEREST EXPENSE

	31 December 2020	31 December 2019
Retail clients	7,966	9,021
Corporate clients	6,980	5,827
Foreign banks	7,144	6,831
Interest for leasing contracts	227	237
Other	2,415	1,998
	24,732	**23,914**

10. FEE AND COMMISION INCOME

	31 December 2020	31 December 2019
Main service lines:		
Credit card business	30,356	33,829
Payment transactions	24,798	26,464
Account maintenance for residents	10,464	9,605
FX transactions	7,359	7,748
Accout maintenance for non-residents	2,074	2,219
Other	9,706	9,618
Income from fees and commissions from contract with customers	**84,757**	**89,483**
Financial guarantee contracts and loan commitments	6,302	6,555
	91,059	**96,038**

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

11. FEE AND COMMISSION EXPENSE

	31 December 2020	31 December 2019
Credit card operations	17,191	17,754
Central Bank services	2,013	1,833
Guarantees fee	1,237	1,237
Correspondent accounts	678	542
S.W.I.F.T. services	570	691
SMS services	543	500
Domestic payment transactions	36	46
Other	391	292
	22,659	**22,895**

12. NET INCOME FROM FOREIGN CURRENCY TRADING

	31 December 2020	31 December 2019
Positive exchange rate differences from FX transactions, net	13,875	12,481
Exchange rate differences on the basis of settlement with the Central Bank of BiH, net	(144)	(36)
	13,731	**12,445**

13. NET (LOSS)/PROFIT FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2020	31 December 2019
Interest income on bonds at fair value through profit and loss *(Note 22)*	219	441
Fair value adjustment of bonds at fair value through profit and loss *(Note 22)*	-	(293)
Loss on sale of bonds at fair value through profit and loss, net	(227)	(115)
Fair value adjustment of loans measured at fair value *(Note 20)*	(220)	(24)
	(228)	**9**

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

14. OTHER OPERATING INCOME

	31 December 2020	31 December 2019
Dividend income	3,362	3,921
Lease income	1,445	1,434
Revenue from written-off liabilities	1,282	63
Release of accrued expenses from the previous year	648	553
Petty cash surplus	276	27
Other income	1,254	1,667
	8,267	**7,665**

15. ADMINISTRATIVE EXPENSES

	31 December 2020	31 December 2019
Gross salaries	37,959	39,783
Other employee expenses	11,464	11,078
Savings and debt insurance premiums	9,372	9,186
Maintenance cost	9,280	8,868
Services	6,239	4,413
Advisory services	4,169	4,453
Costs of representation and marketing	3,739	5,084
Telecommunications	3,186	3,245
Supervisory fee – FBA	2,863	2,773
Property insurance premiums	2,827	2,815
Cost of energy	1,756	1,915
Material costs	1,523	1,187
Lease	1,149	1,895
Taxes and administrative expenses	659	727
Education	567	694
Release of provisions for other employee benefits under IAS 19, net *(Note 34)*	460	(1,260)
Costs of professional services	426	311
Donations	229	297
Utilities	206	230
Last instalment cost – gratis	130	250
Transportation expenses	80	323
Loss from sale of tangible assets and investment properties	41	405
(Decrease) in provisions for legal proceedings *(Note 34)*	(1,699)	(1,197)
Other administrative expenses	3,310	4,080
	99,935	**101,555**

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

16. IMPAIRMENT LOSSES, NET

The charge to income statement in respect of impairment losses is analysed as follows:

	31 December 2020	31 December 2019
Impairment of loans and receivables to customers (*Note 20)*	33,908	26,620
(Release)/Impairment of loans and receivables from banks (*Note 18)*	(227)	82
Impairment of other assets and receivables (*Note 26)*	4,951	2,189
(Release)/Impairment of financial assets at amortized cost (*Note 23)*	216	(124)
(Release)/Impairment from off-balance exposures (*Note 34*)	7,535	2,283
	46,383	**31,050**

17. INCOME TAX

Total tax recognized in the income statement and other comprehensive income can be shown as follows:

	31 December 2020	31 December 2019
Current income tax	4,206	17,768
Deferred tax expense	517	566
	4,723	**18,334**

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

17. INCOME TAX *(continued)*

Reconciliation of effective tax rate may be presented as follows:

	31 December 2020	31 December 2019
Profit before income tax	**49,344**	**75,235**
Income tax at a rate of 10%	4,934	7,523
Capital (losses)/gains	(763)	10,244
Effects of unrecognized expenditures	3,604	1,819
Effects of unrecognized revenue	(3,052)	(1,252)
Income tax	**4,723**	**18,334**
Effective tax rate	**9.57%**	**24.37%**

Tha Bank calculates its income tax liability in accordance with the regulations adopted by the tax authorities in Bosnia and Herzegovina.

Capital losses in 2020 relate to the tax effect of the first time adoption of the FBA Decision on credit risk management and the determination of expected credit losses for Stage 3 exposures as explained in Note 5.

Capital gains relates to tax effect of transfer of regulatory reserves for credit losses in Common Equity Tier 1 of the Bank (as explained in Note 6.4), i.e. retained earingins, in the amount of BAM 102,442 thousand (in accordance with Decision of Bank Assembly from 17 December 2019).

Unrecognized expenditures are including unrecognized expenditures for representation, provisions for risks and liabilities and expenditures for impairmend of receivables.

Unrecognized revenues are including revenues for share capital, provisions for risks and liabilities which were previously recognized as tax unrecognized expenditures.

The change in deferred tax assets may be presented as follows:

	31 December 2020	31 December 2019
Balance at the beginning of period	107	159
Disposed deferred tax assets	(54)	(52)
Balance at the end of the period	**53**	**107**

The change in deferred tax liabilities may be presented as follows:

	31 December 2020	31 December 2019
Balance at the beginning of period	514	-
Recognized deferred tax liabilities	463	514
Balance at the end of the period	**977**	**514**

The Bank recognized a deferred tax liability due to a temporary differences arising from the application of tax allowable depreciation rates which are higher compared to those recognized in accounting records.

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

18. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Current account in domestic currency at CBBH	607,019	520,574
Cash in hand in local currency	540,997	326,392
Cash in hand in foreign currency	81,065	112,326
Accounts with other banks in foreign currency	43,757	61,530
Loans and receivables to banks (MM placements)	419,061	452,606
Less: impairment	(1,771)	(84)
	1,690,128	**1,473,344**

The interest rate on MM placements in EUR was from – 1.00% to -0.44% per annum during 2020, or from -1.00% to -0.44% per annum during 2019 and on placements in USD from 0.5% to 2.5% per annum during 2020, or from 0.5% to 2.5% per annum during 2020. The interest rate on placements in other currencies ranged from -1.70% to 1.85% per annum during 2020 or from -1.70% to 1.85% per annum during 2019.

Changes in provisions for expected losses may be presented as follows:

As at 1 January	**84**	**1**
Effects of the first time adoption of the FBA Decision (Note 5)	1,913	-
Net changes through profit or loss *(Note 16)*	(227)	82
Exchange rate differences	1	1
Balance at the end of period	**1,771**	**84**

19. OBLIGATORY RESERVES AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2020	31 December 2019
Obligatory reserves	409,037	398,999
	409,037	**398,999**

The minimum reserve requirement is calculated as a percentage of the average amount of total deposits and borrowed funds for each business day during 10 calendar days after the mandatory reserve maintenance period.

From 1 July 2016, a single interest rate of 10% of total short-term and long-term deposits and borrowed funds is applied.

Cash held as a compulsory reserve in the CBBH account is not available for use without the special approval of CBBH and FBA.

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

20. LOANS AND RECEIVABLES TO CUSTOMERS

	31 December 2020	31 December 2019
Loans and receivables to customers at amortized cost	2,573,191	2,682,734
Less impairment	(193,383)	(193,017)
	2,379,808	2,489,717
Loans and receivables to customers at fair value	10,914	769
Fair value adjustment	(285)	(54)
	10,629	715
	2,390,437	**2,490,432**

Changes in the impairment of the loans granted at amortized cost can be shown as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the period	**193,017**	**184,697**
Effects of the first time adoption of the FBA Decision *(Note 5)*	20,162	-
Net changes through profit and loss *(Note 16)*	33,908	26,620
Write-offs and other changes*	(53,704)	(18,300)
Balance at the end of the period	**193,383**	**193,017**

* For an explanation of the increase in write-offs, see Note 6.1.3. vii.

The fair value changes of loans that are measured at fair value can be shown as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**54**	**30**
Effects of the first time adoption of the FBA Decision *(Note 5)*	11	-
Net change in fair value through profit and loss (*Note 13)*	220	24
Balance at the end of the period	**285**	**54**

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

20. LOANS AND RECIEVABLES TO CUSTOMERS *(continued)*

The analysis of loans and receivables according to the original maturity is as follows:

	31 December 2020	**31 December 2019**
Short-term loans:		
Short-term loans in domestic currency	532,085	590,449
Short-term loans in foreign currency (including currency exchange clause)	82	61
	532,167	*590,510*
Long term loans:		
Long-term loans in domestic currency	874,522	827,344
Long-term loans in foreign currency (including currency exchange clause)	1,177,416	1,265,649
	2,051,938	*2,092,993*
Total loans before impairment	***2,584,105***	***2,683,503***
Less impairment	(193,668)	(193,071)
	2,390,437	**2,490,432**

Short-term loans were approved for a period of 30 to 365 days. The majority of short-term domestic currency loans are granted to working capital clients. Long-term loans are mostly granted to individuals for housing and vehicle purchases.

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

	31 December 2020	**31 December 2019**
Retail	1,593,518	1,606,301
Trade	495,437	535,231
Agriculture, forestry, mining and energy	270,186	306,215
Construction industry	80,618	67,757
Transport, telecommunications and communications	52,900	63,835
Services, finances, sports, tourism	29,868	35,004
Administrative and other public institutions	28,300	33,544
Other	33,278	35,616
	2,584,105	**2,683,503**

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

20. LOANS AND RECIEVABLES TO CUSTOMERS *(continued)*

Interest rates on loans as at 31 December 2020 and 31 December 2019 may be presented as follows:

	31 December 2020		31 December 2019	
	'000 BAM	Annual interest rate	'000 BAM	Annual interest rate
Domestic currency				
Corporate	990,527	1.55%-18.00%	1,077,141	2.35%-18.00%
Retail	1,593,518	2.00%-18.00%	1,606,302	2.00%-18.00%
Foreign currency				
Corporate	60	2.35%-8.15%	60	2.35%-8.15%
Retail	-	-	-	
	2,584,105		***2,683,503***	

In line with intenal policy on interest rates, in the table above, loans with foreign currency caluse are presented under domestic currency.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Equity securities quoted:		
S.W.I.F.T. Belgium	201	190
Sarajevo Stock Exchange	322	322
Equity securities not quoted:		
Securities' Register of the Federation of BiH	32	32
Velprom d.d. Sanski Most	1	1
	556	**545**

Movements in the fair value of these assets were as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the year	**545**	**537**
Changes in fair value, net	11	8
Balance at the end of the year	**556**	**545**

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2020	31 December 2019
Government bonds	-	6,966
	-	**6,966**

Government bonds

	31 December 2020	31 December 2019
Romania	-	6,966
	-	**6,966**

Changes in bonds at fair value through profit and loss were as follows:

	31 December 2020	31 December 2019
Balance as at the beginning of the year	**6,966**	**81,560**
Change during the year, net	(7,185)	(74,742)
Fair value decrease (*Note 13)*	-	(293)
Interest income (*Note 13)*	219	441
Balance at the end of the year	**-**	**6,966**

Government bonds of the Romania measured at fair value matured in September 2020.

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

23. INVESTMENTS IN SECURITIES AT AMORTIZED COST

	31 December 2019	31 December 2018
Government bonds	116,474	126,717
Corporate bonds	7,182	16,877
	123,656	**143,594**
Less: impairment	**(1,095)**	**(416)**
	122,561	**143,178**

Changes in impairment of financial assets measured at amortized cost can be shown as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the year	416	540
Effects of the first time adoption of the FBA Decision (Note 5)	463	-
Increase/(Decrease) in impairment allowance *(Note 16)*	216	(124)
Balance at the end of the year	**1,095**	**416**

	31 December 2020	31 December 2019
Government bonds:		
France	33,293	34,660
Republic of Srpska	28,749	19,356
North Macedonia	18,245	19,233
Austria	15,687	15,724
Poland	7,301	19,062
KFW	7,290	-
Federation of Bosnia and Herzegovina	3,095	11,093
Government of Sarajevo Canton	1,754	3,684
Belgium	-	3,522
Corporate bonds:		
European Bank for Reconstruction and Development	7,147	7,862
JP Autoceste Mostar	-	8,982
	122,561	**143,178**

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

24. INVESTMENTS IN SUBSIDIARIES

Subsidiary	Industry	% of share	31 December 2020	31 December 2019
Raiffeisen Leasing d.o.o. Sarajevo	Leasing	100%	10,051	10,051
Raiffeisen Invest društvo za upravljanje fondovima d.o.o. Sarajevo	Fund management company	100%	946	946
Raiffeisen Capital a.d. Banja Luka	Agent for securities trading Financial advisory services	100%	53	53
			11,050	**11,050**

Financial information about the Bank's subsidiaries for period from 1 January 2020 to 31 December 2020 was as follows:

	Total assets	Registered capital	Total equity	Revenue	Profit for the period
Raiffeisen Invest d.d.	4,488	671	4,148	3,772	1,411
Raiffeisen Capital a.d. Banja Luka	912	355	274	115	14
Raiffeisen Leasing d.o.o. Sarajevo	117,833	11,450	12,478	10,371	1,028

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Associate	Industry	% Share	31 December 2020	31 December 2019
Raiffeisen Assistance d.o.o. Sarajevo	Insurance brokerage	50.00%	2	2
Joint venture				
ESP BH d.o.o. Sarajevo	Informational and other services	45.00 %	3,825	3,825
			3,827	**3,827**

Financial information about the Bank's associate for the year ended 31 December 2020 was as follows:

	Total assets	Registered capital	Total equity	Revenue	Profit / (loss) for the period
Raiffeisen Assistance d.o.o. Sarajevo	6,368	4	6,124	2,347	1,188
ESP BH d.o.o. Sarajevo	7,074	8,500	6,574	26	(1,773)

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

26. OTHER ASSETS AND RECEIVABLES

	31 December 2020	**31 December 2019**
Receivables from spot and arbitrage FX transactions	64,051	10,317
Receivables from credit card operations	10,212	11,041
Fee receivables	2,788	2,705
Other deferrals	2,353	2,356
Prepaid expenses	1,415	1,349
Prepaid other taxes	8	9
Other advances paid	3	103
Other assets	14,049	13,479
	94,879	**41,359**
Less: impairment	(7,379)	(4,915)
	87,500	**36,444**

Changes in allowance for impairment losses on other assets and receivables are summarized as follows:

	31 December 2020	**31 December 2019**
Balance as at the beginning of year	**4,915**	**3,995**
Effects of the first time adoption of the FBA Decision *(Note 5)*	825	-
Increase in allowance for impairment *(Note 16)*	4,951	2,189
Write-offs	(3,312)	(1,269)
Balance as at the end of the period	**7,379**	**4,915**

* The significant increase in write-offs compared to the previous year is the result of the implementation of the FBA Decision on credit risk management and the determination of expected credit losses. For details on the write-off accounting policy, see Note 3.11.1.

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

27. INVESTMENT PROPERTY

COST	
Balance at 1 January 2019	**36,996**
Additions	-
Disposals	(1,646)
Balance at 31 December 2019	**35,350**
Additions	**-**
Disposals	-
Balance at 31 December 2020	**35,350**
ACCUMULATED DEPRECIATION	
Balance at 1 January 2019	**4,309**
Depreciation	721
Disposals	(336)
Balance at 31 December 2019	**4,694**
Depreciation	705
Disposals	-
Balance at 31 December 2020	**5,399**
NET BOOK VALUE	
Balance at 31 December 2019	**30,656**
Balance at 31 December 2020	**29,951**

Bank's investment property at fair value was as follows:

	31 December 2020	31 December 2019
Buildings	31,684	36,572
	31,684	**36,572**

The fair value of investment properties at 31 December 2020 for was performed by the internal appraisers employed by the Bank who have appropriate qualifications and recent experience in estimating assets at fair value at relevant locations.

The fair value of investment property was determined using the market value method which reflects current value on the market, taking into consideration object's construction value and other factors (location, usability, quality and other factors). There were no changes in technique of value measurement during the year.

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

28. PROPERTY AND EQUIPMENT

	Buildings and Land	Vehicles	Office equipment	Assets in the course of constrution	Total
COST					
At 1 January 2019	**100,669**	**1,367**	**57,684**	**2,898**	**162,618**
Additions	-	-	-	6,303	6,303
Transfers	39	-	5,434	(5,473)	-
Write offs	-	(364)	(7,554)	-	(7,918)
At 31 December 2019	**100,708**	**1,003**	**55,564**	**3,728**	**161,003**
Additions	-	-	-	6,240	6,240
Transfers	48	-	4,706	(4,754)	-
Write offs	-	(39)	(1,771)	(236)	(2,046)
At 31 December 2020	**100,756**	**964**	**58,499**	**4,978**	**165,197**
ACCUMULATED DEPRECIATION					
At 1 January 2019	**12,690**	**768**	**44,418**	-	**57,876**
					-
Charge for the year	1,881	137	3,483	-	5,501
Write offs	-	(282)	(7,536)	-	(7,818)
At 31 December 2019	**14,571**	**623**	**40,365**	-	**55,559**
Charge for the year	1,882	127	3,974	-	5,983
Write offs	-	(32)	(1,725)		(1,757)
At 31 December 2020	**16,453**	**718**	**42,614**		**59,785**
Net book value:					
Balance at 31 December 2019	**86,137**	**380**	**15,199**	**3,728**	**105,444**
Balance at 31 December 2020	**84,303**	**246**	**15,885**	**4,978**	**105,412**

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

29. RIGHT-OF-USE ASSETS

	Buildings	Vehicles	ATM	Total
COST				
Balance as at 1 January 2019 (as previously published)	**-**	**-**	**-**	**-**
Initial adoption of IFRS 16	**12,425**	**830**	**-**	**13,255**
Balance as at 1 January 2019 (modified)	**12,425**	**830**	**-**	**13,255**
Increase (new lease contracts)	1,433	735	-	2,168
Decrease (premature contract termination)	(931)	-	-	(931)
Decrease due to modifications	(104)	-	-	(104)
Balance as at 31 December 2019	**12,823**	**1,565**	**-**	**14,388**
Increase (new lease contracts)	3,052	-	2,194	5,246
Decrease (premature contract termination)	(3,672)	-	-	(3,672)
Decrease due to modifications	-	-	-	-
Balance as at 31 December 2020	**12,203**	**1,565**	**2,194**	**15,962**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2019	**-**	**-**	**-**	**-**
Depreciation	2,965	380	-	3,345
Decrease (premature contract termination)	(87)	-	-	(87)
Decrease (derecognition due to modifications)	(85)	-	-	(85)
Balance as at 31 December 2019	**2,793**	**380**	**-**	**3,173**
Depreciation	3,025	442	473	3,940
Decrease (premature contract termination)	(1,334)	-	-	(1,334)
Decrease (derecognition due to modifications)	-	-	-	-
Balance as at 31 December 2020	**4,484**	**822**	**473**	**5,779**
NET BOOK VALUE				
Balance as at 31 December 2019	**10,030**	**1,185**	**-**	**11,215**
Balance as at 31 December 2020	**7,719**	**743**	**1,721**	**10,183**

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

30. INTANGIBLE ASSETS

	Lease hold improvements	Other intangible assets	Assets in the course of construction	Total
COST				
Balance at 1 January 2019	**4,017**	**31,465**	**5,832**	**41,314**
Additions	-	-	4,610	4,610
Transfers	2,628	2,963	(5,591)	-
Disposals	(200)	(49)	-	(249)
Balance at 31 December 2019	**6,445**	**34,379**	**4,851**	**45,675**
Additions	-	-	6,390	6,390
Transfers	907	3,650	(4,557)	-
Disposals	(341)	-	(704)	(1,045)
Balance at 31 December 2020	**7,011**	**38,029**	**5,980**	**51,020**
ACCUMULATE AMORTIZATION				
Balance at 1 January 2019	**2,523**	**22,988**	**-**	**25,511**
Charge for the year	603	3,098	-	3,701
Disposals	(200)	(47)	-	(247)
Balance at 31 December 2019	**2,926**	**26,039**	**-**	**28,965**
Charge for the year	930	2,883	-	3,813
Disposals	(342)	-	-	(342)
Balance at 31 December 2020	**3,514**	**28,922**	**-**	**32,436**
NET BOOK VALUE				
Balance at 31 December 2019	**3,519**	**8,340**	**4,851**	**16,710**
Balance at 31 December 2020	**3,497**	**9,107**	**5,980**	**18,584**

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

31a. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
Long-term borrowings:		
Long-term borrowings from foreign banks and financial institutions	126,787	163,746
Less: Current portion of long-term borrowings	*(28,449)*	*(21,276)*
	98,338	***142,470***
Short-term borrowings:		
Add: Current portion of long-term borrowings	*28,449*	*21,276*
	126,787	**163,746**

Long-term borrowings from foreign banks and non-banking financial institutions are obtained from supranational and development banks.

Interest rates on whole portfolio of long-term borrowings from banks and other non-banking financial institutions as at 31 December 2020. interest rates were in the range from 0.05% to 2.28% p.a. (fixed rates), and 3M EURIBOR + 1.65% to 6M EURIBOR + 2.60% (variable rates). Interest rates as at 31 December 2019 were in the range from 0,05% ro 2,28% annualy (fixed rates) and 6M EURIBOR+1.45% -to 6M EURIBOR+2.60% (variable rates).

31b. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
Short-term deposits:		
Short-term deposits from other banks in BAM	20,183	20,041
Short-term deposits from other banks in foreign currencies	1,241	141,292
	21,424	***161,333***
Current accounts:		
Current accounts in BAM	2,623	12,566
Current accounts in foreign currencies	279	20
	2,902	***12,586***
	24,326	**173,919**

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

32. DUE TO CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits:		
Citizens:		
In BAM	936,499	817,290
In foreign currencies	616,206	619,258
	1,552,705	***1,436,548***
Legal entities:		
In BAM	928,835	848,732
In foreign currencies	293,981	232,854
	1,222,816	***1,081,586***
	2,775,521	***2,518,134***
Term deposits:		
Citizens:		
In BAM	210,795	216,962
In foreign currencies	557,317	589,669
	768,112	***806,631***
Legal entities:		
In BAM	276,459	231,586
In foreign currencies	135,038	126,073
	411,497	***357,659***
	1,179,609	***1,164,290***
	3,955,130	**3,682,424**

During 2020, interest rates were as follows:

- demand deposits in BAM – 0.00% p.a. (2019: 0.00% p.a.),
- demand deposits in foreign currencies – 0.00% p.a. (2019: 0.00% p.a.).
- short-term deposits – 0.01% do 0.20% p.a. (2019: from 0.01% to 0.71% p.a.).
- long-term deposits – 0.01% to 1.05% p.a. (2019: from 0.01% to 3.39% p.a.).

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

33. SUBORDINATED DEBT

	31 December 2020	31 December 2019
Commercial banks – related parties	61,804	61,804
	61,804	**61,804**

There is one active borrowing, approved at 27 September 2013, in total amount of BAM 61,804 thousand. Maturity date for this borrowing is as of 31 December 2024. The repayment will be one-time, in full amount, as at the defined repayment date.

In case of liquidation or bankruptcy of the Bank the liabilities under the subordinated loan are subordinated to the other liabilities of the Bank.

Subject to the approval of FBA, subordinated debt may be used as additional capital for regulatory purpose.

34. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2020	31 December 2019
Provisions for legal proceedings	13,035	14,734
Provisions for employee benefits	3,345	2,885
Provisions for gurantees and loan commitments	23,300	6,623
	39,680	**24,242**

Provisions for gurantees and loan commitments

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

	31 December 2020	31 December 2019
Loan commitments		
Unused approved loans	482,543	485,593
Framework agreements	213,138	176,811
	695,681	***662,404***
Guarantees		
Performance guarantees	179,623	189,409
Payment guarantees	105,736	108,375
Letters of credit	14,007	19,703
	299,366	***317,487***
Total gurantees and loan commitments	**995,047**	**979,891**

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

34. PROVISIONS FOR LIABILITIES AND EXPENSES *(continued)*

Other, non credit related provisions recorded in off-balance sheet accounts relates to:

	31 December 2020	31 December 2019
Other commtiments		
Forward operations	-	140
Advance guarantees	1	1
Total	**1**	**141**

Movements in provision for gurantees and loan commitments were as follows:

	31 December 2020	31 December 2019
Balance as at the beginning of year	**6,623**	**4,340**
Effects of the first time adoption of the FBA Decision *(Note 5)*	9,142	-
Increaase of provisions *(Note 16)*	7.535	2,283
Balance as at the end of the period	**23,300**	**6,623**

Other employee benefits

Changes in provisions for other employee benefits were as follows:

	Retirement severance payments	Vacation allowances	Total
Balance as at 1 January 2019	**2,860**	**1,285**	**4,145**
Reductions resulting from re-measurement or settlement without cost *(Note 15)*	(733)	(527)	(1,260)
Balance as at 31 December 2019	**2,127**	**758**	**2,885**
Reductions resulting from re-measurement or settlement without cost *(Note 15)*	(135)	595	460
Balance as at 31 December 2020	**1,992**	**1,353**	**3,345**

Legal proceedings

Movements in provision for legal proceedings were as follows:

	31 December 2019	31 December 2018
Balance as at the beginning of year	**14,734**	**15,931**
Decrease in provisions *(Note 15)*	(1,699)	(1,197)
Balance as at the end date	**13,035**	**14,734**

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

35. LEASE LIABILITIES

	Currency	Nominal interest rate	Agreed/ expected maturity	Present value as at 31.12.2019	Present value as at 31.12.2019
Lease liability – business premises	BAM	2%	2020-2029	7,658	9,852
Lease liability - ATM	BAM	2%	2021-2025	1,718	-
Lease liability - vehicle	BAM	2%	2021-2023	704	1,134
				10,080	**10,986**

In 2020, the Bank recognized right of use asset and related liabilities for the lease of ATMs that are assessed, due to the contracted value, to meet the recognition criteria in accordance with IFRS 16 "Leases".

36. OTHER LIABILITIES AND PAYABLES

	31 December 2020	31 December 2019
Liabilities to Central Bank for FX transactions	58,675	-
Principal and interest paid upfront	8,768	9,534
Liabilities toward suppliers	6,799	5,626
Liabilities from credit card operations	5,556	3,870
Employee payables	5,192	5,298
Liabilities to banks from foreign exchange	4,463	10,114
Liabilities for other taxes	3,131	9,428
Deferred income	2,600	2,885
Other liabilities	946	2,327
Liabilities for dividends towards shareholders	14	14
	96,144	**49,096**

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

37. SHARE CAPITAL

Capital is made up of 988,668 ordinary shares at nominal value of BAM 250. Equity instruments of the Bank are not traded in a public market.

The shareholding structure is as follows:

Shareholders	No. of Shares	'000 BAM	%
Raiffeisen SEE Region Holding GmbH, Vienna, Austria	988,668	247,167	100.00

38. BASIC EARNINGS PER SHARE

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

	31 December 2020	31 December 2019
Income attributable to ordinary shareholders	44,621	56,901
Weighted average number of regular shares outstanding	988,668	988,668
	45.13	**57.55**

Diluted earnings per share are not presented as the Bank has not issued dilutive equity instruments.

39. LEASES

Leases in which the Bank is the lessee

Lease agreements relate to the business premises in which the Bank operates and vehicles. Individual contracts have different durations and maturities as shown in Note 35.

I. Right of use assets

Right of use assets are presented separately in the statement of financial position and in Note 29.

I. Lease liabilities

Lease liabilities are presented separately in the statement of financial position and in Note 35.

Amounts shown in the income statement

	2020.	2019.
Loan agreements under IFRS 16		
Interest on lease agreements (Note 9)	227	237
Depreciation of property, plant and equipment (Note 29)	3,940	3,345
Lease costs for small value contracts and short-term contracts (Note 15)	1,149	1,895
	5,316	**5,477**

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

39. LEASES (*continued)*

Amounts recognized in the statement of cash flows

	2020.	**2019.**
	BAM ‘000	BAM ‘000
Total lease outflows	3,815	3,810

40. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank’s assets. For its services, the Bank charges a fee amounting to 1% of the total amount contributed.

	31 December 2020	**31 December 2019**
Liabilities		
Government	3,986	4,168
Companies	3,582	3,609
Citizens	77	77
Other	77	77
	7,722	**7,931**
Assets		
Loans to citizens	4,099	4,308
Loans to companies	3,623	3,623
	7,722	**7,931**

The Bank has issued no guarantees related to managed funds. Credit risk stays with the owners of funds.

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

41. RELATED-PARTY TRANSACTIONS

Balances with related parties can be summarized as follows:

	31 December 2020	31 December 2019
Receivables		
Loans and receivables to banks		
Raiffeisen Bank International AG, Vienna, Austria	103,467	52,310
Raiffeisen Landensbank Tirol AG, Insbruk, Austria	53,351	58,578
Raiffeisenbank Austria d.d. Zagreb, Croatia	1,096	950
Raiffeisenbank a.d. Belgrade, Serbia	39	36
Loans and receivables to customers:		
Raiffeisen Leasing d.o.o. Sarajevo	4,727	1,667
Raiffeisen Assistance d.o.o. Sarajevo	-	-
Other receivables:		
Raiffeisen Bank International AG, Vienna, Austria	107	276
ESP BH d.o.o. Sarajevo	101	1
Raiffeisen Invest d.o.o. Sarajevo	91	16
Centralised Raiffeisen International Services & Payments	85	-
Raiffeisen Leasing d.o.o. Sarajevo	16	1
Raiffeisen Assistance d.o.o. Sarajevo	6	6
BLBH Invest GMBH	2	2
DUF AMDS d.o.o. Sarajevo	2	2
Raiffeisenbank Austria d.d. Zagreb, Croatia	1	2
	163,091	**113,847**
Liabilities		
Subordinated debt:		
Raiffeisen Bank International AG, Vienna, Austria	61,804	61,804
Long term loans to banks:		
Raiffeisenbank Bulgaria AD Sofia-loans	8,313	-
AO Raiffeisen Bank Russia	-	54,781
Bank and customer deposits:		
Raiffeisen Leasing d.o.o. Sarajevo	12,263	11,820
Raiffeisen Assistance d.o.o. Sarajevo	5,388	5,506
Raiffeisen Invest d.o.o. Sarajevo	3,628	2,071
Raiffeisen Bank International AG, Vienna, Austria	1,092	51,175
Raiffeisen Capital a.d. Banja Luka	889	677
Raiffeisenbank Austria d.d. Zagreb, Croatia	278	50
ESP BH d.o.o.	221	7,807
VoCare d.o.o.	137	203
Hotel Grand d.o.o. Sarajevo	35	8
BLBH Invest GMBH	6	235
Raiffeisen Bank Zrt. Budapest	-	98,295
Lease liabilities:		
Raiffeisen Leasing d.o.o. Sarajevo	704	1,134
Other liabilities		
Raiffeisen Bank International AG, Vienna, Austria	1,779	2,103
VoCare d.o.o.	276	11
ESP BH d.o.o.	252	-
Raiffeisen Leasing d.o.o. Sarajevo	45	2
Centralised Raiffeisen International Services & Payments	-	19
BLBH Invest GMBH	-	9
	97,110	**297,710**

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

41. RELATED-PARTY TRANSACTIONS *(continued)*

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

	31 December 2020	31 December 2019
Revenue		
Interest income:		
Raiffeisen Landensbank Tirol AG, Insbruk, Austria	244	1,269
Raiffeisen Leasing d.o.o. Sarajevo	41	59
Raiffeisen Bank International AG, Beč, Austria	1	283
BLBH Invest GMBH	-	79
Fee income:		
Raiffeisen Invest d.o.o. Sarajevo	928	859
Raiffeisen Bank International AG, Vienna, Austria	410	402
Raiffeisen Leasing d.o.o. Sarajevo	26	29
Raiffeisen Assistance d.o.o. Sarajevo	23	2
Raiffeisenbank Austria d.d. Zagreb, Croatia	22	29
DUF AMDS d.o.o. Sarajevo	20	13
BLBH Invest GMBH	15	59
Raiffeisen Capital a.d. Banja Luka	2	2
ESP BH d.o.o.	1	-
VoCare d.o.o.	1	1
Hotel Grand d.o.o. Sarajevo	-	1
Other income:		
Raiffeisen Leasing d.o.o. Sarajevo	2,292	1,170
Raiffeisen Assistance d.o.o. Sarajevo	1,325	1,920
ESP BH d.o.o.	99	415
Raiffeisen Bank International AG, Vienna, Austria	53	208
Raiffeisen Invest d.o.o. Sarajevo	30	1,108
BLBH Invest GMBH	18	8
Raiffeisen Capital a.d Banja Luka	7	10
New Media Company d.o.o.	2	2
VoCare d.o.o.	-	9
	5,560	**7,937**

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

41. RELATED-PARTY TRANSACTIONS *(continued)*

	31 December 2020	31 December 2019
Expenses		
Interest expense:		
Raiffeisen Bank International AG, Vienna, Austria	4,988	5,154
Raiffeisen Leasing d.o.o. Sarajevo	350	407
AO Raiffeisen Bank Russia	292	-
Raiffeisen Bank Budapest	256	-
Raiffeisenbank Bulgaria AD Sofija	106	-
Raiffeisen Assistance d.o.o. Sarajevo	35	41
Raiffeisen Invest d.o.o. Sarajevo	21	13
Fee expense:		
Centralised Raiffeisen International Services & Payments	479	601
Raiffeisen Bank International AG, Vienna, Austria	473	200
Raiffeisenbank Austria d.d. Zagreb, Croatia	3	1
Advisory services:		
Raiffeisen Bank International AG, Vienna, Austria	3,629	3,953
Other administrative expenses:		
Raiffeisen Bank International AG, Beč , Austrija	1,797	1,706
VoCare d.o.o.	1.355	1,533
Centralised Raiffeisen International Services & Payments	384	376
Raiffeisen Leasing d.o.o. Sarajevo	96	77
Raiffeisen Assistance d.o.o. Sarajevo	14	18
Hotel Grand d.o.o. Sarajevo	3	17
New Media Company d.o.o.	-	3
Raiffeisenbank a.d. Beograd, Srbija	-	1
Net FX trading expense		
Raiffeisen Bank International AG, Beč , Austrija	167	-
	14,448	**14,101**

Fees to the Management and other members of the management:

The following fees were paid to the Management Board members during the period:

	31 December 2020	31 December 2019
Net salaries	1,195	1,067
Taxes and contributions on salaries	939	839
Other benefits	570	656
Taxes and contributions for other benefits	442	510
	3,146	**3,072**