ZIRAATBANK BH D.D.

Financial statements
for the year ended
31 December 2020 and
Independent auditor's report

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

Content

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

Responsibility for the financial statements

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently, making judgements and estimates that are reasonable and prudent, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

The financial statements set out on pages 7 to 90 were authorised by the Management Board on 12 April 2021 for issue to the Supervisory Board, and are signed below to signify this:

For and on behalf of Management Board

Mirela Šuman	**Yusuf Dilaver**
Member of the Board	President of the Board

ZiraatBank BH d.d. Sarajevo

Zmaja od Bosne 47c

71000 Sarajevo

Bosnia and Herzegovina

12 April 2021

Deloitte.

MAKING AN IMPACT THAT MATTERS since 1845

Deloitte d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 (0) 33 277 560
Fax: +387 (0) 33 277 561
www.deloitte.com/ba

INDEPENDENT AUDITOR'S REPORT

To the shareholders of ZiraatBank BH d.d. Sarajevo

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 that the owner of the Bank, by a decision of the Assembly on 23 January 2020, initiated the process of recapitalization of the Bank for additional KM 40 million through a closed issue of shares, after which the Bank's share capital will amount to KM 240 million. The recapitalization is being undertaken in order to adjust capital adequacy after the Bank has implemented the Decision on Credit Risk Management and Determining Expected Credit Losses of the Banking Agency of Federation of Bosnia and Herzegovina (the "Agency") as of 1 January 2020. The Bank has completed all the formal and legal procedures necessary to initiate the recapitalization process. On 26 December 2019, the Agency approved a recapitalization process by its decision. On 23 January 2020, the owner of the Bank deposited funds intended for recapitalization in the amount of KM 40 million into its deposit account with the Bank.

On 24 January 2020, the Bank filed a request to the Securities Commission of the Federation of Bosnia and Herzegovina (the "Commission") to approve the issue of shares through a closed offer. The Commission was required to decide on the Bank's request within 60 days from the date of receipt of the request in accordance with Article 29 of the Law on Securities Market of FBiH. By the date of this report, the Bank has not received a statement from the Commission, although the statutory deadline for decision-making expired. The recapitalization process is stalled because the issuance of a decision by the Commission on the closed issue of shares is pending until the process of appointing new chairman and members of the Commission is completed.

The Management Board informed the Agency about this situation and believes that this matter will have no impact on the Bank's operations in the following period.

Key audit matters

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

In its financial statements for the year ended 31 December 2020 the Bank presented loans to customers in the amount of BAM 877,816 thousand and total expected credit loss in the amount of BAM 206,833 thousand.

Allowance for Expected Credit Losses on Loans and Receivables	How the Key Audit Matter Was Addressed in Our Audit
For accounting policies, see Note 3, for Critical accounting judgements and key sources of estimation uncertainty, see Note 4. For additional information regarding the identified key audit matter see notes 17, 18, 19, 31 and 34..	
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowance for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Assessment of the forward-looking information, including the impact of the "COVID-19" pandemic • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Review and check the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 relevant regulations of the Federation of Bosnia and Herzegovina; • Obtain understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including the used applications and information technology tools and the corresponding internal controls; • Evaluate the adequacy of the design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses; • Test the operating effectiveness of identified relevant controls;

Key audit matters (continued)

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables, recognized in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.

- Performing substantive tests over recognition and measurement of allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2 that are collectively assessed, focusing on:
    i. Models applied in credit risk stage allocation and transitions between credit risk stages;
    ii. Assumptions used by the Management in the expected credit loss measurement models;
    iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19;
    iv. Assumptions applied to calculate probability of default;
    v. Methods applied to calculate loss given default;
    vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19;
    vii. Recalculation of expected credit losses on a selected sample.
- Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:
    i. Assessment of the borrower's financial position and performance following the latest credit reports and available information;
    ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19;
    iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period;

Key audit matters (continued)

- Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory transfers;
- Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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

The Management Board is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the International Financial Reporting Standards, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our independent auditor's 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 Sabina Softić.

Deloitte d.o.o.

Yuri Sidorovich, procurator

Deloitte
d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
ID: 4200047380000

Sabina Softić, partner and licensed auditor

Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
12 April 2021

	Note	2020	2019
Interest income	6	31,994	35,687
Interest expense	6	(8,768)	(8,635)
Net interest income		**23,226**	**27,052**
Allowance for credit risk and off-balance sheet items	12	(13,091)	(10,207)
Net interest income after allowance for impairment of loans and receivables from other banks		**10,135**	**16,845**
Fee and commission income	7	10,215	10,195
Fee and commission expense	7	(5,861)	(6,572)
Net FX gains	8	2,131	1,843
Other income	9	8,864	1,595
Employee expenses	10	(11,805)	(11,969)
Depreciation and amortization	22, 23,24	(3,742)	(3,098)
Modification expense		(138)	-
Other operating expenses	11	(8,089)	(7,551)
Profit before tax		**1,710**	**1,288**
Income tax	13	(90)	(72)
Profit for the year		**1,620**	**1,216**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**1,620**	**1,216**
Earnings per share	**14**	**81.0**	**60.8**

Accompanying notes form an integral part of these financial statements.

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	15	202,127	150,405
Obligatory reserve with the CBBH	16	97,659	85,358
Placements with banks at amortized cost	17	67,460	62,801
Loan receivables at amortized cost, net	18	671,083	701,416
Financial assets at amortized cost	19	27,292	7,855
Financial assets at fair value through profit or loss	20	506	7,921
Other assets	21	7,798	6,186
Property and equipment	22	3,321	30,773
Right-of-use assets	23	5,387	6,572
Intangible assets	24	1,509	2,199
TOTAL ASSETS		**1,084,142**	**1,061,486**
LIABILITIES			
Liabilities to banks at amortized cost	25	40,429	287
Liabilities to clients at amortized cost	26	809,952	718,890
Borrowings and other loans at amortized cost	27	156,466	156,466
Lease liabilities	28	5,518	6,702
Other liabilities	29	5,145	4,681
Provisions	30	1,938	1,444
TOTAL LIABILITIES		**1,019,448**	**888,470**
EQUITY			
Shareholders' equity		200,000	200,000
Accumulated loss		(135,306)	(26,984)
TOTAL EQUITY		**64,694**	**173,016**
TOTAL LIABILITIES AND EQUITY		**1,084,142**	**1,061,486**

Accompanying notes form an integral part of these financial statements.

Signed on behalf of ZiraatBank BH d.d. on 12 April 2021:

Mirela Šuman
Member of the Board

ZiraatBank BH d.d. SARAJEVO 7

Yusuf Dilaver
President of the Board

	Shareholders' equity	Statutory reserves	Accumulated loss	Total
As at 1 January 2019	**200,000**	**753**	**(28,953)**	**171,800**
Transfer of statutory reserves to accumulated earnings (Note 37)	-	(753)	753	-
Profit for the year	-	-	1,216	1,216
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	*1,216*	*1,216*
As at 31 December 2019	**200,000**	**-**	**(26,984)**	**173,016**
Effects of the first application of the FBA Decision on credit risk management and determination of expected credit losses (Note 3)	-	-	(109,942)	(109,942)
Profit for the year	-	-	1,620	1,620
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	*1,620*	*1,620*
As at 31 December 2020	**200,000**	**-**	**(135,306)**	**64,694**

Accompanying notes form an integral part of these financial statements.

	Note	2020	2019
Cash flow from operating activities			
Profit before tax		**1,710**	**1,288**
Adjustments for:			
Impairment allowance for credit losses	12	12,103	11,042
Impairment allowance for other assets	12	(9)	11
Modification expense		138	-
Depreciation and amortization	22,23,24	3,742	3,098
Gains from sale of tangible assets	9	(6,891)	-
Increase in provisions for employee benefits	11	-	75
(Decrease) / increase in provisions for court proceedings	12	(239)	140
Increase / (decrease) in allowance for off-balance sheet items	12	758	(814)
Cash flow from operating activities before changes in operating assets and liabilities:		*11,312*	*14,840*
Increase in the obligatory reserve at the CBBH, net	16	(12,487)	(7,257)
(Increase) / decrease in placements with other banks before allowance, net	17	(4,793)	86,327
Increase in loans and receivables before allowance, net	18	(91,404)	(86,310)
(Increase) / decrease in other assets before allowance, net	21	(1,586)	2,111
Increase / (decrease) in deposits from banks, net	25	40,142	(48,950)
Increase in liabilities to clients, net	26	91,062	94,582
Increase / (decrease) in other liabilities, net	29	439	(2,358)
Cash flow from operating activities before income tax		32,685	52,985
Income tax paid	13	(90)	(1,075)
NET CASH FROM OPERATING ACTIVITIES		**32,595**	**51,910**
Cash flow from investing activities			
Decrease / (increase) in financial assets at fair value through profit or loss		7,415	(7,418)
Purchase of property, equipment and intangible assets	22,24	(1,243)	(1,190)
Increase in financial assets at amortized cost	19	(19,579)	(5,371)
Proceeds from sale of tangible assets		34,069	-
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**20,662**	**(13,979)**
Cash flow from financial activities			
Repayment of long-term lease	28	(1,535)	(583)
NET CASH USED IN FINANCIAL ACTIVITIES		**(1,535)**	**(583)**
Net increase in cash and cash equivalents		**51,722**	**37,348**
Cash and cash equivalents at the beginning of the year		**150,405**	**113,057**
Cash and cash equivalents at the end of the year	**15**	**202,127**	**150,405**

Accompanying notes form an integral part of these financial statements.

1. GENERAL

History and incorporation

ZiraatBank BH d.d. (the "Bank") was incorporated and registered with the Higher Court in Sarajevo (today: Sarajevo Cantonal Court) on 19 December 1996 by T.C. Ziraat Bankasi Ankara, Turkey. On 28 February 2013, the Bank changed its name from Turkish Ziraat Bank Bosnia d.d. to ZiraatBank BH d.d.

Ownership structure

The owner of the Bank is T.C. Ziraat Bankasi Ankara, Turkey. The ultimate owner is the Republic of Turkey (state-owned).

Share capital as at 31 December 2020 and 2019, consists of 20,000 ordinary shares. The nominal value of the shares is 10 thousand KM.

The Bank's management considers that it operates through one business and one geographical segment, namely the provision of banking services in Bosnia and Herzegovina.

Principal activities of the Bank

The Bank is registered for performing the following activities in the country and abroad:
- receiving and placing deposits;
- receiving and placing loans and finance lease;
- issuing all types of guarantees;
- participation, purchase and sale of money and equity market instruments for own or on behalf of others;
- internal and external payment transactions;
- exchange services;
- issuing and managing means of payment (including credit cards, travellers checks and banking);
- keeping and managing securities and other valuables;
- financial management services;
- purchase and sale of securities; and
- other business arising from the foregoing points.

The Bank operates in eighteen offices: seven in Sarajevo (Corporate office, Sarajevo, Ferhadija, Novi grad, Ilidža, Vogošća, Dobrinja), Srebrenica, Brčko, Tuzla, Jelah, Zenica, Mostar, Bihać, Travnik, Goražde, Banja Luka, Bijeljina, as well as fourteen branches (Butmir, Lukavac, Gračanica, Srebrenik, IŠ Centar Tuzla, Kakanj, Maglaj, Visoko, Moštre, Hadžići, Konjic, Bišće polje - Mostar, Cazin, Sanski Most). The Bank's headquarters are located at Zmaja od Bosne 47c, Sarajevo.

Supervisory Board:

Supervisory Board of the Bank comprised since 19 September 2020:

Mehmet Cengiz Göğebakan	-	Chairman
Ali Taşdemir	-	Vice-Chairman
Emrah Gündüz	-	Member
Batuhan Mumcu	-	Member (independent member)
Enes Ališković	-	Member (independent member)

1. GENERAL (CONTINUED)

Supervisory Board of the Bank comprised from 20 June 2019 to 18 September 2020:

Mehmet Cengiz Göğebakan	-	Chairman
Tahir Demirkıran	-	Vice-Chairman
Taha Çakmak	-	Member
Yaşar Yılmaz	-	Member (independent member)
Enes Ališković	-	Member (independent member)

Supervisory Board of the Bank comprised from 15 May 2018 to 20 June 2019:

Metin Sezici	-	Chairman
Tahir Demirkıran	-	Vice-Chairman
Taha Çakmak	-	Member
Yaşar Yılmaz	-	Member (independent member)
Enes Ališković	-	Member (independent member)

Management Board of the Bank:

Since 14 March 2019, the Management Board of the Bank comprises:

Yusuf Dilaver - President of the Board

Uğur Özyiğit - Member of the Board.

Mirela Šuman - Member of the Board

By the Decision on appointment of a new Member of the Board of 13 June 2019, Mrs. Mirela Šuman is appointed Member of the Board for Risk. Previously, by the Decision on appointment of an acting Member of the Board for Risk and temporary transfer of responsibilities and authorizations of 14 March 2019, Mrs. Mirela Šuman was appointed Acting Member of the Board.

From 19 July 2018 to 14 March 2019, the Management Board of the Bank comprised:

Yusuf Dilaver - President of the Board

Malik Suljević - Member of the Board

Indira Pašić - Member of the Board

Uğur Özyiğit - Member of the Board.

1. GENERAL (CONTINUED)

Audit Committee:

Audit Committee of the Bank comprised since 30 April 2020:

Vedat Çelikbilek - Chairman

Şahin Uğuz - Vice-Chairman

Zinka Fetahović - Member.

Audit Committee of the Bank comprised in the period from 10 May 2019 to 30 April 2020:

Himmet Aksoy - Chairman

Volkan Günal - Vice-Chairman

Zinka Fetahović - Member.

Audit Committee of the Bank comprised in the period from 13 December 2018 to 10 May 2019:

Atakan Bektaş - Chairman

Volkan Günal - Vice-Chairman

Zinka Fetahović - Member.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

2.2 New standards and amendments to existing standards in issue not yet adopted

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 4 "Insurance Contracts" – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 New standards and amendments to existing standards in issue not yet adopted (continued)

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022).

The Bank has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis for preparation and presentation of the financial statements

The financial statements have been prepared on a going concern basis, which means that the Bank will be able to settle its receivables and settle its liabilities in the ordinary course of business.

Recapitalization process for the purpose of meeting regulatory requirements

As at 31 December 2020, the Bank had a net profit of KM 1,620 thousand (31 December 2019: profit of KM 1,216 thousand). As at 31 December 2020, the capital adequacy ratio is 10.46%, which is above the statutory limit (12%).

The owner of the Bank, by a decision of the Assembly on 23 January 2020, initiated the process of recapitalization of the Bank for additional KM 40 million through a closed issue of shares, after which the Bank's share capital will amount to KM 240 million. The recapitalization is being undertaken in order to adjust capital adequacy after the Bank has implemented the new Decision on Credit Risk Management and Determining Expected Credit Losses of the Banking Agency of Federation of Bosnia and Herzegovina (the "Agency") as of 1 January 2020. The Bank has completed all the formal and legal procedures necessary to initiate the recapitalization process. On 26 December 2019, the Agency approved a recapitalization process by its decision. On 23 January 2020, the owner of the Bank deposited funds intended for recapitalization in the amount of KM 40 million into its deposit account with the Bank. On 24 January 2020, the Bank filed a request to the Securities Commission of the Federation of Bosnia and Herzegovina (the "Commission") to approve the issue of shares through a closed offer. The Commission was required to decide on the Bank's request within 60 days from the date of receipt of the request in accordance with Article 29 of the Law on Securities Market of FBiH. By the date of this report, the Bank has not received a statement from the Commission, although the statutory deadline for decision-making expired. The recapitalization process is stalled because the issuance of a decision by the Commission on the closed issue of shares is pending until the process of appointing new members of the Commission is completed.

Had the recapitalization process been completed, the capital adequacy ratio of the Bank would amount to 17.26%, which is above the statutory minimum rate (31 December 2019 – 21.09%). Note 34 involves details related to capital risk management.

The historical cost principle

These financial statements are prepared on a historical cost basis, except for financial instruments initially recognized at fair value, and adjusted financial instruments that are subsequently measured through profit or loss and other comprehensive income.

Fair value measurement

Fair value is the price that would be received for sale or would be paid for the transfer of liabilities in a regular transaction between market participants at the measurement date, whether that price was directly observable or estimated using another valuation technique. In assessing the fair value of assets or liabilities, the Bank considers the characteristics of the assets or liabilities when market participants would take these characteristics into account when determining the price of the assets or liabilities at the measurement date.

The fair value of an asset or liability is measured using assumptions that market participants would use to determine the price of an asset or liability, assuming that market participants act in their economic interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in the largest and best possible way or by selling it to another market participant who will use the asset in the same way.

The Bank uses valuation methods that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of all relevant observable input units and minimizing the use of unobserved input units.

All assets and liabilities for which fair value is measured or described in the financial statements are categorized within the fair value hierarchy. The hierarchy based on the lowest level of input units that is significant for measuring fair value is described as follows::

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques where the lowest level of input, which is significant for measuring fair value, is directly or indirectly observable; and
- Level 3 – valuation techniques where the lowest level of input, which is significant for measuring fair value, is undetectable.

For assets and liabilities that are recognized in financial statements at fair value on an ongoing basis, the Bank determines whether there are any transfers between levels in the hierarchy by re-evaluating the categorization (based on the lowest level of input that is significant to measure fair value as a whole) at the end of each reporting period.

New regulatory requirements effective as of 1 January 2020

The Banking Agency of FBiH adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses ("Decision"), which applies as of 1 January 2020 and which resulted in certain differences resulting from the calculation of allowances for credit losses due to the application of minimum rates, which are prescribed by the Decision and 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 (repossessed tangible assets whose valuation is within the scope of other relevant IFRS).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of KM 56,463 thousand compared to the amount calculated by using the Bank's internal model in line with the requirements of IFRS 9. This difference as at 31 December 2020 arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of KM 28 thousand,
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of KM 99 thousand,
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of KM 56,335 thousand, of which the amount of KM 3,579 refers to exposures not secured by acceptable collateral, the amount of KM 52,756 refers to exposures secured by acceptable collateral.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New regulatory requirements effective as of 1 January 2020 (continued)

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

	1 January 2020	**31 December 2020**
Assets	(109,179)	(56,165)
Liabilities	(763)	(298)
Equity	(109,942)	(56,463)

	Year ended 31 December 2020
Financial result before taxation	1,710

* Note: positive amount represents increase of value, negative one represents decrease of value.

The requirements of the new Decision in the area of impairment are based on the model of expected credit losses under IFRS 9 with certain specifics (prescribed minimum rates of expected credit losses for credit risk levels) for which the Bank must report the effects and record them on capital accounts and stated in regular share capital on 1 January 2020.

The effects of the first application represent the difference between the expected credit losses determined in accordance with the provisions of this Decision and those determined and recorded by the bank in accordance with its internal methodology.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional and presentation currency

The financial statements are presented in Convertible Marks (KM) as it is the Bank's functional currency. The convertible mark is pegged to the euro (1 EUR = 1.955583 KM).

Foreign currencies

Transactions in non-BAM currencies are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rate at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are not recalculated. Gains and losses on translation are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Any translation effect within gains or losses on non-monetary assets measured at fair value through other comprehensive income will be recognized through other comprehensive income.

Foreign exchange rates (downloaded for the official website of the Central Bank of BiH):

Exchange rate	**31 December 2020 KM**	**31 December 2020 KM**
USD	1.592566	1.747994
EUR	1.955830	1.95583

Interest income and expense

Interest income and expense, including default interest and other income and other expenses on interest-bearing assets, i.e. liabilities, are recognized on an accrual basis under the mandatory terms defined in the contract concluded between the Bank and the client.

For all financial instruments carried at amortized cost, interest income and expense are recognized on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, any fees paid and received between the parties that are an integral part of the effective interest rate.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, except for financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to the amortized cost (net of expected credit loss).

Fees that are an integral part of the effective interest rate include approval fees received or paid by the Bank in connection with the creation or acquisition of financial assets or the issuance of a financial liability, such as fees for assessing creditworthiness, assessing and recording collateral, and for processing transaction related documents.

Fee and commission income and expense

Fee and commission income and expense arising from the provision or use of banking services are recognized on an accrual basis and determined for the period when they are realized – usually on a linear basis or when the service is provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense is the sum of the current tax liability and deferred taxes.

Current tax liability is based on taxable profit for the year. Taxable profit differs from the net income of the period presented in the statement of profit or loss and other comprehensive income in that it excludes items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable or deductible. The Bank's current tax liability is calculated by applying the tax rates that have been enacted or substantively enacted at the date of the statement of financial position. Deferred tax is the amount that is expected to arise on a liability or a return based on the difference between the carrying amount of assets and liabilities in the financial statements and the related tax bases used to calculate taxable income, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to recover all or part of the tax assets. Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized.

Employee benefits

The Bank, in the course of its business, pays on behalf of its employees' pension and health insurance, which is calculated on gross salaries, and taxes that are calculated on net salaries. The Bank pays the aforementioned contributions to the pension and health care funds of the Federation of Bosnia and Herzegovina and throughout the year at the rates set by law, according to the net salary paid. The Bank also pays, in accordance with local legislation, allowances for hot meals, transportation of employees to and from work and holiday pay. These costs are charged to the statement of profit or loss and other comprehensive income in the period in which the salary expense is incurred.

Retirement severance payments

In accordance with legal regulations and the internal Rules of Procedure, the Bank is obliged to pay at least three average monthly salaries of the Federation of Bosnia and Herzegovina or three last monthly salaries, depending on the employee's benefit, for retirement benefits. Provisions for employee benefits are calculated using projected credit units.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Initial recognition

Financial instruments at fair value through profit or loss ("FVTPL") are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best recorded at the time of transaction. Gains or losses on initial recognition are recorded only if there is a difference between the fair value and the transaction price that can be demonstrated by other observable current market transactions of the same instrument or valuation technique whose inputs include only observable market data.

Subsequent to initial recognition, an impairment charge for expected credit losses ("ECL") is recognized for financial assets carried at amortized cost ("AC") and for investments in debt securities measured at fair value through profit or loss ("FVTPL"), which results in the recognition of accounting loss immediately after initial recognition.

Financial assets

a) Classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following category categories: FVTPL and AC.

The classification and subsequent measurement of debt financial assets depends on::

1. business model of the Bank for asset management, and
2. cash flow characteristics of assets.

Business model

The business model reflects how the Bank manages its assets to generate cash flows – regardless of whether the Bank's objective is to:

i. solely collects contractual cash flows from assets ("collection of contractual cash flows"); or

ii. collects contractual cash flows as well as cash flows arising from the sale of assets ("collection of contractual cash flows and sale of assets");

iii. if none of i) and iii) is applicable, financial assets are classified as "other" business models and measured at FVTPL.

The business model is determined for a group of assets (at portfolio level) on the basis of all relevant evidence of the Bank's activities to achieve the set target for the portfolio available at the valuation date. Factors considered by the Bank in determining the business model include: purpose and composition of the portfolio, previous experience on how to collect cash flows for the said assets, access and risk management, how the performance of the assets is assessed and how management is compensated. See Note 4 for key accounting estimates used by the Bank in determining the business model for its financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

a) Classification and subsequent measurement – measurement categories (continued)

Cash flow characteristics

Where the business model involves the collection of contractual cash flows or the collection of contractual cash flows and the sale of assets, the Bank estimates that cash flows are solely principal and interest payments on the principal amount outstanding ("SPPI test"). Financial assets with embedded derivatives (if any) are considered as a whole when determining whether their cash flows are in accordance with the SPPI property.

In making this assessment, the Bank considers whether the contractual cash flows are in accordance with the underlying credit arrangement, the interest includes only the credit risk charge, the time value of money, other underlying credit risks and the profit margin. When contractual terms introduce exposure to risk or volatility that is inconsistent with the underlying credit arrangement, financial assets are classified and measured at FVTPL. The SPPI valuation is carried out at initial recognition of assets and is not subsequently reviewed. See Note 4 for key accounting estimates used by the Bank in conducting the SPPI test for its financial assets.

b) Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period following the change.

c) Impairment – allowance for credit losses

The Bank estimates expected credit losses ("ECL") for debt instruments measured by AC and for exposures arising from credit commitments and financial guarantee contracts.

As stated in Note (1) Basis of preparation and statement of compliance, the new regulatory decision prescribes minimum rates for calculating allowances for credit losses, i.e. if the Bank, in accordance with its internal methodology, determines higher amounts of allowances for credit losses compared to amounts calculated by applying the Decision, will apply higher amounts of allowances for credit losses.

The minimum rates of expected credit losses prescribed by the Decision are presented below.

Credit risk level 1

For exposures allocated to Credit Risk Level 1, the Bank determines expected credit losses at least as follows:

a) for low-risk exposures referred to in Article 18 Paragraph (2) of this Decision – 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 calculating the bank's capital – 0.1% exposure,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which in accordance with Article 69 of the Decision on calculating the bank's capital is assigned to credit quality level 1, 2 or 3 - 0.1 % of exposure,
d) for other exposures – 0.5% of exposure.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

c) Impairment – allowance for credit losses (continued)

Credit risk level 2

For exposures allocated to Credit Risk Level 2, the Bank sets expected credit losses to a minimum of 5% of the exposure.

Credit risk level 3

For exposures allocated to Credit Risk Level 3, the Bank determines expected credit losses at least in the amounts defined in Table 1 or Table 2 below.

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

Days overdue	Minimum expected credit loss
less than 180 days	15%
181 – 270 days	25%
271 – 365 days	40%
366 – 730 days	60%
731 – 1460 days	80%
Over 1460 days	100%

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

Days overdue	Minimum expected credit loss
less than 180 days	15%
181 – 270 days	45%
271 – 365 days	75%
366 – 456 days	85%
Over 456 days	100%

The Bank measures ECL and recognizes allowance for credit losses for each reporting period. The ECL measurement reflects:

1) an unbiased and probable weighted amount that is determined by assessing the range of possible outcomes;

2) the time value of money; and

3) all reasonable and available information that is available at no unnecessary cost at the end of each reporting period on past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position with allowance for ECL, net. For credit commitments and financial guarantees (where those components are separate from credit), a separate allowance for ECL is recognized as a liability in the statement of financial position. For FVTPL debt instruments, the allowance for ECL is recognized in the statement of profit or loss. The Bank applies a three-stage model for assessing impairment in accordance with IFRS 9, in accordance with changes in credit quality since initial recognition:

1) A financial instrument that is not impaired at initial recognition is classified in Stage 1. Financial assets in Stage 1 have an ECL measured in an amount equal to part of lifetime ECL arising from possible events that result in default status over the next 12 months. (12-month ECL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

c) Impairment – allowance for credit losses (continued)

2) If the Bank identifies a significant increase in credit risk ("SICR") from the time of initial recognition, the asset is transferred to Stage 2 and its ECL is measured on the lifetime ECL basis. See Note 29 for a description of how the Bank decides when a SICR occurs.

3) If the Bank determines that a financial asset is impaired, the asset is transferred to Stage 3 and its ECL is measured as the lifetime ECL. See Note 34 for a description of how the Bank defines credit impaired assets and default status ("default").

For financial assets that are purchased or originated credit impaired, the ECL is always measured as a lifetime ECL. Note 34 provides more information on the inputs, assumptions and valuation techniques used in measuring ECL, including an explanation of how the Bank incorporates future information into ECL models.

d) Write-off

Financial assets are written off in full and in part when the Bank has practically exhausted all efforts to collect its receivables and concluded that there is no reasonable expectation of reimbursement. A bank may write off financial assets that are still subject to executive activity when the Bank seeks to recover amounts that have been contractually due in full, but there is no reasonable expectation of full repayment.

e) Modification

In some situations, the Bank negotiates or otherwise modifies the terms and conditions of the financial assets. The Bank assesses whether the modification of contractual cash flows is significant, taking into account, inter alia, the following factors: any new contractual terms that significantly affect the asset risk profile, collateral insertion, or credit enhancement that significantly affect the credit risk associated with the asset, a significant extension loans when the borrower is in financial difficulty.

If the modified terms differ significantly in that the rights to the cash flows from the original assets are deemed to have expired, the Bank derecognises the original financial assets and recognizes the new assets at fair value. The renegotiation date is considered the date of initial recognition for the purpose of calculating the impairment, including the consideration that a SICR has occurred. The Bank also estimates that the new loan also meets the SPPI criterion. In a renegotiated situation due to the debtor's financial difficulties and the inability to make the originally agreed payments, the Bank estimates that the modified loan is also considered to be credit impaired at initial recognition. The difference in carrying amounts is recognized in profit or loss for the period.

Unless the terms of the modified asset are significantly different, the modification does not result in derecognition. The Bank recalculates the gross accounting period on the basis of the revised cash flows, discounting the modified cash flows using the original effective interest rate of the loan adjusted interest rate on the purchased or originated credit impaired financial assets ("POCI"), and recognizes the modified gain or loss for the given period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

f) Derecognition (except through significant modification)

The Bank derecognize financial assets when (a) the assets have been purchased or the rights to cash flows from the assets have expired (b) the Bank has transferred the rights to the cash flows from the financial assets or has entered into qualified transitional arrangements where (i) it also substantially transfers all risks and the benefits of owning the property neither transfer nor substantially retain all risks and rewards of ownership but do not retain control. Control is retained if the counterparty has no practical ability to sell the property in its entirety to an unrelated third party without having to impose restrictions on the sale.

Financial liabilities

a) Classification and subsequent measurement – measurement categories

Financial liabilities are classified as subsequently measured at AC, except:

• financial liabilities at FVTPL: this classification applies to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognized by the acquirer in a business combination and other financial liabilities designated as such upon initial recognition;

• financial guarantee agreements and credit commitments.

b) Modification

Exchanges between the Bank and its original debtors with significantly different terms, as well as significant modifications to the terms of existing financial liabilities, are accounted for as derecognition of the original financial liability and the recognition of a new financial liability. The terms are significantly different if the discounted present value of the cash flow under the new conditions, including any consideration paid net of fees collected and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency in which the instrument is denominated, changes in the type of interest rate, new conversion characteristics associated with the instrument, and changes in provisions are taken into account. If an exchange of debt instruments or a modification of the conditions is accounted for as derecognition, all costs or fees incurred are recognized as part of the gain or loss on derecognition. If the exchange or modification is not accounted for as derecognition, any recoverable expenses or fees are adjusted to the carrying amount of the liability and amortized over the remaining period of the modified liability.

c) Derecognition (except through significant modification)

Financial liabilities are derecognized when they are terminated (e.g. when they are discharged, cancelled or expire).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents are items that can be converted to known amounts of cash and are subject to insignificant currency risk. Cash and cash equivalents include required reserves with the CBBH and accounts with other domestic and foreign banks with less than three months maturity. Assets limited to a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are stated at AC: (i) held to collect contractual cash flows and these cash flows represent SPPIs and are not specified as FVTPL.

The payments or accounts shown in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts payable or credited to the current accounts of other counterparties of the Bank, such as interest income on credit or principal collected from a client's current account or paying interest or paying off a loan into a client's current account, which represents money or cash equivalent from a client's perspective.

Mandatory cash balances with the CBBH

Mandatory cash balances with the CBBH are stated at AC and represent mandatory, interest-free deposits that are not available to finance the Bank's day-to-day operations and are therefore not considered part of the cash and cash equivalents in the statement of cash flows.

Receivables from other banks

Receivables from other banks are recorded when the Bank prepaid money to other banks. Receivables from other banks are carried at amortized cost (AC) when: (i) they are held to collect contractual cash flows and these cash flows represent an SPPI, and (ii) are not specified in the FVTPL.

Loans and receivables

Loans and receivables are recognized when the Bank deposits money directly to the borrower without the intention of trading receivables or disposing of them in the near future. Based on the business model and cash flow characteristics, the Bank classifies loans and receivables as financial assets by AC.

Impairment of credit measured by AC is determined based on a future ECL model. Note 34 provides information on the inputs, assumptions, and estimation techniques used in measuring ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in debt securities

Based on its business model and cash flow characteristics, the Bank classifies investments in debt securities into one of the following measurement categories:

1) AC: debt securities held to collect contractual cash flows, where these cash flows represent SPPIs and which are not specified in the FVTPL, are measured at amortized cost.

2) FVOCI: debt securities held for the collection of contractual cash flows and for sale, where those cash flows represent SPPIs and are not designated as FVTPL, are measured at fair value through other comprehensive income. Movements in the fair value of these investments are recognized in other comprehensive income and any impairment loss determined on the model of the expected loss is recognized in the statement of profit or loss and other comprehensive income for the year. Interest income on these assets is calculated using the effective interest method and recognized in profit or loss. When debt securities are derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

3) FVTPL: Investments in debt securities that do not meet the criteria for AC or FVOCI are measured under the FVTPL (mandatory category). The Bank may also irrevocably designate investments in debt securities as an FVTPL if the exercise of this option significantly reduces the budgetary disagreement between financial assets and liabilities that are recognized or measured by different accounting bases (disagreement or measurement disagreement).

Investments in equity securities

Financial assets that meet the definition of an equity security from the perspective of an issuer of an equity instrument, e.g. instruments that do not contain a contractual obligation to pay cash in which there is evidence of an interest in yielding the net assets of the issuer of an equity instrument, are considered to be equity investments by the Bank. The Bank's policy is to designate equity securities as FVTPL.

Property and equipment

Property and equipment are initially carried at cost less accumulated depreciation and accumulated impairment losses. The cost of acquisition includes the purchase price and any costs directly associated with bringing the asset to working condition for its intended use. Costs of routine maintenance and repair, replacement and investment maintenance of a smaller scale are recognized as an expense when incurred. The cost of significant investment maintenance and replacement is capitalized.

Gains and losses on the disposal or disposal of tangible fixed assets are recognized in the statement of comprehensive income in the period in which they arise. Property under construction is stated at cost less any impairment losses. Depreciation begins when the asset is ready for its intended use. Depreciation is calculated based on the estimated useful life of the asset, which is as follows:

	2020	**2019**
Buildings	1.3%-5%	1.3%-5%
Computers	20%	20%
Furniture and other equipment	10%-20%	10%-20%
Vehicles	14.30%-15.50%	14.30%-15.50%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Impairment

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

Recoverable amount is the net selling price or value in use, whichever is higher. For the purpose of valuation in use, estimated future cash flows are discounted to their present value at a pre-tax discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset.

If the recoverable amount of an asset is less than its carrying amount, then the carrying amount of that asset is reduced to its recoverable amount. Impairment losses are recognized immediately as an expense. If an increase in the value of a previously impaired asset is carried out, the carrying amount of the asset is increased to the estimated recoverable amount of the asset, but in such a way that the increased book value is not greater than the carrying amount of the asset that would have existed had it not been previously impaired. An increase in the value of a previously impaired asset is recognized as income when it is incurred.

As of 31 December 2020 and 2019, the Bank's property and equipment were not impaired.

Intangible assets

Intangible assets include separate identifiable intangible items arising from licenses for computer software and other intangible assets. Intangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses, if any. The cost of acquisition includes the purchase price and any costs directly associated with bringing the asset to working condition for its intended use. Depreciation begins when the asset is ready for its intended use. Depreciation is calculated based on the estimated useful life of the asset, which is as follows:

	2020	**2019**
Intangible assets	14.30%-20%	14.30%-20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions for litigation claims are recognized when:

- when it is more likely that settlement of the liability will require an outflow of funds;
- when the amount of the liability can be estimated reliably.

Where there are a number of similar obligations, the likelihood of requiring an outflow of resources to settle the obligation is determined by considering the type of liability as a whole. A provision is recognized even when the outflow of funds relative to the item is unlikely to be included in the same type of liability.

For off-balance sheet liabilities, provisions are formed in the following cases::

- If there is an event that has occurred in the past for which there is a present obligation to pay the Bank,
- There is more than 50% probability that the Bank will have to settle its liabilities and
- If it is possible to reliably estimate the amount of the liability that represents a loss and to form provisions in equal amount.

The Bank's management determines the amount of the provision based on the best estimate of the costs that will be incurred in settling the obligation. If the effect is material, the provision is discounted to its present value.

Shareholders' equity

Share capital

Share capital comprises ordinary shares and is expressed in KM at face value.

Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are authorized shareholders of the Bank.

Off-balance sheet commitments and contingencies

In the ordinary course of business, the Bank enters into off-balance sheet commitments and maintains off-balance sheet records, which primarily include guarantees, letters of credit and approved and not used client financing. The Bank presents these financial liabilities in the statement of financial position if and when they become payable.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities during the next financial year. Estimates and assumptions are constantly reviewed and based on management experience and other factors, including expectations of future events that are consistent with the circumstances. Management also makes certain judgments, other than those involving estimates, in the process of applying accounting policies. The judgments that have the most significant effect on the amounts recognized in the financial statements and the estimates that may cause a material adjustment to the carrying amount of assets and liabilities in the next financial year include:

Useful lives of property and equipment

As described in Notes 3 and 22, the Bank reviews the estimated life of the property and equipment at each reporting date.

Measuring Expected Credit Losses (ECL)

The calculation and measurement of ECL is an area of significant judgment and involves methodology, models and inputs. See Note 34 for details of the ECL measurement methodology applied by the Bank. The following components of ECL calculations have the greatest impact on credit loss for ECLs: the definition of default, SICR, PD, EAD, LGD, and the analysis of the scenario for impaired loans. The Bank regularly reviews and evaluates models and model inputs to reduce the difference between expected credit loss estimates and actual credit loss experience.

Exposure / provisioning classification for FBA reporting purposes

Non-performing portfolio – calculation in accordance with FBA regulations

At the end of the year, the gross value of impaired loans and receivables at amortized cost, and the rates of recognized impairment calculated in accordance with FBA regulations, were as follows:

	31 December 2020			31 December 2019		
Bank	**Corporate (including state and public sector)**	**Retail**	**Total**	**Corporate (including state and public sector)**	**Retail**	**Total**
Gross exposure	229,391	17,142	246,533	229,409	23,295	252,704
Impairment rate on the non-performing portfolio	172,820	12,400	185,220	79,896	15,234	95,130

Any additional increase of one percentage point of gross non-performing exposure as at 31 December 2020, would result in an increase in impairment loss of KM 2,465 thousand (31 December 2019: KM 2,527 thousand).

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

Determination of business model and application of SPPI test

In determining the appropriate measurement category for debt financial instruments, the Bank applies two estimates: an assessment of the asset management business model and an SPPI test based on the characteristics of contractual cash flows at initial recognition. The assessment of the business model was determined at the specific level of aggregation and the Bank was required to apply judgment to determine the level at which the condition of the business model applies.

In assessing sales transactions, the Bank considers their historical frequency, timing and value, the reasons for the sale, and the expectations about future sales activities. Sales transactions that aim to minimize potential losses due to deterioration in creditworthiness are considered consistent with the business model of "collecting contracted cash flows." Other pre-maturity sales that are not related to credit risk management activities may also be consistent with the business model of "collecting contracted cash flows, "provided it is infrequent or insignificant, individually and in aggregate. The Bank assesses the significance of sales transactions by comparing the value of sales with the value of the portfolio that is the subject of the business model assessment over the average life of the portfolio.

For a "contractual cash flow and sale" business model, the sale of financial assets is an integral part of achieving the goals of the business model, such as: managing liquidity needs, achieving a specific interest rate yield, or adjusting the duration of the financial assets to the duration of the liabilities financing those assets.

The FVTPL business model is a residual category and includes those financial assets that are managed for the purpose of realizing cash flows solely through sales. For this business model, contract cash flow collection is incidental.

Assessment of an SPPI criterion made on initial recognition of financial assets involves the use of significant estimates in quantitative testing and requires significant judgment in deciding when to apply the quantitative test, which scenarios are reasonably possible, and which should be considered and interpreting the results of quantitative testing (i.e. determining what constitutes significant difference in cash flows).

The key contractual characteristics that are subject to the qualitative or quantitative assessment of the SPPI are the following:

• Modified time value of money: in some cases, the time value component of money may be modified so that only the passage of time is not taken into account, e.g. if the contractual interest rate is periodically reset but the frequency of that reset does not correspond to the duration of the interest rate. In estimating assets with a modified time value of money, the Bank compares the discounted contractual cash flows of assets that are estimated with a "comparative" instrument (money that would result if the time value of money were not modified). The effect of the modified time value of money is reviewed in each reporting period and cumulatively over the life of the instrument. When performing a benchmarking test, the Bank considers all possible scenarios. If the difference between the cash flows of the two instruments is significantly different, the SPPI test did not pass.

• Contractual terms that change the timing or amount of contractual cash flows: for such financial assets, the Bank compares the contractual cash flows that may occur before and after the change to assess that both sets of cash flows meet the SPPI criterion. If the cash flows before and after the change are significantly different, the assets do not meet the SPPI criterion. In some cases, a qualitative assessment may be sufficient.

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

Determination of business model and application of SPPI test (continued)

Examples of conditions that would pass the SPPI test include:

- if the contractual terms include the prepayment option, the SPPI criterion is fulfilled if the prepayment amount is essentially the contractual amount and the accrued contractual interest plus a reasonable fee due to the early termination of the contract.
- o if the contractual terms include initial interest-free or low interest rates, the SPPI test is fulfilled if these conditions are offered to clients as an incentive and they only result in a reduction in the total margin earned by the Bank for the said credit products.

There were no instruments that did not pass the SPPI test at the date of transition.

Repossessed assets

Procedure for repossession and management of assets acquired in proceedings for enforcement of Bank's receivables

Court cases

The Bank conducts an individual assessment of all litigation to which it has exposure. All litigation is monitored and booked on an individual basis.

As at 31 December 2020, the Bank has reserved KM 222 thousand (2019: KM 461 thousand), which the Management Board estimates is sufficient to cover the risk of litigation against the Bank. The decrease of KM 239 thousand was mostly caused by the payment of a lawsuit against Al Shiddi International d.o.o.

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

Impact of the Covid-19 Pandemic

According to the FBA Decision, banks could receive client requests for approval of special measures until 31 December 2020.

The following table shows the total level of loans for which special measures have been approved, as at 31 December 2020, broken down by level on the date of approval of the special measure:

DESCRIPTION	Loans in credit risk level 1 at the date of approval of a special measure		Loans in credit risk level 2 at the date of approval of a special measure		Loans in credit risk level 3 at the date of approval of a special measure	
	Gross loan amount	ECL amount	Gross loan amount	ECL amount	Gross loan amount	ECL amount
Total corporate loans	**79,391**	**2,975**	**24,854**	**2.565**	**4.948**	**2.448**
A - Agriculture, forestry and fishing	41	2	8,186	1.099	3.061	1.660
B - Mining and quarrying	-	-	-	-	-	-
C - Manufacturing industry	18,442	874	7,318	662	783	386
D - Production and supply of electricity, gas, steam and air conditioning	-	-	-	-	-	-
E - Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-
F - Construction	7,768	370	1,595	249	-	-
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	10,235	410	691	83	177	105
X - Traffic and storage	1,162	32	323	18	108	85
I - Accommodation, food preparation and serving activities; hotel and catering	12,226	491	1,792	90	554	83
J - Information and communication	2,433	65	1,852	166	14	8
K - Financial and insurance activities	-	-	-	-	-	-
L - Real estate activities	258	7	1,803	90	-	-
M - Professional, scientific and technical activities	24,595	664	-	-	250	121
N - Administrative and support service activities	779	21	-	-	-	-
O - Public administration and defense; compulsory social insurance	-	-	-	-	-	-
P - Education	239	7	-	-	-	-
Q - Health and social work activities	846	23	1,295	109	-	-
R - Arts, entertainment and recreation	368	10	-	-	-	-
S - Other service activities	-	-	-	-	-	-
T - Activities of households as employers; activities of households that produce different goods and perform different services for their own use	-	-	-	-	-	-
U - Activities of extraterritorial organizations and bodies	-	-	-	-	-	-
Total retail loans	**24,275**	**430**	**2,437**	**165**	**693**	**384**
General consumption	19,872	367	2,386	162	693	384
Housing	3,729	36	51	3	-	-
Performing business activities (entrepreneurs)	674	27	-	-	-	-
Total loans	**103,666**	**3,405**	**27,291**	**2.730**	**5.641**	**2.832**

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

Impact of the Covid-19 Pandemic (continued)

Loan portfolio with measures approved to clients in accordance with the Decision on temporary measures for banks to mitigate the negative economic consequences caused by the viral disease "COVID-19" as well as the Program of special measures to mitigate the negative economic consequences caused by the viral disease COVID-19, which were applied during In 2020, with the aim of mitigating the negative economic consequences of the pandemic, as at 31 December 2020, it amounts to KM 136,598 thousand. Of this amount, KM 57,387 thousand of loans came out of the measures, i.e. they expired, while loans in the amount of KM 79,210 thousand have active measures.

5. SEGMENT REPORTING

	Corporate	Retail	Banks	Other	Total
For the year ended 31 December 2020					
Interest income	11,838	16,062	3,024	1,070	31,994
Interest expense	(3,500)	(3,788)	(1,480)	-	(8,768)
Net interest income	**8,338**	**12,274**	**1,544**	**1,070**	**23,226**
Fee and commission income	6,899	1,888	449	979	10,215
Fee and commission expense	(2,509)	(2,555)	-	(797)	(5,861)
Net fee and commission income	**4,390**	**(667)**	**449**	**182**	**4,354**
Other income	**782**	**338**	**-**	**7,744**	**8,864**
Operating income	**-**	**-**	**-**	**2,131**	**2,131**
Operating expenses	**(11,968)**	**(11,806)**	**-**	**-**	**(23,774)**
Profit before impairment, provisions and income tax	**1,542**	**139**	**1,993**	**11,127**	**14,801**
Impairment losses and provisions	(26,633)	1,006	12,536	-	(13,091)
PROFIT BEFORE INCOME TAX	**(25,091)**	**1,145**	**14,529**	**11,127**	**1,710**
Income tax	(90)	-	-	-	(90)
NET PROFIT FOR THE CURRENT YEAR	**(25,181)**	**1,145**	**14,529**	**11,127**	**1,620**

5. SEGMENT REPORTING (CONTINUED)

	Corporate	Retail	Banks	Other	Total
For the year ended 31 December 2019					
Interest income	15,963	15,865	3,545	314	35,687
Interest expense	(3,837)	(3,497)	(1,301)	-	(8,635)
Net interest income	**12,126**	**12,368**	**2,244**	**314**	**27,052**
Fee and commission income	6,761	2,263	428	743	10,195
Fee and commission expense	(2,701)	(3,057)	-	(814)	(6,572)
Net fee and commission income	**4,060**	**(794)**	**428**	**(71)**	**3,623**
Other income	**939**	**433**	**-**	**223**	**1,595**
Operating income	**-**	**-**	**-**	**1,843**	**1,843**
Operating expenses	**10,729**	**12,014**	**45**	**-**	**22,788**
Profit before impairment, provisions and income tax	**6,396**	**(7)**	**2,627**	**2,309**	**11,325**
Impairment losses and provisions	(12,419)	2,976	6,417	(7,011)	(10,037)
	-	-	-	-	-
PROFIT BEFORE INCOME TAX	**(6,023)**	**2,969**	**9,044**	**(4,702)**	**1,288**
Income tax	(72)	-	-	-	(72)
NET PROFIT FOR THE CURRENT YEAR	**(6,095)**	**2,969**	**9,044**	**(4,702)**	**1,216**

The table below presents total assets and liabilities per segment for the Bank, since it represents the main segment of the statement of financial position.

BANK	Corporate	Retail	Banks	Other	Total
31 December 2020					
Total assets	369,725	240,534	268,740	205,143	**1,084,142**
Total liabilities	410,827	399,125	196,895	12,601	**1,019,448**
31 December 2019					
Total assets	583,597	212,641	49,515	215,733	**1,061,486**
Total liabilities	392,752	326,138	156,753	12,827	**888,470**

6. INTEREST INCOME AND EXPENSE

Interest income	**2020**	**2019**
Retail	16,066	15,865
Corporate	11,839	15,963
Banks	3,024	3,545
Interest income on securities at AC and FVTPL	1,065	314
	31,994	**35,687**

Interest expense	**2020**	**2019**
Retail	3,788	3,497
Corporate	3,500	3,837
Banks	1,163	975
Other	317	326
	8,768	**8,635**

Interest income and expense by class of financial instruments are presented below:

Interest income		**2020**	**2019**
AC	Cash and cash equivalents	1,450	988
AC	Receivables from banks	1,574	2,557
AC	Loans and receivables	27,905	31,733
AC	Securities	1,048	314
FVTPL	Securities	17	95
		31,994	**35,687**

Interest expense		**2020**	**2019**
AC	Due to banks	649	443
AC	Due to clients	7,224	7,300
AC	Borrowings and other loans	895	892
		8,768	**8,635**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income	**2020**	**2019**
Fees from payment transactions services	6,420	6,629
Fees for POS terminals	1,228	1,624
Fees for loans given to banks	979	428
Fees for guarantees	790	562
Fees for credit card transactions	729	871
Other fee income	69	81
	10,215	**10,195**

7. FEE AND COMMISSION INCOME AND EXPENSE (CONTINUED)

Fee and commission expense	2020	2019
Credit card operations	2,556	3,057
Fees for deposit insurance	1,865	2,006
Payment transactions	796	815
Other	644	694
	5,861	**6,572**

All of the above listed income is recognized at point-in-time, except for commission for financial guarantees and performance guarantees, and commission for custody services, which are recognized over time.

8. FX DIFFERENCES, NET

	2020	2019
Income from transactions in foreign currencies	59,585	28,318
Expense from transactions in foreign currencies	(57,454)	(26,475)
	2,131	**1,843**

9. OTHER INCOME

	2020	2019
Gains from sale of tangible assets and equipment	6,891	-
Collected written-off receivables	936	939
Income from commission for insurance brokerage	449	316
Other non-operating income	588	341
	8,864	**1,595**

10. EMPLOYEE EXPENSES

	2020	2019
Net salaries	4,520	4,549
Taxes and contribution	4,481	4,588
Meal allowance	1,252	1,238
Provisions for employee benefits (Note 30)	-	75
Other employee expenses	1,552	1,519
	11,805	**11,969**

The Bank had 310 employees as at 31 December 2020 (31 December 2019 – 311 employees).

11. OTHER OPERATING EXPENSES

	2020	2019
Services	3,720	3,390
Court administrative expenses	728	549
Card operations	534	663
Marketing	521	437
Postal services	443	489
Energy	320	447
Rent	268	209
Other taxes and contributions	233	169
Other material expenses	184	204
Supervisory Board fees	147	173
Insurance	137	145
Entertainment	132	147
Office material	127	120
Maintenance	99	69
Memberships in associations and chambers	75	68
Utilities	47	60
Fuel	46	82
Penalties and damages	-	15
Other	328	115
	8,089	**7,551**

12. ALLOWANCE FOR CREDIT RISK AND OFF-BALANCE SHEET ITEMS

	2020	2019
Given loans at amortized cost (Note 18)	11,657	13,464
Cash and cash equivalents (Note 15)	(16)	347
Obligatory reserve with the CBBH (Note 16)	186	(86)
Financial assets at amortized cost (Note 19)	142	92
Other assets (Note 21)	(9)	11
Placements with banks at amortized cost (Note 17)	134	(2,947)
Provisions for off-balance sheet items (Note 30)	758	(814)
Provisions for court proceedings (Note 30)	239	140
	13,091	**10,207**

13. INCOME TAX

The Bank's tax liability is calculated on the basis of accounting profit, taking into account non-deductible expenses and non-taxable income. The corporate income tax rate for the years ended 31 December 2020 and 31 December 2019 was 10%.

The total tax recognized in the statement of comprehensive income can be presented as follows:

	2020	2019
Current tax	90	72
Deferred tax	-	-
Total tax	**90**	**72**

Reconciliation of income tax and effective income tax:

	2020	2019
Profit before taxation	**1,710**	**1,288**
Tax liability at 10% (2019: 10%)	*71*	*128*
Adjustments for:		
- non-deductible expenses	1,178	166
- non-deductible income	-	(43)
Transfer of unused tax losses	*(1,909)*	*(2,160)*
Income tax expense in Federation of Bosnia and Herzegovina (FBiH)	*(506)*	*(1,909)*
Tax effects in Republika Srpska (RS and BD)	900	720
Income tax expense in Republika Srpska (RS and BD)	*90*	*72*
Income tax expense for the year	**90**	**72**
Effective income tax rate (%)	**5.26%**	**5.59%**

The Bank has not recognized any temporary differences as at 31 December 2020 that could cause an increase in deferred taxes.

14. EARNINGS PER SHARE

	2020	2019
Average number of shares	20,000	20,000
Net profit	1,620	1,216
Basic earnings per share	**81.0**	**60.8**
Diluted earnings per share	**81.0**	**60.8**

Basic earnings per share is calculated by dividing net profit for the financial year to average number of shares.

Bank's shares bear no preferential dividend rights.

15. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Current accounts with other banks	110,438	106,500
Current account with the CBBH	64,260	19,630
Cash at hand	27,979	24,841
Checks	1	1
Less: Allowance for impairment	*(551)*	*(567)*
	202,127	**150,405**

Movement in allowance for credit losses can be presented as follows

	2020	2019
As at 1 January	**567**	**220**
(Decrease) / increase in allowance (Note 15)	(16)	347
As at 31 December	**551**	**567**

16. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2020	31 December 2019
Obligatory reserve with the CBBH	98,193	85,706
Less: Allowance for impairment of funds with the CB	*(534)*	*(348)*
	97,659	**85,358**

Movement in allowance for credit losses can be presented as follows

	2020	2019
As at 1 January	**348**	**434**
Increase / (decrease) (Note 16)	186	(86)
As at 31 December	**534**	**348**

The minimum required reserve is calculated as a percentage of the average balance of total deposits and borrowed funds for each business day during the 10 calendar days of holding the required reserves. The reserve requirement rate is 10% on total short-term deposits and loans, and 7% on total long-term deposits and loans.

The interest rate (negative) on the minimum reserve requirement was 0.5% in 2020 (0.2% in 2019). Cash held as a required reserve in the account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

17. PLACEMENTS WITH BANKS AT AMORTIZED COST

	31 December 2020	31 December 2019
Aktif Yatirim Bankasi A.S., Turkey	19,812	29,007
Pasha Yatırım Bankası A.Ş., Turkey	19,558	-
Kuveyt Turk Katılım Bankasi A.Ş., Turkey	13,537	-
Alternatif Bank A.S., Turkey	5,892	-
T.C. Ziraat Bahrain Branch, Bahrain	4,890	-
IS. Bank Georgia	2,543	-
Ziraat Bank Uzbekistan, Uzbekistan	1,911	2,098
Ziraat Bank Montenegro, Montenegro	-	18,385
T.C. Ziraat Bahrain Branch, Bahrain	-	11,319
Iş Bank Georgia	-	2,543
Less: Allowance for impairment	*(684)*	*(550)*
	67,460	**62,802**

All placements with banks recognized in the Bank's financial statements are deposits with other banks classified as financial instruments at AC (2020 and 2019).

Changes in allowance for impairment during the year are presented in the table below:

	2020	2019
As at 1 January	**550**	**3,497**
Increase due to recognition (Note 12)	134	-
Decrease due to derecognition (Note 12)	-	(2,947)
As at 31 December	**684**	**550**

All bank placements are classified as Stage 2, and the credit quality of these financial assets can be estimated on the basis of an external credit rating (if available) or on the basis of historical information on third party loss rates.

17. PLACEMENTS WITH BANKS AT AMORTIZED COST (CONTINUED)

	Credit rating of a bank 2020	Credit rating of a bank 2019
COMMERZBANK AG (GERMANY)	BBB+(s&P)	A-(s&P)
DEUTSCHE BANK AG (GERMANY)	BBB+(s&P)	BBB+(s&P)
ZIRAAT BANK INTERNATIONAL AG (GERMANY)	AAA (s&P)	AAA (s&P)
TC ZIRAAT LONDON (LONDON)	B+ (Fitch)	B+ (Fitch)
TC ZIRAAT ANKARA HEAD OFFICE (ANKARA)	B+ (Fitch)	B+ (Fitch)
KUVEYT TURK AG GERMANY (GERMANY)	AAA (s&P)	AAA (s&P)
AKTIF YATIRIM BANKASI (TURKEY)	BB+ (JCR)	BBB- (JCR)
YAPI VE KREDI BANKASI A.S. (TURKEY)	B+ (s&P)	B+(s&P)
HALK BANK A.S. (TURKEY)	B+ (CI)	B+ (Fitch)
İŞBANK GEORGIA	BB (s&P)	BB (s&P)
ZIRAAT BAHRAIN	B+ (Fitch)	B+ (Fitch)
ZIRAAT UZBEKISTAN	BB- (s&P)	BB- (s&P)
TURKIYE IS BANKASI A.S. (TURKEY)	B+ (s&P)	B+ (s&P)
YAPI KREDI BANK NEDERLAND N.V. (NETHERLANDS)	AAA (s&P)	AAA (s&P)
ZIRAAT BANK MONTENEGRO (MONTENEGRO)	B (s&P)	B+ (s&P)
TURKIYE VAKIFLAR BANKASI (TURKEY)	B+ (Fitch)	B+ (Fitch)
PASHA YATIRIM BANKASI A.S. (TURKEY)	A- (Fitch)	BBB+ (Fitch)
KUVEYT TURK KATILIM (TURKEY)	B+ (Fitch)	B+ (Fitch)
Turkiye Ihracat Kredi Bankasi A.S. (TURKEY)	B+ (Fitch)	B+ (Fitch)
QNB Finansbank A.S. (TURKEY)	B+ (Fitch)	B+ (Fitch)
GARANTI BANK (TURKEY)	B+ (Fitch)	B+ (Fitch)
TURKEY	BB- (s&P)	BB- (s&P)
BOSNIA AND HERZEGOVINA	B3 (moodys)	B3 (moodys)
SERBIA	BB+ (s&P)	BB (s&P)
AUSTRIA	AA+ (s&P)	AA+ (s&P)
Fibabanka Anonim Sirketi (TURKEY)	B+ (Fitch)	B+ (Fitch)
ALTERNATIF BANK (TURKEY)	B2 (moodys)	B+ (Fitch)
Turkiye Halk Bankasi A.S. (TURKEY)	B+ (CI)	B+ (Fitch)
Odea bank (TURKEY)	B3 (Moodys)	B3 (Moodys)
Raiffeisen Inetrnational AG (AUSTRIA)	A- (moodys)	A-(s&P)

18. LOAN RECEIVABLES

	31 December 2020	31 December 2019
Short-term loans:		
Corporate	231,196	185,627
Retail	15,233	15,062
Current portion of long-term loans (retail)	5,042	43,255
Current portion of long-term loans (corporate)	119,335	156,513
	370,806	***400,457***
Long-term loans:		
Corporate	389,943	390,302
Retail	241,544	217,378
Less: Current portion of long-term loans	(124,377)	(199,768)
	507,110	***407,912***
Total loans before fees paid in advance	*877,916*	*808,369*
Less: Allowance for credit losses	(206,833)	(106,953)
- Individual assessment	(172,728)	(79,458)
- Collective assessment	(34,105)	(27,495)
Total	**671,083**	**701,416**

18. LOAN RECEIVABLES (CONTINUED)

All loans are measured at AC. Changes in allowance for credit losses can be presented as follows:

	2020	2019
As at 1 January	**106,953**	**100,708**
Effects of FBA Decision (effect in equity) (Note 3)	109,942	-
Increase in allowance for credit losses, net (Note 12)	11,657	13,464
Effect of modifications	138	-
Decrease due to write-off	(21,857)	(7,219)
As at 31 December	**206,833**	**106,953**

Analysis of gross loans before allowance for credit losses per industry:

Corporate	**2020**	**%**	**2019**	**%**
INDUSTRY				
A - Agriculture, forestry and fishing	31,784	3.62%	34,046	4.21%
B - Mining and quarrying	128	0.01%	211	0.03%
C - Manufacturing industry	219,946	25.05%	218,217	26.99%
D - Production and supply of electricity, gas,	15,081	1.72%	16,524	2.04%
E - Water supply; wastewater disposal, management	918	0.10%	914	0.11%
F - Construction	28,473	3.24%	29,837	3.69%
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	118,687	13.52%	103,556	12.81%
H - Transport and storage	9,412	1.07%	9,809	1.21%
I - Accommodation and food service activities	41,155	4.69%	30,043	3.72%
J - Information and communication	8,365	0.95%	8,864	1.10%
K - Financial and insurance activities	87,438	9.96%	50,661	6.27%
L - Real estate activities	13,720	1.56%	12,082	1.49%
M - Professional, scientific and technical activities	37,715	4.30%	43,164	5.34%
N - Administrative and support service activities	1,964	0.22%	2,205	0.27%
P - Education	238	0.03%	307	0.04%
Q - Health and social work activities	2,624	0.30%	3,693	0.46%
R - Arts, entertainment and recreation	528	0.06%	1,057	0.13%
S - Other service activities	94	0.01%	6,092	0.75%
U - Activities of extraterritorial organizations and bodies	-	-	610	0.08%
Total corporate	***618,270***	***70.42%***	***571,892***	***70.75%***
Retail				
INDUSTRY				
14_FL_General consumption	216,831	24.70%	205,588	25.43%
15_FL_Housing	39,699	4.52%	26,616	3.29%
16_FL_Performing business activities (entrepreneurs)	3,116	0.35%	4,273	0.53%
Total retail	***259,646***	***29.58%***	***236,477***	***29.25%***
Total	**877,916**	**100.00%**	**808,369**	**100.00%**

18. LOAN RECEIVABLES (CONTINUED)

Overview per type of user and stage of impairment of loans and deposits per impairment stages as at 31 December 2020

	Gross carrying amount					Allowance for credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
Denominated in KM										
Retail – no collateral	102,933	2,390	8,521	-	113,844	1,925	165	6,151	-	8,241
Retail – with collateral	45,123	358	1,871	-	47,352	626	25	1,267	-	1,918
Credit cards and overdrafts	12,351	302	1,111	-	13,765	110	15	934	-	1,059
Corporate – no collateral	8,683	1,310	1,726	-	11,718	323	129	532	-	984
Corporate – with collateral	136,808	20,794	104,383	-	261,985	5,424	2,190	78,732	-	86,346
	305,898	**25,154**	**117,611**	**-**	**448,663**	**8,407**	**2,524**	**87,616**	**-**	**98,548**

	Gross carrying amount					Allowance for credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
Not denominated in KM										
Retail – no collateral	56,087	1,472	4,274	-	61,833	1,051	96	3,281	-	4,429
Retail – with collateral	18,390	88	1,258	-	19,735	252	5	767	-	1,023
Corporate – no collateral	95,530	93	780	-	96,403	2,812	6	767	-	3,585
Corporate – with collateral	124,616	4,386	122,279	-	251,281	6,093	366	92,789	-	99,248
	294,623	**6,039**	**128,590**	**-**	**429,253**	**10,208**	**473**	**97,603**	**-**	**108,285**
TOTAL	**600,521**	**31,193**	**246,202**	**-**	**877,916**	**18,615**	**2,998**	**185,220**	**-**	**206,833**

18. LOAN RECEIVABLES (CONTINUED)

Overview per type of user and stage of impairment of loans and deposits per impairment stages as at 31 December 2019

	Gross carrying amount					Allowance for credit losses				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Denominated in KM										
Retail – no collateral	95,688	11,634	11,872	-	119,194	2,608	1,170	8,790	-	12,568
Retail – with collateral	33,268	3,619	2,609	-	39,495	232	74	533	-	839
Credit cards and overdrafts	10,287	2,070	1,507	-	13,864	146	59	1,033	-	1,237
Corporate – no collateral	3,368	1,068	6,173	-	10,608	143	145	3,870	-	4,158
Corporate – with collateral	150,152	32,696	99,831	-	282,680	1,658	600	36,286	-	38,544
	292,762	**51,087**	**121,992**	**-**	**465,841**	**4,787**	**2,047**	**50,512**	**-**	**57,346**

	Gross carrying amount					Allowance for credit losses				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Not denominated in KM										
Retail – no collateral	36,520	5,622	6,296	-	48,438	991	545	4,673	-	6,209
Retail – with collateral	8,967	1,325	921	-	11,213	61	13	205	-	279
Corporate – no collateral	59,282	375	2,058	-	61,715	1,936	38	1,061	-	3,035
Corporate – with collateral	91,096	9,165	120,901	-	221,162	1,098	307	38,680	-	40,085
	195,866	**16,487**	**130,175**	**-**	**342,528**	**4,086**	**903**	**44,619**	**-**	**49,607**
TOTAL	**488,628**	**67,574**	**252,167**	**-**	**808,369**	**8,872**	**2,950**	**95,131**	**-**	**106,953**

18. LOAN RECEIVABLES (CONTINUED)

Transfer of exposure to loans and receivables between impairment stages as at 31 December 2020

	Gross carrying amount					
	Transfer between Stage 1 and 2		Transfer between Stage 2 and 3		Transfer between Stage 1 and 3	
	Stage 1 to Stage 2	Stage 2 to Stage 1	Stage 2 to Stage 3	Stage 3 to Stage 2	Stage 1 to Stage 3	Stage 3 to Stage 1
Retail – no collateral	2,223	10,223	2,771	44	2,283	640
Retail – with collateral	230	3,461	700	-	71	114
Credit cards and overdrafts	133	1,482	182	1	104	47
Corporate – no collateral	15	99	21	-	14	-
Corporate – with collateral	4,138	368	16,009	1,852	919	-
	6,739	**15,634**	**19,684**	**1,898**	**3,390**	**801**

Transfer of exposure to loans and receivables between impairment stages as at 31 December 2019

	Gross carrying amount					
	Transfer between Stage 1 and 2		Transfer between Stage 2 and 3		Transfer between Stage 1 and 3	
	Stage 1 to Stage 2	Stage 2 to Stage 1	Stage 2 to Stage 3	Stage 3 to Stage 2	Stage 1 to Stage 3	Stage 3 to Stage 1
Retail – no collateral	6,076	4,317	2,294	1,039	2,388	874
Retail – with collateral	1,469	1,404	676	181	230	74
Credit cards and overdrafts	826	545	184	82	204	63
Corporate – no collateral	152	48	306	31	191	-
Corporate – with collateral	8,999	6,092	60,417	99	8,033	1,801
	17,522	**12,406**	**63,877**	**1,432**	**11,046**	**2,811**

18. LOAN RECEIVABLES (CONTINUED)

Overview per type of user and stage of impairment of loans and deposits per impairment stages as at 31 December 2020

	As at 1 January 2020	Increase due to acquisitions	Increase/(decrease) due to changes in credit risk	Write-off	As at 31 December 2020
Stage 1	**482,906**	**297,073**	**(198,073)**	**-**	**581,905**
Retail – no collateral	130,447	49,806	(24,209)	-	156,044
Retail – with collateral	42,267	23,876	(3,507)	-	62,636
Credit cards and overdrafts	10,151	1,331	760	-	12,242
Corporate – no collateral	60,971	94,374	(54,268)	-	101,077
Corporate – with collateral	239,070	127,686	(116,848)	-	249,907
Stage 2	**64,966**	**6,058**	**(42,829)**	**-**	**28,196**
Retail – no collateral	15,734	613	(12,746)	-	3,601
Retail – with collateral	4,890	-	(4,474)	-	416
Credit cards and overdrafts	2,012	33	(1,758)	-	287
Corporate – no collateral	1,261	340	(333)	-	1,268
Corporate – with collateral	41,069	5,072	(23,517)	-	22,624
Stage 3	**157,574**	**5,482**	**(123,931)**	**21,857**	**60,982**
Retail – no collateral	4,785	389	(10,612)	8,801	3,362
Retail – with collateral	2,802	7	(1,714)	-	1,095
Credit cards and overdrafts	474	7	(719)	415	178
Corporate – no collateral	3,300	1,171	(14,317)	11,053	1,207
Corporate – with collateral	146,213	3,909	(96,569)	1,587	55,140
POCI	-	-	-	-	-
TOTAL	**705,446**	**308,613**	**(364,833)**	**21,857**	**671,083**

18. LOAN RECEIVABLES (CONTINUED)

Overview per type of user and stage of impairment of loans and deposits per impairment stages as at 31 December 2019

	As at 1 January 2019	Increase due to acquisitions	Increase/(decrease) due to changes in credit risk	Write-off	As at 31 December 2019
Stage 1	**387,327**	**279,533**	**(187,105)**	**-**	**479,756**
Retail – no collateral	118,190	50,368	(39,949)	-	128,609
Retail – with collateral	26,896	21,527	(6,481)	-	41,942
Credit cards and overdrafts	10,653	895	(1,407)	-	10,141
Corporate – no collateral	9,312	61,726	(10,466)	-	60,571
Corporate – with collateral	222,277	145,017	(128,802)	-	238,492
Stage 2	**130,165**	**20,454**	**(85,995)**	**-**	**64,624**
Retail – no collateral	15,734	3,380	(3,574)	-	15,541
Retail – with collateral	4,721	1,774	(1,638)	-	4,857
Credit cards and overdrafts	1,911	145	(44)	-	2,011
Corporate – no collateral	1,321	-	(61)	-	1,260
Corporate – with collateral	106,478	15,155	(80,678)	-	40,955
Stage 3	**115,108**	**9,567**	**25,313**	**7,049**	**157,036**
Retail – no collateral	3,830	678	198	-	4,705
Retail – with collateral	3,281	-	(490)	-	2,791
Credit cards and overdrafts	432	15	27	-	474
Corporate – no collateral	107	100	(1,236)	4,329	3,300
Corporate – with collateral	107,458	8,774	26,814	2,720	145,767
POCI	-	-	-	-	-
TOTAL	**632,600**	**309,554**	**(247,786)**	**7,049**	**701,416**

18. LOAN RECEIVABLES (CONTINUED)

	31 December 2020	31 December 2019
Corporate (including state and public sector)		
- in domestic currency	271,835	292,166
- in foreign currency	261,122	283,761
	532,857	*575,927*
Retail		
- in domestic currency	174,341	172,283
- in foreign currency	170,618	60,159
	344,959	*232,442*
Total loans and receivables before impairment	**877,916**	***808,369***
Less: Allowance for impairment	(206,833)	(106,953)
Net loans and receivables	**671,083**	**701,416**
Expected realization:		
- within 12 months from the reporting period date	359,018	422,230
- over 12 months from the reporting period date	518,898	386,139
Less: Allowance for impairment	(206,833)	(106,953)
	671,083	**701,416**

19. SECURITIES AT AMORTIZED COST

Debt securities	**31 December 2020**	**31 December 2019**
Bonds of the Republic of Turkey denominated in EUR with maturity on 11 April 2023 and interest rate of 4.13%	10,071	-
Bonds of the Republic of Turkey denominated in EUR with maturity on 2 January 2026 and interest rate of 5.20%	6,133	-
Bonds of the Republic of Turkiye vakiflar Bankasi T.O.A denominated in USD with maturity on 6 February 2025 and interest rate of 5.25%	3,253	-
Bonds of the Republic of Turkey denominated in USD with maturity on 24 October 2028 and interest rate of 6.13%	2,416	2,651
Bonds of the Ministry of Finance of RS denominated in EUR with maturity on 8 April 2025 and interest rate of 2.00%	2,029	-
Bonds of the Ministry of Finance of RS denominated in BAM with maturity on 16 April 2028 and interest rate of 2.00%	2,028	-
Bonds of the IS Bankasi, Turkey denominated in USD with maturity on 21 April 2022 and interest rate of 5.65%	1,610	1,759
Bonds of the Turkiye Halk Bankasi denominated in USD with maturity on 5 February 2020 and interest rate of 3.88%	-	3,551
Less: Allowance for credit losses	*(248)*	*(106)*
	27,292	**7,855**

Changes in allowance for impairment can be presented as follows:

	2020	**2019**
As at 1 January	**106**	**14**
Increase (Note 12)	142	92
As at 31 December	**248**	**106**

All bonds (debt securities) are classified as financial assets at AC. The credit quality of these financial assets in 2020 was assessed by an external credit rating as presented in the table below:

	Credit rating 2020	**Credit rating 2019**
Turkiye Halk Bankasi, Turkey	B+ (CI)	B+ (Fitch)
Republika Turska, Turkey	BB- (S&P)	BB- (S&P)
Turkiye Vakiflar Bankasi T.O.A, Turkey	B+(S&P)	B+(Fitch)
Ministry of Finance of RS, BiH	B+(Moodys)	B+(Moodys)
IŞ Bankasi, Turkey	B+ (S&P)	B+ (S&P)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Name	Share %	31 December 2020	31 December 2019
Bamcard d.o.o. Sarajevo	20.03	488	488
Registry of securities of FBiH	0.01	18	18
Investment in OIF Raiffeisen Cash	3.16	-	7,418
		506	*7,924*
Less: Allowance for credit losses		-	(3)
		506	**7,921**

Investment in OIF Raiffeisen Cash amounts to KM 7,400 as at 31 December 2019, and the yield on this exposure was KM 18 thousand as at 31 December 2019. These receivables were closed on 10 January 2020.

All equity instruments are classified as financial assets at fair value through profit or loss.

21. OTHER ASSETS

	31 December 2020	31 December 2019
Receivables on credit card operations	2,196	1,363
Other receivables from banks	2,319	2,023
Prepaid income tax	1,116	1,074
Repossessed tangible assets	331	515
Other receivables and assets	2,258	1,718
Less: Allowance for impairment	*(422)*	*(507)*
	7,798	**6,186**

Changes in allowance for impairment can be presented as follows:

	2020	2019
As at 1 January	**507**	**496**
(Decrease) / increase in allowance (Note 12)	(9)	11
Decrease due to derecognition	(76)	-
As at 31 December	**422**	**507**

22. PROPERTY AND EQUIPMENT

	Land and buildings	Computers and other IT equipment	Vehicles, telephone equipment	Furniture and office equipment	Investments in progress	Total
COST						
As at 31 December 2018	**29,608**	**2,984**	**1,904**	**5,310**	**9**	**39,815**
Additions	-	-	-	-	1,190	1,190
Transfers (from)/to	3	71	2	74	(150)	-
Transfer to intangible assets (Note 24)	-	-	-	-	(784)	(784)
Disposals	-	(3)	-	(2)	-	(5)
As at 31 December 2019	**29,611**	**3,052**	**1,906**	**5,382**	**265**	**40,216**
Additions	206	125	1	-	753	1,394
Transfers (from)/to	309	-	-	-	(309)	-
Disposals	(29,244)	(3)	(103)	(96)	-	(29,446)
As at 31 December 2020	**882**	**3,174**	**1,804**	**5,286**	**709**	**11,855**
ACCUMULATED DEPRECIATION						
As at 31 December 2018	**1,572**	**2,128**	**1,115**	**3,193**	**-**	**8,008**
Charge for the period	447	368	215	411	-	1,441
Write-off	-	(3)	-	(2)	-	(5)
As at 31 December 2019	**2,019**	**2,493**	**1,330**	**3,602**	**-**	**9,444**
Charge for the period	426	359	203	370	-	1,358
Write-off	(2,100)	(3)	(98)	(67)	-	(2,268)
As at 31 December 2020	**345**	**2,849**	**1,435**	**3,905**	**-**	**8,534**
NET CARRYING AMOUNT						
As at 31 December 2020	**537**	**325**	**369**	**1,381**	**709**	**3,321**
As at 31 December 2019	**27,592**	**559**	**576**	**1,780**	**265**	**30,772**

23. RIGHT-OF-USE ASSETS

	Right-of-use buildings
COST	
As at 1 January 2019	**7,285**
As at 31 December 2019	**7,285**
Additions	352
As at 31 December 2020	**7,637**
ACCUMULATED DEPRECIATION	
As at 1 January 2019	**-**
Charge for the year	757
Correction	(44)
As at 31 December 2019	**713**
Charge for the year	1,536
31 December 2020	**2,249**
NET CARRYING AMOUNT	
31 December 2020	**5,387**
As at 31 December 2019	**6,572**

Right-of-use assets refers to properties that the Bank leased for conducting business operations and where lease contracts exceed 1 year (Note 28).

24. INTANGIBLE ASSETS

	Computer software
COST	
31 December 2018	**6,305**
Transfer from tangible assets (Note 22)	784
31 December 2019	**7,089**
Additions	158
Write-off	(472)
31 December 2020	**6,775**
ACCUMULATED AMORTIZATION	
31 December 2018	**3,990**
Charge for the year	900
31 December 2019	**4,890**
Charge for the year	848
31 December 2020	(472)
	5,266
NET CARRYING AMOUNT	
31 December 2020	
31 December 2019	**1,509**

25. LIABILITIES TO BANKS AT AMORTIZED COST

	31 December 2020	31 December 2019
TC Ziraat Ankara Head office, Turkey	40,000	-
The World Bank	429	287
	40,429	**287**

Maturity analysis for liabilities to banks:	31 December 2020	31 December 2019
In the first year	40,429	287
In the second year	-	-
In the period from third to fifth year	-	-
Over five years	-	-
	40,429	**287**

26. LIABILITIES TO CLIENTS AT AMORTIZED COST

	31 December 2020	31 December 2019
Demand deposits:		
Retail:		
In domestic currency	98,284	67,279
In foreign currencies	29,516	25,579
	127,800	*92,858*
Corporate:		
In domestic currency	82,495	100,092
In foreign currencies	68,193	58,917
	150,688	*159,009*
Total demand deposits	**278,488**	**251,867**
Term deposits:		
Retail:		
In domestic currency	90,001	63,175
In foreign currencies	181,324	170,105
	271,325	*233,280*
Corporate:		
In domestic currency	206,412	185,054
In foreign currencies	53,727	48,689
	260,139	*233,743*
Total term deposits	**531,464**	**467,023**
	809,952	**718,890**

Interest rates on demand deposits were 0% in 2019, while for 2020, interest rates on demand deposits increased by 100% or 0.01% compared to 2019. Interest rates on term deposits ranged from 0.03% to 2.25% p.a. during 2019, and from 0.025% to 1.35% during 2020. Interest accrued but unpaid as at 31 December 2020 amounted to KM 6,113 thousand.

Maturity analysis for liabilities to clients:	31 December 2020	31 December 2019
In the first year	638,229	318,732
In the second year	85,998	282,685
In the third to fifth year	81,908	73,153
Over five years	3,817	44,320
	809,952	**718,890**

27. BORROWINGS AND OTHER LOANS AT AMORTIZED COST

	31 December 2020	31 December 2019
T.C. Ziraat Bankasi Ankara, Turkey	156,466	156,466
	156,466	**156,466**

Liabilities for borrowings and other loans refer to the credit line from related party (owner) T.C. Ziraat Bankasi A.S. in the amount of EUR 50 million divided into tranches. The first tranche was taken over a 10-year period, from 27 April 2012 to 27 April 2022, at an annual interest rate of 0.00%. On 6 July 2019, an annex to the existing agreement was signed and the first line of credit extended to 2027. The Bank signed another contract with TC Ziraat Bankasi Ankara for the second tranche worth EUR 30 million 20 April 2015. The credit line was taken for a period of 10 years, until 20 April 2025, with an annual interest rate of 1.50%.

Borrowings are due as follows:

	31 December 2020	31 December 2019
In the first year	-	-
In the second to fifth year	-	-
Over five years	156,466	156,466
	156,466	**156,466**

28. LEASE LIABILITIES

	31 December 2020	31 December 2019
Maturity analysis:		
1st year	1,454	672
2nd year	564	694
3rd year	393	726
4th year	328	759
5th year	578	655
Outstanding to maturity	2,201	3,196
	5,518	**6,702**

29. OTHER LIABILITIES

	31 December 2020	31 December 2019
Unallocated funds for collected principal and interest	4,608	3,911
Trade payables	205	246
Credit card liabilities	10	261
Other liabilities	322	263
	5,145	**4,681**

30. PROVISIONS

	31 December 2020	31 December 2019
Provisions for unused limits on credit cards	51	108
Provisions for letters of credit and guarantees	740	258
Provisions for unused loans	451	118
Provisions for off-balance sheet items	*1,242*	*484*
Provisions for employee benefits	474	499
Provisions for court proceedings	222	461
	1,938	**1,444**

Movement in provisions can be presented as follows:

	Provisions for off-balance sheet	Provisions for employee benefits	Provisions for court proceedings	Total
As at 31 December 2018	**1,298**	**424**	**321**	**2,043**
Changes in provisions, net (Note 10; Note 11; Note 12)	(814)	75	140	599
As at 31 December 2019	**484**	**499**	**461**	**1,444**
Changes in provisions, net (Note 10; Note 11; Note 12)	758	-	(239)	519
Decrease due to payment	-	(25)	-	(25)
As at 31 December 2020	**1,242**	**474**	**222**	**1,938**

The total value of pending litigations against the Bank as at 31 December 2020 is KM 222 thousand (as at 31 December 2019: KM 479 thousand). The reason for the decrease in provisions for litigation was largely due to the payment of litigation against Al Shiddi International d.o.o. Sarajevo, Bosnia and Herzegovina.

31. OFF-BALANCE SHEET ITEMS AND CONTINGENCIES

	31 December 2020	31 December 2019
Unused loans in KM	32,819	23,843
Performance guarantees	31,893	15,813
Payable guarantees	6,048	9,043
Letters of credit	531	1,043
Bills of exchange	150	150
	71,441	**49,892**

31. OFF-BALANCE SHEET ITEMS AND CONTINGENCIES (CONTINUED)

Changes in gross exposure for losses as at 31 December 2020 on off-balance sheet items during the year are presented in the table below:

	Opening balance	Increase / (decrease) due to recognition use	Increase/(decrease) due to changes in credit risk	Effects of modification	Decrease due to write-off	Other changes	Closing balance
Stage 1	48,025	-	22,209	-	-	-	70,235
Stage 2	1,195	-	(638)	-	-	-	557
Stage 3	672	-	(22)	-	-	-	649
TOTAL	**49,892**	**-**	**21,549**	**-**	**-**	**-**	**71,441**

The movement between the stages of allowance for impairment for the off-balance sheet assets as at 31 December 2020 is presented in the table below:

	Gross carrying amount					
	Transfer between Stage 1 and 2		Transfer between Stage 2 and 3		Transfer between Stage 1 and 3	
	Stage 1 to Stage 2	Stage 2 to Stage 1	Stage 2 to Stage 3	Stage 3 to Stage 2	Stage 1 to Stage 3	Stage 3 to Stage 1
Given guarantees and other security	470	81	232	-	-	-
Unused irrevocable commitments	222	1,082	39	42	14	-
	692	**1,163**	**271**	**42**	**14**	**-**

31. OFF-BALANCE SHEET ITEMS AND CONTINGENCIES (CONTINUED)

Changes in gross exposure for losses as at 31 December 2019 on off-balance sheet items during the year are presented in the table below:

	Opening balance	Increase / (decrease) due to recognition use	Increase/(decrease) due to changes in credit risk	Effects of modification	Decrease due to write-off	Other changes	Closing balance
Stage 1	38,958	9,068	-	-	-	-	48,025
Stage 2	7,171	(5,976)	-	-	-	-	1,195
Stage 3	364	307	-	-	-	-	671
TOTAL	**46,493**	**3,999**	**-**	**-**	**-**	**-**	**49,892**

The movement between the stages of allowance for impairment for the off-balance sheet assets as at 31 December 2019 is presented in the table below:

	Gross carrying amount					
	Transfer between Stage 1 and 2		Transfer between Stage 2 and 3		Transfer between Stage 1 and 3	
	Stage 1 to Stage 2	Stage 2 to Stage 1	Stage 2 to Stage 3	Stage 3 to Stage 2	Stage 1 to Stage 3	Stage 3 to Stage 1
Given guarantees and other security	395	417	557	-	-	-
Unused irrevocable commitments	1,019	1,036	97	29	2	68
	1,413	**1,453**	**654**	**29**	**2**	**68**

32. RELATED PARTY TRANSACTIONS

Related party transactions are carried out in the ordinary course of business, and are presented at a fair amount for which they are exchanged, representing the amount agreed between the related parties.

During the year Bank has following transactions with related parties:

	31 December 2020	31 December 2019
Receivables (assets)		
T.C. Ziraat Bankasi Ankara, Turkey – direct owner	80,732	3,330
Ministry of Treasury of the Republic of Turkey – ultimate owner	18,035	2,622
T.C. Ziraat Bahrain Branch	4,889	11,319
Ziraat Bank Uzbekistan	1,911	2,098
T.C. Ziraat Bankasi Ankara, London subsidiary – other related parties	161	79
Ziraat Bank International Frankfurt, Germany – other related parties	66	664
Ziraat Bank Montenegro – other related parties	-	18,385
	105,794	**38,497**

	31 December 2020	31 December 2019
Liabilities		
T.C. Ziraat Bankasi Ankara, Turkey – direct owner	156,466	156,466
	156,466	**156,466**

	2020	2019
Income		
T.C. Ziraat Bankasi Ankara, Turkey	715	1
T.C. Ziraat Bankasi Ankara, Bahrain subsidiary – other related parties	298	159
T.C. Ziraat Bankasi Ankara, Montenegro subsidiary – other related parties	123	255
T.C. Ziraat Bankasi Ankara, Uzbekistan subsidiary	94	89
T.C. Ziraat Bankasi Ankara, Kosovo subsidiary – other related parties	-	12
T.C. Ziraat Bankasi Ankara, Kazakhstan subsidiary – other related parties	-	214
	1,230	**730**

32. RELATED PARTY TRANSACTIONS (CONTINUED)

	2020	2019
Expenses		
T.C. Ziraat Bankasi Ankara, Turkey – direct owner	895	1
Ziraat GYO d.o.o. BiH – other related parties	922	-
	1,817	**1**

Transactions with the key management personnel of the Bank

	31 December 2020	31 December 2019
Assets		
Loans to members of the Management Board of the Bank (interest rate 6.9% - 15.36%)	50	33
	50	**33**

	2020	2019
Income		
Interest income (Management Board of the Bank)	1	1
	1	**1**

Remunerations to the key management personnel of the Bank

Total gross remunerations to directors and other key management personnel can be presented as follows:

	31 December 2020	31 December 2019
Gross remunerations to the Management	454	616
Gross remunerations to the Supervisory Board	101	124
	555	**740**

33. CONTINGENCIES AND COMMITMENTS

During its operations, the Bank has contingent liabilities and commitments recorded in off-balance sheet records related to guarantees, letters of credit, unused portions of loan commitments.

Ziraat International AG Frankfurt gave a guarantee to Mastercard on behalf of our Bank (ZiraatBank BH d.d.) in the amount of USD 580,000.00 for card processing.

34. FINANCIAL RISK MANAGEMENT

Capital risk management

The objectives of the Bank in managing capital, which is a much broader category than the 'equity' stated in the statement of financial position, are as follows:

- Comply with the capital requirements imposed by regulators in the banking market;
- Ensure that the Bank is able to continue as a going concern in order to provide a return to shareholders. As well as benefits to other market participants; and
- Maintain a strong capital base that will support the development of the Bank's business.

The Bank's Management capital adequacy and use of regulatory capital monitors on a daily basis, using techniques based on guidelines developed by the FBA.

The information requested is submitted to the FBA on a quarterly basis. The FBA requires each bank to:

a) to maintain a minimum amount of paid-in share capital and net capital of KM 15 million; and
b) maintain a net equity to risk weighted asset ratio of at least 12%.

With the exception of the objective inability to recapitalize the Bank and meet the stipulated minimum capital adequacy ratio during 2020, the Bank's management believes that the Bank is compliant in all material respects with regulations set by the FBA.

The new Decision on credit risk management and determining expected credit losses ("Official Gazette of FBiH", no. 44/19) came into force during 2020. Effects of application of the new Decision on Bank's capital is increase in impairment of financial assets in the balance sheet and provisions for off-balance sheet items, in the amount of KM 109,942 thousand. Note 3 describes the impact of application of the new Decision on Bank's capital adequacy.

	2020	2019
Capital		
Owners' equity	200,000	200,000
Reserves formed from profit	-	6,543
Intangible assets	(1,509)	(2,119)
Current year loss	(136,926)	(34,743)
Tier 1 capital	**61,565**	**169,601**
General reserves for credit losses based on A category loans – high quality assets	-	8,821
Subordinated debt	20,522	58,675
Tier 2 capital	**20,522**	**67,496**
Missing reserves for credit losses under regulatory requirements	-	(69,617)
Net capital of the Bank	**82,087**	**167,480**
Risk weighted assets and credit equivalents	726,196	705,791
Weighted currency risk	10,197	14,850
Weighted operating risk	48,122	73,592
Total weighted risk	**784,515**	**794,161**
Capital adequacy ratio	**10.46%**	**21.09%**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

The capital adequacy ratio as at 31 December 2020 is 10.46%, which is below the legally prescribed capital ratio (12%). As stated in the previous period, the Bank started the recapitalization process in December 2019 in order to comply with the law, but due to delays in the process of appointing new president and members of the FBiH Securities Commission, the recapitalization has not yet been implemented.

Had the recapitalization process been completed, the capital adequacy ratio of the Bank would amount to 17.26%, which is above the statutory minimum rate (31 December 2019 – 21.09%).

Financial risk management objectives

The Bank's Treasury function supports business operations, coordinates access to domestic and international markets, monitors and manages financial risks related to the Bank's operations through internal risk reports analysing exposure by degree and impact of risk. These risks include market risk, credit risk, liquidity risk and interest rate risk.

Categories of financial instruments

	Financial assets according to IFRS 9 categories	31 December 2020	31 December 2019
Financial assets			
Cash and cash equivalents	AC	202,127	150,405
Obligatory reserve with the CBBH	AC	97,659	85,358
Placements with other banks	AC	67,460	62,802
Given loans and other receivables	AC	671,083	701,416
Financial assets at amortized cost	AC	27,292	7,855
Financial assets at FVTPL	FV	506	7,921
Other assets	AC	7,798	6,186
		1,073,924	**1,021,943**
Financial liabilities			
Liabilities to banks	AC	40,429	287
Borrowings and other loans	AC	156,466	156,466
Liabilities to clients	AC	809,952	718,890
Lease liabilities	AC	5,518	6,702
Other liabilities	AC	5,145	4,681
		1,017,510	**887,026**

During 2020 and 2019, the Bank did not have reclassifications between categories of financial instruments.

Market risk

Due to its activities, the Bank is primarily exposed to financial risks of changes in foreign currency exchange rates and changes in interest rates. Market risk exposures are analysed using a sensitivity analysis. There were no changes in the Bank's exposure to market risk or how the Bank manages and measures this risk.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk management

The Bank performs certain transactions denominated in foreign currencies. Thus, there is exposure to changes in foreign currency exchange rates. Exposure to the exchange rate is managed within approved policy parameters that use forward contracts for foreign currencies. The carrying amounts of the Bank for monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are as follows:

31 December 2020	KM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	71,780	97,208	29,901	3,238	202,127
Obligatory reserve with the CBBH	97,659	-	-	-	97,659
Receivables from banks	-	36,613	30,847	-	67,460
Loans receivables at amortized cost	336,746	334,337	-	-	671,083
Financial assets at fair value through profit or loss	506	-	-	-	506
Financial assets at amortized cost	2,720	17,501	7,071	-	27,292
Other assets	7,798	-	-	-	7,798
	517,209	**485,659**	**67,819**	**3,238**	**1,073,924**
LIABILITIES					
Liabilities to banks	429	40,000	-	-	40,429
Borrowings	-	156,466	-	-	156,466
Liabilities to clients	407,798	328,991	71,668	1,495	809,952
Lease liabilities	5,518	-	-	-	5,518
Other liabilities	2,827	2,186	132	-	5,145
Total liabilities	**416,572**	**527,643**	**71,800**	**1,495**	**1,017,510**

31 December 2019	KM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	36,183	102,985	10,244	993	150,405
Obligatory reserve with the CBBH	85,358	-	-	-	85,358
Receivables from banks	-	38,078	24,724	-	62,802
Loans receivables	357,496	343,920	-	-	701,416
Securities at amortized cost	-	-	7,855	-	7,855
Financial assets at fair value through profit or loss	7,921	-	-	-	7,921
Other assets	6,186				6,186
	493,144	**484,983**	**42,823**	**993**	**1,021,943**
LIABILITIES					
Liabilities to banks	287	-	-	-	287
Borrowings	-	156,466	-	-	156,466
Liabilities to clients	417,562	254,217	46,336	775	718,890
Lease liabilities	6,702				6,702
Other liabilities	2,826	1,741	98	16	4,681
Total liabilities	**427,377**	**412,424**	**46,434**	**791**	**887,026**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR. Sensitivity analysis was made on the basis of a 10% increase and / or decrease in the foreign currency exchange rate against the local currency. The 10% sensitivity rate is the rate used in internal reporting to key foreign currency risk management personnel and represents the management's assessment of reasonably possible changes in foreign currency rates.

	USD effect	
	2020	**2019**
Gain or loss	(141)	(143)

The KM is fixed to the Euro (1 EUR = 1.955830 KM) through the Currency Board. Changing the exchange rate would require a law change and adoption by the Parliamentary Assembly of Bosnia and Herzegovina, so the risk is minimized.

The Bank takes exposure to the effects of a change in the prevailing exchange rate differences on its financial position and cash flow. The Bank monitors its currency position against compliance with regulatory requirements defined by the FBA as open position limits. The Bank seeks to balance its assets and liabilities in foreign currencies to avoid exposure to currency risk.

Credit risk management

Credit risk refers to the inability of the other party to settle its contractual obligations resulting in financial loss for the Bank. The Bank has adopted a policy of dealing only with creditworthy parties and providing sufficient collateral where necessary as a means of mitigating risks and financial losses. The Bank's exposure and credit ratings of its clients are constantly monitored, and the total value of concluded transactions is dispersed between accepted clients. Credit risk exposure is controlled by the limits reviewed and approved annually by the risk management committee.

Expected credit loss / impairment loss represents the present value of any impairment of expected cash flows over the expected life of a financial asset. The deduction represents the difference between the cash flows the Bank requires under the contract and the cash flows that the Bank expects to receive. Because expected credit losses take into account the value and timing of the payment, a credit loss may occur when the Bank expects to pay the full amount, but after the contract maturity date.

Stage 1

Initial recognition of financial assets (excluding POCI assets).

For Stage 1, credit risk loss is calculated as a 12-month ECL.

Stage 2

It includes financial assets for which credit risk has increased significantly but whose value has not been impaired at the reporting date, including the initially recognized assets described above. For Stage 2, credit risk loss is calculated as lifetime ECL.

At each reporting date, exposures are classified to Stage 2 by expert judgment, but the automatic triggers to classify Client as Stage 2 exposures are:

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Stage 2 (continued)

For legal entities:

• Delay longer than 30 days against the day counter with a materiality threshold;

• The rating in accordance with the Bank's regulatory categories is worse than "A", i.e. those exposures / clients that have experienced a deterioration in the "A" regulatory category;

• Clients whose accounts have been suspended for more than 10 days, or

For individuals:

• Delay longer than 30 days against the day counter with a materiality threshold.

Stage 3

It includes financial assets that are impaired, i.e. have a default status at the reporting date.

For Stage 3, credit loss impairment is calculated as lifetime ECL.

POCI assets

The Bank uses the following criteria to indicate a significant increase in credit risk (SICR) at the time of reporting to the relevant moment of initial recognition of a financial asset.

Exposures / clients may change levels according to the following rules:

- POCI's can never enter Stage 1, and an estimate of expected losses is always made during the contract period;
- Transfer of exposures / clients from Stage 3 to Stage 2 is possible in accordance with the default rules;
- In the case of reprogramming, the minimum period of regular servicing is 12 months;
- In case the delay days were a criterion for entering the default status, the minimum period of regular servicing for legal entities is 6 months, and for individuals, this is 6 months;
- Transfer of exposure / client from Stage 2 to Stage 1 is possible after eliminating the causes that led to the classification in Stage 2, as follows:
    - For legal entities, at least 3 months after the beginning of regular settlement of liabilities;
    - For individuals, at least 3 months after the beginning of regular settlement of liabilities. For Stage 1, an estimate of the 12-month expected loss is made, while for Stages 2 and 3, an estimate is made over the life of the contract.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Reclassification of exposures

Exposures/clients can change their stage if the defined conditions are met within the defined cooling period.

- Reclassification Stage 3 to Stage 2:
  - POCI assets can be reclassified from Stage 3 to Stage 2 after 12 months of initial recognition but the same cannot come to Stage 1 and the assessment of expected losses is always done at a lifetime level;
  - Restructured exposures within 12 months from the date of restructuring, provided that no delay of more than 30 days was recorded in the observed period
  - 6 months for exposures classified in Stage 3 due to the day of delay, provided that no delay of more than 30 days was recorded in the defined cooling period
  - 12 months for clients who are classified in Stage 3 due to bad credit ratings (change of scoring rating after monitoring)
  - 6 months from account unblocking (if the cause of Stage 3 was only account blocking)
- Reclassification from Stage 2 to Stage 1:
  - 3 months for exposures classified in Stage 2 due to the day of delay, provided that no delay of more than 30 days was recorded in the defined cooling period
  - 6 months for restructured exposures that were classified in Stage 2 at the time of restructuring
  - 24 months after classification of exposures in Stage 2 restructured exposures that were classified in Stage 3 at the time of restructuring
  - 3 months from account unblocking (if the cause of Stage 2 was only account blocking)

Calculation of 12-month expected losses (12EL)

$$\text{Impairment allowance (12EL)} = \frac{EAD_s \times PD_s \times LGD_s}{(1+EKS)^{Yt}}$$

where:

EADs Exposure at the time of the reporting date

PDs probability of entering default status adjusted for future expectations

LGDs Loss in case of default, ie the recovery rate that indicates which part (percentage) of contracts that were in default status came out naturally (taking into account the value of collateral for individual contracts) during a given period of time,

Yt year t for which the effective interest rate is discounted

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Calculation of 12-month expected losses (12EL) (continued)

Thus, measuring impairment on a collective basis requires an estimate based on the use of statistical methods with adjustment for future information. The risk parameters of PD and LGD will be calculated for each homogeneous group at the lifetime level, i.e. the maximum maturity of each homogeneous group using historical data and adjusting for expected future losses.

a) Collective approach

12-month ECL calculation

PD and LGD risk parameters were calculated for each homogeneous group over the life span, i.e. the maximum maturity of a particular homogeneous group using historical data and adjusting for expected future losses.

Calculation of lifetime expected losses (LEL)

a) For non-default exposures, i.e. exposures classified in Level 2 (Stage 2)

$$\text{Impairment allowance (LEL)} = \sum_{t=1}^{\text{Ročnost}} \frac{EAD_s[t] \times mPD_s[t] \times LGD_s[t]}{(1+EKS)^{Yt}}$$

where:

LEL	Lifetime expected credit loss
EADs[t]	
mPDs[t]	for future information adjusted PD vector
LGDs[t]	LGD vector
Yt	year t for which the effective interest rate is discounted

b) For default exposures, the vector PD = 1

Thus, measuring impairment on a group basis requires estimating risk parameters using historical data for each homogeneous group and adjusting for future information and expectations.

It is important to note that the presented model is also applicable to special provisions for insignificant exposures in default in which the default probability vector PD is 100%, i.e. 1 at all maturity points (because the observed exposures are already in default).

b) Individual approach

The basis of the individual approach implies that the analysis of expected future cash flows and several different scenarios of cash collection with certain probabilities for each scenario and taking into account their present value. So this formula is used:

$$RA = \sum_{j=1}^{s} Ps \sum_{i}^{N} \frac{CFi}{(1+EIR)^{ti}}$$

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

b) Individual approach (continued)

Where:

RA – Recovered amount, i.e. the present value of cash flows or the amount secured by collateral

CFi – expected cash flow that implies expected inflows based on the observed party and expected inflows from collateral

EIR – The effective interest rate used to calculate cost depreciation

N – Number of expected cash flows

ti – Expected time to collect CFI cash flows

s – Number of different scenarios

ps Scenario probability p

After calculating the recoverable amount, the percentage of uncollectible receivables is calculated using the following formula:

$$\%IA = (EAD - RA) / FAD$$

Where:

% IA – % of uncollectable receivables

EAD – Exposure at default

RA – Recoverable amount

ECL – is calculated using the following formula:

$$IA = EAD \times \% IA$$

Where IA is allowance for credit losses.

The methodology of ECL measurement implies that the analyst who analyses the future cash flow considers all possible collections of money associated with all transactions across different scenarios. Therefore, if the observed exposure contains off-balance sheet items, the expected cash flow will be located between the balance sheet and the off-balance sheet exposure.

Exposure at the time of default implies that the total exposure that is subject to allowance for credit losses and impairment losses under IFRS 9:

Individual approach is based on the application of two scenarios.

Scenario 1 is an optimistic approach with an assigned probability of 80%. Scenario 2 is a pessimistic scenario with an assigned probability of 20%.

In the second scenario, the haircut value is further reduced by 15%.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Risk parameters used to calculate the expected loss per loan

- **PD – Probability of default**

PD represents the likelihood that performing customers will be moved to default status during a period of 12 months or over the life of the product. PD represents the ratio of transactions / clients in default over a period and the total number of clients / transactions (or their exposures) that are not in default at the beginning of a given period.

An individual-level PD parameter can be interpreted as the likelihood that a standalone transaction (or client) will at some point acquire the default status (enter default) simply, that an event that results in a default status will be identified at the individual level. Consequently, transactions / clients already in default status are assumed to have a PD equal to 1.

The client-level approach focuses on the client itself, i.e. payment delay is considered as a feature of the client. This means that the Bank defines the maximum delay for all exposures for each client. As a consequence, if the transactions, i.e. the individual contracts of the clients cannot be settled in accordance with the agreed conditional agreements, then all the contracts concluded by that client are considered to be in the same status. The client-level approach results in all individual client exposures having the same assigned PD parameters.

- **LGD – Loss given default**

LGD is calculated on the basis of default receivables. The LGD parameter is calculated separately for each segment of the portfolio (homogeneous group), and by groups of days in arrears, where the movement of the default exposure in the period from the entry of placements into default status is observed. For loans that are in the status of default, an analysis of the realized cash flows resulting from the payment of participants in the loan or the realization of collection from collateral, which are later discounted at the effective interest rate. Extinguished batches for which the reason for shutdown is restructuring or write-off are excluded from the basis for calculation of LGD parameters.

- **CCF – Credit conversion factor**

The Credit Conversion Factor (CCF) is an indicator of usage limits for off-balance sheet exposures such as guarantees, letters of credit, and other instruments with the characteristics of approved credit lines (e.g. allowed overdrafts, credit cards, etc.) at the date of default. CCF is used to convert off-balance sheet items into equivalent credit exposures of the statement of financial position for the purpose of calculating provisions.

- **EAD – Exposure at default**

The EAD contains statement of financial position and off-balance sheet items (unused credit lines, deferred receivables and potential future exposure), recognizing that off-balance sheet items are most often weighted by the credit conversion factor (CCF).

For the purposes of IFRS 9 allowances, the measurement of impairment of financial assets should be based on the current book value of the exposure and the net current value of the expected repayments.

The carrying amount of financial assets presented in the financial statements, which is net of impairment losses, represents the Bank's maximum exposure to credit risk, excluding the value of any collateral received.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

The table below represents the carrying amount of financial assets presented in the financial statements, net of impairment losses, and represents the Bank's maximum exposure to credit risk, excluding the value of any collateral received.

Financial assets

	Total gross carrying amount	Individual impairment	Collective impairment	Total net carrying amount
As at 31 December 2020				
Cash and bank accounts	202,678	(551)	-	202,127
Obligatory reserve with the CBBH	98,193	(534)	-	97,659
Receivables from other banks	68,143	(684)	-	67,460
Loan receivables at amortized cost	877,916	(172,728)	(34,105)	671,083
Financial assets at fair value through profit or loss	506	-	-	506
Securities at amortized cost	27,540	(248)	-	27,292
Other assets	8,220	(422)	-	7,798
TOTAL	**1,283,196**	**(175,167)**	**(34,105)**	**1,073,924**
As at 31 December 2019				
Cash and bank accounts	150,972	(567)	-	150,405
Obligatory reserve with the CBBH	85,706	(348)	-	85,358
Receivables from other banks	63,352	(550)	-	62,802
Loan receivables at amortized cost	808,369	(79,458)	(27,495)	701,416
Securities at amortized cost	7,961	(106)	-	7,855
Financial assets at fair value through profit or loss	7,924	(3)	-	7,921
Other assets	6,693	(507)	-	6,186
TOTAL	**1,130,977**	**(81,539)**	**(27,495)**	**1,021,943**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Financial assets (continued)

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / guarantees	
As at 31 December 2020			
Cash and bank accounts	202,127	-	-
Obligatory reserve with the CBBH	97,659	-	-
Receivables from other banks	67,460	-	-
Loan receivables at amortized cost	671,083	69,503	1,157,206
Financial assets at fair value through profit or loss	506	-	-
Securities at amortized cost	27,292		
Other assets	7,798	-	-
Total	**1,073,924**	**69,503**	**1,157,206**

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / guarantees	
As at 31 December 2019			
Cash and bank accounts	150,405	-	-
Obligatory reserve with the CBBH	85,358	-	-
Receivables from other banks	62,802	-	-
Loan receivables at amortized cost	701,416	49,892	1,131,058
Financial assets at amortized cost	7,855	-	-
Financial assets at fair value through profit or loss	7,921	-	-
Other assets	6,186	-	-
Total	**1,021,943**	**49,892**	**1,131,058**

Fair value of collateral

	31 December 2020	31 December 2019
Real estate	1,015,862	984,169
Movable assets	132,805	140,622
Deposits	8,539	6,267
Total	**1,157,206**	**1,131,058**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

The quality of placements by types of assets in the statement of financial position, based on the classification by levels of credit risk (Stages) observed by types of clients, rating classes and days of delay with special emphasis on loans for 2020 and 2019 is shown the following tables:

	Impaired receivables	Impairment – collective and individual	Total
31 December 2020			
Due less than 30 days	598,492	(19,445)	579,047
Due 31 to 90 days	33,222	(2,168)	31,054
Due over 90 days	246,202	(185,220)	60,982
Total	**877,916**	**(206,833)**	**671,083**
31 December 2019			
Due less than 30 days	516,815	(10,719)	506,096
Due 31 to 90 days	39,387	(1,103)	38,284
Due over 90 days	252,167	(95,131)	157,036
Total	**808,369**	**(106,953)**	**701,416**

Quality of financial instruments by classes of financial assets

The Bank manages the quality of its financial assets using an internal classification of placements based on IFRS 9 methodology or regulatory FBA requirements, whichever is mor conservative.

31 December 2020

	S1	S2	S3	Total
Banks/other clients				
FIN – loans	87,227	-	-	87,227
FL KKiKTR	12,351	302	1,111	13,765
FL other placements	184,246	4,170	14,649	203,066
FL housing loans	38,287	138	1,274	39,699
PI 1	158,480	17,534	122,476	298,490
PI 2	73,279	2,718	84,579	160,577
PI 3	46,650	6,331	22,112	75,093
Gross exposure	**600,521**	**31,193**	**246,202**	**877,916**
Impairment allowance	**18,615**	**2,998**	**185,220**	**206,833**
Net exposure	**581,905**	**28,196**	**60,982**	**671,083**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Quality of financial instruments by classes of financial assets (continued)

31 December 2019

	S1	S2	S3	Total
Banks/other clients				
FIN – loans	50,545	-	-	50,545
FL KKiKTR	10,287	2,070	1,507	13,864
FL other placements	151,253	20,334	20,138	191,724
FL housing loans	23,190	1,866	1,560	26,616
PI 1	152,514	25,700	124,105	302,318
PI 2	40,919	8,835	84,819	134,573
PI 3	59,920	8,770	20,038	88,728
Gross exposure	**488,628**	**67,574**	**252,166**	**808,368**
Impairment allowance	**8,872**	**2,950**	**95,130**	**106,952**
Net exposure	**479,756**	**64,624**	**157,036**	**701,416**

Credit quality analysis for other assets is as follows:

	Receivables for business credit cards	Other receivables from banks	Other	Total	Impairment
31 December 2020					
Credit cards (KK)	2,196	-	-	2,196	-
Financial institutions (FIN)	-	2,319		2,319	-
Other assets (OA)	-	-	3,705	3,705	(422)
	2,196	**2,319**	**3,705**	**8,220**	**(422)**
31 December 2019					
Credit cards (KK)	1,363	-	-	1,363	(19)
Financial institutions (FIN)	-	2,023	-	2,023	-
Other assets (OA)	-	-	3,306	3,306	(487)
	1,363	**2,023**	**3,306**	**6,692**	**(506)**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Restructured loans and receivables

Restructured loans and receivables per credit risk levels are presented in the table below:

	Restructured exposures (credit risk level)					
	Level 1		Level 2		Level 3	
	restructured exposure – gross	impairment	restructured exposure – gross	impairment	restructured exposure – gross	impairment
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31 decembar 2020						
Retail	25,519	438	2,439	165	1,107	446
Corporate	82,430	3,084	24,913	2,568	45,450	29,144
Total	**107,949**	**3,522**	**27,352**	**2,733**	**46,557**	**29,589**

	Restructured exposures (credit risk level)					
	Level 1		Level 2		Level 3	
	restructured exposure – gross	impairment	restructured exposure – gross	impairment	restructured exposure – gross	impairment
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31 decembar 2019						
Retail	-	-	-	-	-	-
Corporate	30,904	204	20,966	420	32,258	7,779
Total	**30,904**	**204**	**20,966**	**420**	**32,258**	**7,779**

Received collateral and other credit security instruments

Coverage of loans	**31 December 2020**	**31 December 2019**
Total loans	**808,369**	**877,916**
Loans retail	***256,529***	***232,198***
Uncovered	191,313	184,273
Covered	65,216	47,925
Covered by housing properties	*57,916*	*41,940*
Covered by business properties	*6,769*	*5,535*
Deposits	531	450
Housing mortgages	57,916	41,940
Loans corporate	***621,387***	***576,171***
Uncovered	295,965	121,957
Covered	325,422	454,214
Covered by housing properties	37,340	35,564
Covered by business properties	243,730	365,401
Covered – other	43,197	52,271
Deposits	1,155	978
Housing mortgages	37,340	35,564
Other – corporate guarantee	43,197	45,137

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk management

Liquidity risk arises from the Bank's financial activities and management of its positions. The Bank consolidates its operations with respect to liquidity risk in accordance with applicable regulations and internal policies, aimed at maintaining liquidity reserves, reconciling assets and liabilities with targeted liquidity ratios and liquidity limits.

The Bank has access to a variety of funding sources. Funds are raised through a large number of instruments including various types of deposits from individuals and legal entities, special purpose credit lines/loans and equity. This increases funding flexibility, limits dependency on any single source, and generally reduces the cost of financing. The ultimate responsibility for managing liquidity risk rests with the Supervisory Board, which has established an appropriate framework for managing liquidity risk, for the purpose of managing the Bank's short, medium and long-term liquidity needs. The Bank seeks to maintain a balance between financing continuity and flexibility through the use of liabilities with different maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in financing required to meet its business objectives. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The maturity of the Bank's assets and liabilities and equity and reserves as at 31 December 2020 and 2019 are presented in the table below based on the remaining contractual maturity, with the exception of available-for-sale equity instruments classified according to their secondary liquidity, in maturity up to one month as well as the required reserve.

As at 31 December 2020	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and bank accounts	202,127	-	-	-	-	202,127
Obligatory reserve with the CBBH	97,659	-	-	-	-	97,659
Placements with other banks	14,583	21,080	31,797	-	-	67,460
Financial assets at amortized cost	506	-	-	-	-	506
Financial assets at FVTPL	-	-	-	19,109	8,183	27,292
Loan receivables	60,834	28,773	209,145	261,557	110,774	671,083
Other financial assets	7,798	-	-	-	-	7,798
Total financial assets	**383,507**	**49,853**	**240,942**	**280,666**	**118,957**	**1,073,924**
Financial liabilities						
Bank deposits	40,429	-	-	-	-	40,429
Client deposits	325,739	37,682	278,148	164,444	3,939	809,952
Borrowings and loans	-	-	-	58,674	97,792	156,466
Lease liabilities	188	371	1,642	2,739	578	5,518
Other financial liabilities	5,145	-	-	-	-	5,145
Total financial liabilities	**371,501**	**38,053**	**279,790**	**225,857**	**102,309**	**1,017,510**
Aging mismatch	**12,006**	**11,800**	**(38,848)**	**54,809**	**16,648**	**56,414**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

As at 31 December 2019	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and bank accounts	150,405	-	-	-	-	150,405
Obligatory reserve with the CBBH	85,358	-	-	-	-	85,358
Placements with other banks	-	26,721	36,081	-	-	62,802
Financial assets at amortized cost	-	3,495	-	1,732	2,628	7,855
Financial assets at FVTPL	7,921	-	-	-	-	7,921
Loan receivables	121,256	31,549	159,089	256,520	133,002	701,416
Other financial assets	6,186	-	-	-	-	6,186
Total financial assets	**371,126**	**61,765**	**195,170**	**258,252**	**135,630**	**1,021,943**
Financial liabilities						
Bank deposits	287	-	-	-	-	287
Client deposits	271,261	22,466	241,768	182,419	976	718,890
Borrowings and loans	-	-	-	-	156,466	156,466
Lease liabilities	55	111	507	2,833	3,196	6,702
Other financial liabilities	4,681	-	-	-	-	4,681
Total financial liabilities	**276,284**	**22,577**	**242,275**	**185,252**	**160,638**	**887,026**
Aging mismatch	**94,842**	**39,188**	**(47,105)**	**73,000**	**(25,008)**	**134,917**

Interest rate risk management

The Bank's activities are affected by changes in the interest rate at which interest-bearing assets and liabilities mature or change in interest rates, at different times or in different amounts.

Most loan portfolios are initially contracted at an interest rate based on 6-month or 1-year EURIBOR. The Bank changes these rates in response to changes in the market. Most loan agreements have a "no less" clause, which protects the Bank from potential losses caused by a decrease in EURIBOR.

The tables below show the Bank's exposure to interest rate risk at the end of the year. The table includes the Bank's assets and liabilities at carrying amounts, presented as earlier than the contractual maturity or changes in interest rates.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk management (continued)

Sensitivity analysis – interest rate risk

31 December 2020	Non-interest bearing	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Weighted average interest rate
Financial assets								
Cash and bank accounts	202,127	-	-	-	-	-	202,127	-
Obligatory reserve with the CBBH	-	97,659	-	-	-	-	97,659	(0.5%)
Placements with banks	-	14,583	21,080	31,797	-	-	67,460	2.22%
Financial assets at FVTPL		506					506	-
Securities at amortized cost					19,109	8,183	27,292	4.44%
Loan receivables at amortized cost	-	60,834	28,773	209,145	261,557	110,774	671,083	4.43%
Other financial assets	7,798	-	-	-	-	-	7,798	-
Total financial assets	**209,925**	**173,582**	**49,853**	**240,942**	**280,666**	**118,957**	**1,073,924**	**-**
Financial liabilities								-
Liabilities to banks	40,429	-	-	-	-	-	40,429	-
Liabilities to clients	238,059	87,680	37,682	278,148	164,444	3,939	809,952	1.49%
Borrowings and loans	-	-	-	-	58,674	97,792	156,466	0.56%
Lease liabilities	-	188	371	1,642	2,739	578	5,518	-
Other financial liabilities	5,145	-	-	-	-	-	5,145	-
Total financial liabilities	**283,633**	**87,868**	**38,053**	**279,790**	**225,857**	**102,309**	**1,017,510**	**-**
Mismatch	**(73,708)**	**85,714**	**11,800**	**(38,848)**	**54,809**	**16,648**	**56,414**	**-**

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk management (continued)

Sensitivity analysis – interest rate risk (continued)

31 December 2019	Non-interest bearing	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Weighted average interest rate
Financial assets								
Cash and bank accounts	150,405	-	-	-	-	-	150,405	(0.5%)
Obligatory reserve with the CBBH	-	85,358	-	-	-	-	85,358	2.24%
Placements with banks	-	26,720	36,082	-	-	-	62,802	4.99%
Financial assets at amortized cost	-	-	3,495	-	1,732	2,628	7,855	-
Financial assets at FVTPL	7,921	-	-	-	-	-	7,921	5.02%
Loan receivables at amortized cost	-	121,256	31,549	159,089	256,520	133,002	701,416	-
Other financial assets	6,186	-	-	-	-	-	6,186	-
Total financial assets	**164,512**	**233,334**	**71,125**	**159,089**	**258,252**	**135,630**	**1,021,943**	**-**
Financial liabilities								-
Liabilities to banks	287	-	-	-	-	-	287	1.60%
Liabilities to clients	257,920	13,341	22,466	241,768	182,419	976	718,890	0.56%
Borrowings and loans	-	-	-	-	-	156,466	156,466	-
Lease liabilities	-	55	111	507	2,833	3,196	6,702	-
Other financial liabilities	4,681	-	-	-	-	-	4,681	
Total financial liabilities	**262,888**	**13,396**	**22,577**	**242,275**	**185,252**	**160,638**	**887,026**	**-**
Mismatch	**(98,376)**	**219,938**	**48,548**	**(83,186)**	**73,000**	**(25,008)**	**134,917**	**-**

Depending on the net debt over a period of time, any change in interest rates has a proportional effect on the Bank's operations. If interest rates on loans and deposits were higher / lower by 1% and other parameters were constant, profit/loss would increase/decrease by KM 825 thousand (2019: KM 724 thousand) due to higher / lower interest rate expenses.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk management

The Bank conducts banking operations, both in local currency and in foreign currencies at the exchange rates of the Central Bank of BiH. Currency risk is the Bank's exposure to the possible impact of changes in foreign exchange rates and the risk that adverse changes will result in the Bank's losses in KM. "FX activities" means performing currency activities.

Foreign currency risk may arise from trading in foreign currencies, placing loans in foreign currencies or with a foreign currency clause, buying securities in foreign currencies, issuing securities in foreign currencies, or performing off-balance sheet transactions denominated in foreign currencies, and collecting deposits in foreign currencies and / or with a currency clause.

The level of currency risk depends on the amount of the Bank's borrowings abroad and the degree of currency adjustment of assets and liabilities, i.e. the degree of alignment of the Bank's cash flows. Currency risk measurement involves determining the openness of a currency position on a daily basis, for the Individual currency position by individual currencies, and the total Currency position of the bank in relation to regulatory capital. The Bank has a long position of a particular currency if the value of the asset items is greater than the value of the liability items, otherwise, the Bank has a short position, including off-balance sheet liabilities of the Bank.

The Bank's foreign exchange risk management policy sets out policies for prudent foreign exchange risk management, through the planned assumption of foreign currency liabilities, as well as the management of foreign currency positions in such a way that the effects of changes in exchange rates on the Bank's financial position are adequately eliminated. The Risk Management Division monitors whether the Bank has complied with the prescribed limits, as well as internal limits for individual currency positions by individual currencies and total currency position, relative to Regulatory Capital. The established internal Market Risk Limits of the Bank, which are monitored on a daily basis, provide a framework for conducting individual and overall currency management activities at the Bank level.

The primary objective of managing currency risk is to reduce it. The Bank manages this risk by monitoring the currency position and the prescribed market-currency risk limits and maintaining the smallest gap between assets and liabilities in the individual foreign currency, thus ensuring the currency matching of the assets and liabilities of the Bank's balance sheet and off-balance sheet.

Capital requirement for currency risk

The Bank calculates a capital requirement for currency risk if the sum of its total net open currency position exceeds 2% of its total regulatory capital.

Thus, the Bank calculates the total open net long position as the sum of all open net long positions in individual currencies, and the total open net short position as the sum of all open net short positions in individual currencies. The higher of the two amounts represents the total net foreign exchange position of the Bank for the purpose of calculating capital requirements for currency risk in accordance with Article 137 (2) of the Decision on the calculation of the Bank's capital.

The capital requirement for currency risk is calculated by multiplying the sum of the total net open currency position by 12%. Then the capital requirement is multiplied by 12.5 to obtain the Total amount of currency risk exposure. Based on the preparation of the regulatory report Standardized Approach for Currency Risk, as at 31 December 2020, the capital requirement for currency risk amounts to KM 1,188 thousand.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Stress testing

As part of the Bank's risk management process, the Bank conducts comprehensive, at least once a year, comprehensive stress testing for all significant risks for internal capital adequacy assessment process ("ICAAP") or internal liquidity adequacy assessment process ("ILAAP"), but also for the purpose of developing a Recovery Plan, bank risk profile, stress testing should be conducted more frequently.

Stress testing is performed using multiple scenarios, taking into account assumptions about changes in external and internal factors that may have a significant impact on the risks in the Bank's operations.

The Bank mainly conducts stress tests through various scenarios ranging from moderate to extremely strong, as well as reverse stress testing.

Stress testing is carried out:

a) sensitivity analysis;
b) scenario analysis.

The Bank implements various stress scenarios related to liquidity risk exposure in order to identify potential adverse events that may endanger the Bank's liquidity. Stress tests should alert the Bank to future unexpected cash outflows.

Therefore, especially within the internal liquidity adequacy assessment procedure (ILAAP), the Bank identifies and analyses all possible liquidity risks and, according to additional stress test results, determines the adequacy of internal liquidity as well as any liquidity needs.

In addition to identifying potential liquidity needs, the Bank also uses the results of stress resilience for the purpose of assessing potential capital needs, with the aim of assessing the Bank's capacity to absorb losses based on the different types of capital-relevant risks that may occur under the assumptions of different shocks applied in particular scenarios.

In its internal acts, the Bank defines which organizational unit is responsible for conducting stress testing according to the type of risk being analysed, in cooperation and communication with other competent organizational parts of the bank, and above all with those responsible for risk control and capital planning. To ensure the independence of the assessment, it is necessary to include an internal audit function in these tests in the process. Conducting a stress test program involves adequately documenting it, including a description of the type of stress test, methodological details related to defining relevant scenarios and the role of expert judgment, assumptions and basic elements of stress testing, evaluation of basic assumptions, test results. and planned corrective actions, depending on the results of the stress test.

The results of stress tests are reported to the Bank's governing bodies, the Supervisory Board and the Bank's Management Board, and accordingly appropriate business decisions are made in the risk management and internal capital planning process and appropriate measures taken at all organizational levels within the Bank.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate sensitivity analysis

The Bank measures and evaluates the negative impact of interest rate risk on net interest income, i.e. profit, i.e. the economic value of the banking book.

Due to the interest rate volatility feature, the Bank is authorized to arrange fixed or variable interest rates with its clients in the credit and deposit business.

The Bank performs the measurement and management of interest rate risk exposure by a simple calculation in assessing the change in the economic value of a banking book. The economic value of a bank's banking book is an estimate of the present value of all the expected net cash flows of the bank's banking book positions, that is, the expected cash flows of assets less the expected cash flows of the bank's liabilities. Interest rate risk exposure monitored In accordance with local regulations from the beginning of 2019, the maximum ratio of the change in the economic value of the banking book has been determined to be 20% of regulatory capital due to a parallel shift in interest rates of 200 bp.

According to the methodology currently applied in accordance with the FBA Decision on interest rate risk management in the banking book, interest rate risk exposure as at 31 December 2020. amounted to KM 13,390 thousand or 7.99% of regulatory capital, which indicates acceptable low interest rate risk exposure.

Total weighted position – Total	**Amount**
Net weighted currency position – evb (fks+pks+aks) – KM	9,599
Net weighted currency position – evb (fks+pks+aks) – EUR	(9,242)
Net weighted currency position – evb (fks+pks+aks) – USD	168
Net weighted currency position – evb (fks+pks+aks) – other	(20)
Change of economic value	505
Regulatory capital	82,087
(Change of economic value/ regulatory capital)*100	0.62%

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

This Note provides information on how the Bank determines the fair value of various financial assets and financial liabilities.

The Bank's individual financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information on how to measure the fair value of previously stated financial assets and financial liabilities (in particular, valuation techniques and inputs used).

The fair value of financial assets and financial liabilities measured on FVTPL basis on a recurring basis

31 December 2020		**Fair value**	
	Level 1	**Level 2**	**Level 3**
Financial assets at FVTPL (Note 18)			
Unquoted equity securities in Bosnia and Herzegovina			
Investment in OIF RAIFFEISEN CASH	-	-	-
Bamcard d.o.o. Sarajevo	-	488	-
Registry of Securities of FBiH	-	18	-
31 December 2019		**Fair value**	
	Level 1	**Level 2**	**Level 3**
Financial assets at FVTPL (Note 18)			
Unquoted equity securities in Bosnia and Herzegovina			
Investment in OIF RAIFFEISEN CASH	7,400	-	-
Bamcard d.o.o. Sarajevo	-	488	-
Registry of Securities of FBiH	-	18	-

During 2020 and 2019, there were no transfers between Level 1 and Level 2.

The fair values of financial assets and financial liabilities included above in Level 2 categories are determined by generally accepted discounted cash flow valuation models, with a discount rate as the most significant input, reflecting counterparty credit risk.

The fair value calculation is determined by discounting future cash flows using the average weighted interest rate at the BiH level, published by the CBBH, separately for legal entities and individuals.

Valuation techniques used to determine fair value

Specific valuation techniques used to evaluate financial instruments include:

- use of quoted market prices or dealer quotas for similar instruments
- the fair value of the remaining financial instruments is determined by discounted cash flow analysis:

32. FAIR VALUE (CONTINUED)

Fair value of financial assets and financial liabilities not measured at fair value on a recurring basis, from period to period (but disclosures for fair value are required)

	31 December 2020				31 December 2019			
	FV level 1	FV level 2	FV level 3	Carrying amount	FV level 1	FV level 2	FV level 3	Carrying amount
Financial assets								
Cash and cash equivalents	-	202,127	-	202,127	-	150,405	-	150,405
Obligatory reserve with the CBBH	-	-	97,659	97,659	-	-	85,358	85,358
Placements with other banks	-	67,460	-	67,460	-	62,802	-	62,802
Loan receivables at amortized cost	-	609,770	61,313	671,083	-	543,842	157,574	701,416
Securities at amortized cost	-	27,292		27,292	-	7,855	-	7,855
Financial assets at fair value through profit or loss	-	506	-	506	-	7,921	-	7,921
Other financial assets	-	7,798	-	7,798	-	6,186	-	6,186
	-	**914,953**	**158,972**	**1,073,924**	**-**	**779,011**	**242,932**	**1,021,943**
Financial liabilities								
Liabilities to banks	-	40,429	-	40,429	-	287	-	287
Borrowings and other loans	-	156,466	-	156,466	-	156,466	-	156,466
Liabilities to clients	-	809,952	-	809,952	-	718,890	-	718,890
Lease liabilities	-	5,518	-	5,518	-	6,702	-	6,702
Other liabilities	-	5,145	-	5,145	-	4,681	-	4,681
	-	**1,017,510**	**-**	**1,017,510**	**-**	**887,026**	**-**	**887,026**

The following methods and assumptions were used in assessing the fair value of the Bank's financial instruments and in assigning a certain level of fair value hierarchy, and the limitations described below.

Cash and cash equivalents

Net carrying amounts of cash and balances with banks are generally considered to be approximate to their fair values. The Central Bank's required reserve is classified at Level 3 in accordance with the assumption that their exit price may include other party's subjective credit risk assessments that cannot be reliably quantified.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Placements with other banks

Placements with other banks generally represent short-term and overnight deposits, and therefore their fair value does not significantly differ from their carrying amount. Their classification in Level 2 of the fair value hierarchy is the result of the absence or less reliability of the parameters, which are not visible when determining the exit price.

Debt securities

The fair value of debt securities is classified in Level 2 of the fair value hierarchy. Fair value is calculated using relevant stock market data.

Loan receivables, other assets, liabilities to clients, banks and other financial institutions

Fair value is calculated by taking into account future cash flows in the case of long-term maturity positions, while it is expressed in carrying amount less any allowances for short-term loans, sight liabilities or loans and advances for indefinite maturity. From the standpoint of fair value presentation, non-performing loans are classified as Level 3, while the exit price is significantly influenced by the loan officer's estimate of loss based on future cash flows and appropriate repayment plans. The specific components of the Bank's valuation outweigh the other components, leading to a Level 3 classification in the fair value hierarchy.

Performing loans, as well as short-term liabilities to customers and banks, are classified in Level 2 of the fair value hierarchy, as a result of the absence or less certainty of parameters that are not visible in determining the exit price.

36. SUBSEQUENT EVENTS

The rapid development of the Covid-19 virus epidemic and its social and economic impact in Bosnia and Herzegovina and globally may lead to the need for revision of assumptions and estimates, which can result in significant adjustments in the carrying values of assets and liabilities in the next financial year. In particular, the Management expects that the current situation will influence the assumptions and estimates that are used to determine the assets and liabilities that will reflect the current situation and their carrying values. At this point, the Management Board is unable to reliably assess the impact as the situation changes from day to day.

Long-term impact can also affect the volume of business activities, cash flows, and profitability. Notwithstanding the foregoing, at the date of issuance of these financial statements, the Bank continues to operate in a difficult but undisturbed manner and, consequently, prepares financial statements under the going concern assumption.

37. APPROVAL OF THE FINANCIAL STATEMENTS

Signed on behalf of ZiraatBank BH d.d. on 12 April 2021:

Mirela Šuman
Member of the Board

Yusuf Dilaver
President of the Board