ASA BANKA D.D. SARAJEVO

Financial statements for the year ended
31 December 2020 prepared in accordance with
International Financial Reporting Standards and
Independent Auditor's Report

Contents

Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of ASA Banka d.d. Sarajevo (the "Bank") for that period.

After making enquiries, the Management Board expects that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Accounting and Audit Law in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Samir Mustafić Chairman of the Board	Arnela Alagić Member of the Board	Davor Tomić Member of the Board

ASA Banka d.d. Sarajevo
Trg međunarodnog prijateljstva 25
71000 Sarajevo
Bosnia and Herzegovina

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO ASA BANKA 2

5 February 2021

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Independent Auditor's Report

To the shareholders of ASA Banka d.d. Sarajevo

Opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Decision on Credit Risk Management and Determination of Expected Credit Losses, issued by the Banking Agency of 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 the 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) together with the ethical requirements that are relevant to our audit of the financial statements in Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 4 to the financial statements "Significant accounting estimates and key sources of estimation uncertainty", which describes the impact of the "COVID-19" corona virus pandemic on the Bank's operations. Our opinion is not modified on this matter.

Key Audit Matters

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

Key Audit Matters:

1. Estimate of impairment for loan losses and receivables from customers

For accounting policies, see note Impairment of financial assets in Section 3 *Basis for presentation and summary of significant accounting policies*. For more information about key audit matter see Impairment losses on loans and receivables in Section 4 Critical accounting judgments and key sources of estimation uncertainty.

As of 31 December 2020 gross carrying amount of loans to costumers was BAM 407,779 thousand. The related impairment allowance was in amount of BAM 27,709 thousand.

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, with the special emphasis on the effects of the COVID-19 pandemic, is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management.

In determining the timing and amount of impairment losses on expected credit losses on loans to customers, the Bank's management uses statistical models and a certain level of judgment in the following areas:

- Use of historical data in the process of determining risk parameters;
- Credit risk exposure assessment;
- Assessment of credit level risk assignment;
- Success of the "Program of Special Measures" adopted in accordance with the bylaws of the regulator in response to the Covid-19 pandemic, in order to recover from the negative economic consequences caused by the pandemic;
- Assessment of the significance of subsequent changes in credit risk in order to determine a significant increase of credit risk, which leads to changes in the levels of risks and the necessary measurement of expected credit losses over the lifetime cycle;
- Expected future cash flows from operating activities;
- Valuation of collateral and estimation of realization period.

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 from customers as key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2020.

How our audit addressed the Key Audit Matter

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on:

- Models applied in stage allocation;
- Assumptions used by the Management in the expected credit loss measurement models;
- Criteria used for determination of significant increase in credit risk;
- Assumptions applied to calculate lifetime probability of default;
- Methods applied to calculate loss given default;
- Methods applied for including data related to future events;

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included:

- Assessment of borrower's financial position and performance following latest financial reports and available information;
- Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance;

Key Audit Matters (continued):

How our audit addressed the Key Audit Matter (continued)

Reviewing and critically assessing estimated value of collateral and estimated realization period, discount rates used in the estimation of the expected cash flows from operations and/or collateral, re-performing calculation of expected credit losses by applying our own judgment and assumptions on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Bank.

2. ***Impact of the Covid - 19 pandemic on the Bank 's operations***

The Covid - 19 disease pandemic had negative effects on most economies in the world, and thus on the economy of the Federation of Bosnia and Herzegovina. Legal entities have lost markets, key customers and suppliers, the liquidity of many business activities has been significantly jeopardized, there have been disruptions in supply and demand for certain products and services, and a significant decline in the value of cash-generating assets. Given the above, there is significant uncertainty in terms of the duration of the pandemic, the ultimate effects on economic factors such as interest rates and exchange rate fluctuations, macroeconomic indicators, significantly increased credit risk, availability of funding sources to maintain liquidity, availability of government assistance programs and etc. In response to the above, in order to adequately assess the going concern base of business, the management of legal entities are required to periodically make an analysis and assessment of current circumstances, revenue and budget projections, cash flow projections, introduction of new products and services that enable uninterrupted business (cyber business), changes in the fair values of assets, the availability of an educated workforce and other.

The aforementioned facts influenced our conclusion that the impact of the Covid-19 pandemic on the Bank's operations and on the appropriateness of judgments regarding going concer is a key audit matter during our audit of the Bank's financial statements for the year ended 31 December 2020.

How our audit addressed the Key Audit Matter

Performing substantive testing on the plans and projections of the Bank's Management Board by reviewing:

- consistency and validity of assumptions used in projecting cash flows and business plans,
- reliability of information sources, ie whether the information has been analyzed from the aspect of sensitivity test,
- future forecasts regarding market developments,
- how the Bank's management assesses the collection and recovery of assets,
- long-term solvency and liquidity projections, fulfillment of legal and by-law requirements,
- results of stress tests,
- checking the formal - legal basis of long - term arrangements related to the availability of funding sources.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as 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 objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error that are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of those financial statements.

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

- identify and assess the risks of material misstatements 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 material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misinterpretations or the override of internal controls.

- 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 controls.

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

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

- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concem.

- 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 controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Lejla Kaknjo

RSM BH d.o.o.

Berna Šljokić, Director and Certified Auditor

DRUŠTVO ZA REVIZIJU „RSM BH" d.o.o. SARAJEVO

Lejla Kaknjo, Partner and Certified Auditor

Sarajevo, 5 February 2021

Income statement
For the year that ended on 31 December 2020

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

	Note	2020	2019
Interest income	5	15,521	16,195
Interest expense	6	(4,870)	(4,727)
Net interest income		**10,651**	**11,468**
Fee and commission income	7	7,741	7,654
Fee and commission expense	8	(2,725)	(2,681)
Net fee and commission income		**5,016**	**4,973**
Other gains	9	2,491	2,927
Other operating income	10	391	312
Income from operating activities		18,549	19,680
Employee expenses	11	(7,242)	(7,364)
Depreciation expenses	23	(2,015)	(2,036)
Other administrative expenses	12	(5,475)	(4,905)
Operating expenses		**(14,732)**	**(14,305)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**3,817**	**5,375**
Impairment losses and provisions, net	13	249	474
PROFIT BEFORE TAXATION		**4,066**	**5,849**
Income tax	14	-	(93)
Loss as a result of decrease in deferred tax assets	14	(13)	(6)
PROFIT AFTER TAXATION		4,053	**5,750**
Earnings per share – basic and diluted (in BAM)	15	**6,15**	**8,73**

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

Statemenent of comprehensive income
for the year ended on 31 December 2020
(all amounts are expressed in thousands of BAM, unless stated otherwise)

	Note	2020	2019
Net profit		4,053	5,750
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Net (losses) / gains from debt investment securities at fair value through other comprehensive income	20	(320)	178
Items that will not be reclassified through an income statement:			
Net gains / (losses) from equity instruments at fair value through other comprehensive income	20	36	(8)
TOTAL COMPREHENSIVE INCOME		**3,769**	**5,920**

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

Balance sheet
as at 31 December 2020

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

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	16	144,453	103,658
Obligatory reserve with Central bank B&H	17	57,834	47,831
Loans and receivables at amortized cost	18	380,070	332,833
Financial assets at FVTPL	19	1,213	243
Financial assets at FVTOCI	20	37,066	49,609
Debt instruments at amortized cost	21	1,158	1,541
Other assets and receivables, net	22	9,327	11,002
Tangible and intangible assets	23	9,538	9,122
Deferred tax assets	14	95	108
TOTAL ASSETS		**640,754**	**555,947**
LIABILITIES			
Due to banks	24	5,979	5,360
Due to customers	25	566,478	473,233
Subordinated debt	26	-	3,059
Lease liabilities	27	2,121	2,749
Other liabilities	28	2,655	2,400
Provisions	29	972	976
Total liabilities		**578,205**	**487,777**
EQUITY			
Shareholders' equity	30	65,870	65,870
Reserves		6,003	6,003
Revaluation reserves – financial assets at fair value through comprehensive income		456	702
Accumulated loss		(9,780)	(4,405)
Total equity		**62,549**	**68,170**
TOTAL LIABILITIES AND EQUITY		**640,754**	**555,947**

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

Signed on behalf of Bank on 5 February 2021

Samir Mustafić
Chairman of the Board

Arnela Alagić
Member of the Board

Davor Tomić
Member of the Board

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO
ASA BANKA
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Statement of cash flows
for the year ended on 31 December 2020

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

	2020	2019
Operating activities		
Profit / (loss) before taxation	4,066	5,849
Adjustments:		
Depreciation	2,015	2,036
Impairment losses and provisions, net	(249)	(474)
Decrease in deferred tax assets, net	13	5
Losses / (gains) on disposal of property and equipment, net	659	(728)
Effects of fair value adjustment on assets at fair value through profit and loss	-	(32)
Dividend income recognized in profit and loss	(1)	(3)
Interest income on financial assets available for sale recognized in profit and loss	(1,158)	(1,167)
Interest income on financial assets at fair value through other comprehensive income recognized in profit and loss	(113)	(151)
Lease liabilities adjustment	44	(63)
Gains from sale of financial assets under FVOCI	-	(49)
Reconciliation of impairment of tangible assets	6	-
Changes in assets and liabilities:		
Increase in receivables from CBBiH	(10,003)	(4,906)
Net increase in loans and receivables, before impairment	(56,246)	(27,291)
Net decrease / (increase) in other assets, before impairment	1,552	(3,189)
Net increase in due to customers	93,245	54,761
Net increase / (decrease) / in due to banks	619	(2,249)
Net increase in other liabilities	255	74
Net decrease in provisions	-	(73)
Income tax paid	-	(93)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**34,704**	**22,257**
Investing activities		
Proceeds from financial assets held-to maturity, net	496	583
Proceeds from / (purchase of) financial assets at FVOCI, net	13,337	(10,312)
(Purchase of) / proceeds from financial assets at FVTPL	(960)	41
Dividends received	1	3
Purchase of tangible and intangible assets	(3,427)	(1,291)
Proceeds from sale of property and equipment	331	1,748
NET CASH GENERATED FROM / (USED IN) INVESTMENT ACTIVITIES	**9,778**	**(9,228)**
Financial activities		
Payment of lease liabilitis	(628)	(985)
Decrease in liabilities for subordinated debt	(3,059)	-
NET CASH USED IN FINANCIAL ACTIVITIES	**(3,687)**	**(985)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**40,795**	**12,044**
CASH AND CASH EQUIVALENTS AT THE YEAR START	**103,658**	**91,614**
CASH AND CASH EQUIVALENTS AT THE YEAR END	**144,453**	**103,658**

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

Statement of changes in equity
for year ended on 31 December 2020

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

	Shareholders' equity	Regulatory reserves	Reserves	Revaluation reserves for investments available for sale	Accumulated (loss)/ retained earnings	Total
Balance as on 1 January 2020	**65,870**	**231**	**6,003**	**580**	**(10,386)**	**62,298**
Net profit	-	-	-	-	5,750	5,750
Other comprehensive income	-	-	-	170	-	170
Total comprehensive income	-	-	-	*170*	*5,750*	*5,920*
Transfer (from) / to	-	(231)	-	-	231	-
Transfer to the income statement based on maturity of debt securities	-	-	-	(48)	-	(48)
Balance as on 31 December 2019	**65,870**	-	**6,003**	**702**	**(4,405)**	**68,170**
The effect of the first decision by FBA	-	-	-	(56)	(9,521)	(9,577)
Net profit	-	-	-	-	4,053	4,053
Other comprehensive income	-	-	-	(284)	-	(284)
Total comprehensive income	-	-	-	*(284)*	*4,053*	*3,769*
Transfer to the income statement based on maturity of debt securities	-	-	-	94	-	94
Adjustment of tax liability from the previous period	-	-	-	-	93	93
Balance as on 31 December 2020	**65,870**	-	**6,003**	**456**	**(9,780)**	**62,549**

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

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

1. GENERAL

Investiciono - komercijalna banka d.d. Zenica (the „Bank ") was registered at the Cantonal Court in Zenica on 20 August 1998. The Bank was established in 1957 as Komunalna banka, Zenica. The Bank operates under that name since 30 March 1990, when it has separated from Privredna banka Sarajevo. The Bank holds a license No. 04-3-1370-1/05 issued by the Banking Agency of the Federation of Bosnia and Herzegovina on 10 February 2006.

Based on the Decision of the Shareholders Assembly of Investiciono-komercijalna banka d.d. Zenica on status change of merger with Moja banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Zenica, No. 01/3-7491-12/16, dated 20 June 2016, and the Decision of the Shareholders Assembly of Moja banka d.d. Sarajevo on status change of merger of Moja banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Zenica, No. 1-5750-11/16, dated 20 June 2016, the merger of Moja Banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Sarajevo was registered in the Companies Registry at the Municipality Court in Zenica as of 15 September 2016 with the Decision no. 043-0-Reg-16-000-747.

By the Decision of the Municipality Court in Sarajevo, no. 065-0-Reg-16-004922, dated 30 December 2016, the name and registered address of Investiciono-komercijalna banka d.d. Zenica were changed into ASA Banka d.d. Sarajevo, with the headquarters at the address Trg međunarodnog prijateljstva 25 in Sarajevo.

The Bank's main operations are as follows:

- accepting and placing of deposits or other funds with repayment liability;
- granting and receiving of loans;
- granting of guarantees;
- services of local and international payments according to regulation;
- foreign exchange transactions and buying of precious metals;
- issuing and managing with payment instruments (including cards, travellers and banking cheques);
- financial lease;
- buy, sale and collection of receivables (factoring, forfeiting, etc.);
- participation, buying and selling of money market instruments on its own benefit and on behalf of third parties
- securities transactions (brokerage-dealers transaction);
- managing od securities portfolio and other valuable items;
- support to securities markets, agent transactions, support to issues of securities according to regulation;
- investing consultancy services and custody accounts;
- financial advisory and consultancy services;
- collecting data services, providing analysis and information about creditworthiness of legal entities and entrepreneurs;
- renting of vaults;
- agency services in insurance transactions according to regulation except for car liability insurance;
- other, which represent support to bank main activities.

Supervisory board and Management board

Supervisory board

Eldin Hadžiselimović	President
Sead Aganspahić	Member
Samir Redžepović	Member
Ibrahim Fazlić	Non-executive member
Arif Brkić	Non-executive member

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

1. GENERAL (CONTINUED)

Supervisory board and Management board (continued)

Management Board

During 2020, 4-year mandate of Chairman of the Board and Board Members expired. In accordance with the Law and bylaws, after the Banking Agency of the Federation of B&H approved new engagement, the Bank appoint new Management Board as follows:

Samir Mustafić	Chairman of the Board
Davor Tomić	Member of the Board
Arnela Alagić	Member of the Board

In this Report, Management Board members remains the same, except for the fact that Mrs. Arnela Alagić, Member off the Board, was executive member in period from 19th December 2019 to 1st April 2020.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretation effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- Amendments to IFRS 3: „Business combination"– Definition of Business (Annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 7: „Financial Instruments: Disclosures", IFRS 9 „Financial Instruments" and IAS 39 „Financial Instruments: Recognition and Measurement"– Changes regarding replacement issues in the context of IBOR reform (Annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 16 „Leases": - COVID-19-Related Rent Concessions: Amendment providing lessees with an exemption from assessing whether a COVID19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification. (Annual periods beginning on or after 1 June 2020);
- Amendments to IAS 1 „Presentation of Financial Statements" and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors" – Changes regarding the definition of materiality (Annual periods beginning on or after 1 June 2020);
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" - Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting (Annual periods beginning on or after 1 January 2020).

2.2 Standards and Interpretations in issue but not adopted yet

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

- IFRS 17: „Insurance contracts" (Annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 1 „First-time Adoption of International Financial Reporting Standards" - Amendments resulting from annual Improvements to IFRS Standards 2018–2020 (Annual periods beginning on or after 1 January 2022);

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue but not adopted yet (continued)

- Amendments to IFRS 3 „Business Combinations" - Reference to the Conceptual Framework (Annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 4 „Insurance Contracts" - Extension of the Temporary Exemption from Applying IFRS 9 defers the fixed expiry date of the following temporary exemptions from applying IFRS 9 to annual periods beginning on or after 1 January 2023 (Annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 9 „Financial Instruments" - Annual Improvements to IFRS Standards 2018–2020: The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability (Annual periods beginning on or after 1 January 2022);
- IFRS 17 „Insurance contracts" - IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS (Annual periods beginning on or after 1 January 2023);
- IAS 1 „Presentation of Financial Statements" - Classification of Liabilities as Current or Noncurrent: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current (Annual periods beginning on or after 1 January 2022);
- IAS 16 „Property Plant and Equipment" - Property, Plant and Equipment: Proceeds before Intended Use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss (Annual periods beginning on or after 1 January 2022);
- IAS 37 „Provisions, Contingent Liabilities and Continent" - Onerous Contracts—Cost of Fulfilling a Contract: The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making (Annual periods beginning on or after 1 January 2022);
- IAS 41 „Agriculture" - Annual Improvements to IFRS Standards 2018–2020: The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique (Annual periods beginning on or after 1 January 2022).

The Bank has selected not to adopt these standards, amendments and interpretations in advance of their effective dates The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank.

2.2.1 Decision on credit risk management and determination of expected credit losses

During 2019, Banking Agency of the Federation BiH issued new Decision on credit risk management and determination of expected credit losses. (Official Gazette of Federation BIH no. 44/19 dated 26 June 2019), whose implementation is obligatory for all banks starting from 1 January 2020. Accordingly, banks were obliged to calculate the effects of first-time adoption of this decision on 31 December 2019, and recognize effects as of 1 January 2020 in the capital accounts and report them in Common Equity Tier 1. The effects of first-time adoption represent difference between expected credit losses determined under this Decision's provisions and those determined and accounted for by the bank under its internal methodology, in the case where expected credit losses determined in such manner are lower.

In accordance with abovementioned decision, the banks are required to establish an appropriate process for allocating exposures to credit risk levels which directly affect the establishment of expected credit losses.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

Going concern

Financial statements are prepared under the going concern basis which assumes that the Bank will be able to realise the assets and settle the liabilities in the normal course of business.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain financial instruments measured at fair value at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received for sale or be paid for the transfer of duties in a regular transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other valuation techniques. In estimating the fair value of assets or liabilities, the Bank takes into account the characteristics of the asset or liability which would be taken into account by market participants when determining the price of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value, but are not affair value, such as value in use in IAS 36.

In addition to financial reporting, fair value indicators are classified at levels 1, 2 or 3 based on the degree to which the evaluation of the fair value can be seen and of the importance of evaluating the fair value in a whole, as follows:

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets
- Level 2 inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are not observable inputs for the asset or liability.

The financial statements are presented in convertible marks (BAM), since that is the currency in which the majority of the Bank's business events is expressed. Convertible Mark is officially tied to the euro (EUR 1 = BAM 1.95583)

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, income and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are changed, and eventually in future periods, if they have an impact on them.

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

Accounting policies, stated below, are adequately adopted and implemented for all periods presented in these financial statements

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

Interest income / expense is recognized in the income statement for the period that belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts / payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period. Interest income is calculated on the gross book value of the financial instrument for Stage 1 and Stage 2, while for Stage 3 the Bank calculates interest on the net amortised amount of the financial instrument.

For the POCI assets, interest income is calculated using the adjusted effective interest rate on the net amortised amount.

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

Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank. Fees for payment transactions are recognized in the period when services are rendered

Taxation

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

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

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

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central bank of Bosnia and Herzegovina ("CBBH"), current accounts with other banks and cash at hand.

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

Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments, i.e., when funds are transferred to the customers' accounts, or when funds from balances due to customers are transferred to the Bank.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial assets and financial liabilities are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities, except commitments and contingencies, are measured at amortised cost or fair value through profit and loss.

Financial assets at amortised cost

Bank measures financial assets at amortised costs using the effective interest method, if both of the following conditions are met:

a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on management's intentions for an individual instrument. Thus, this condition is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. However, a single entity may have more than one business model for managing its financial instruments.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Business model assessment (continued)

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether the cash flows will result from collecting contractual cash flows, selling financial assets or both.

Consequently, this assessment is performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

If cash flows are not realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model (i.e. those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test. For the purpose of this test, definitions of principal and interest are presented below:

a) principal is fair value of the financial asset at initial recognition.
b) interest is consisted of consideration for the time value of money, for credit risk associated with outstanding amount of principal over a certain period of time and other basic risks and borrowing costs, as well as a profit margin.

Debt instruments at fair value through other comprehensive income (FVTOCI)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVTOCI when both of the following conditions are met:

a) the financial assets are held within a business model, which objective is achieved by both collecting contractual cash flows and selling financial assets.
b) contractual terms of a financial asset arise, on a specific date, cash flows that are solely payments of principal and interest on the principal outstanding.

These instruments had previously been classified as financial instruments available for sale.

FVOCI debt instruments are subsequently measured at fair value. Gains and losses arising due to changes in fair value of instrument should be presented in other comprehensive income until the financial assets are derecognised or their reclassification in other categories of financial assets.

Interest income are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

Upon initial recognition, the Bank can make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of particular investments in equity instrument that is not held for trading and it is not contingent consideration granted in a business combination within the scope of IFRSI 3.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Debt instruments at fair value through other comprehensive income (FVTOCI) (continued)

Gains and losses on these equity instruments are never recognized through profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

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

Financial assets should be measured at fair value through profit and loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable election for certain investments in equity instruments, that should be measured at fair value through profit and loss, to reflect fair value adjustments in other comprehensive income.

Impairment of financial assets

Recognition of expected credit losses

The Bank recognizes provisions for the impairment of expected credit losses of financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables, contractual assets or lease obligations and a financial guarantee contract.

The Bank is required to apply impairment requirements for the recognition and measurement of provisions for financial assets measured at fair value through other comprehensive income. However, impairment provisions should be recognized in other comprehensive income and may not reduce the carrying amount of financial assets in the balance sheet.

At each reporting date, the Bank is required to measure impairment provisions for a financial instrument in the amount equal to the duration of expected loan losses if the credit risk for that financial instrument has increased significantly from initial recognition.

Lifetime expected credit losses (LTECL) are credit losses arising from all possible unfulfilled obligations during the expected life of a financial instrument.

12-month expected credit losses (12m ECL) are a portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

In accordance with abovementioned decision, the banks are required to establish an appropriate process for allocating exposures to credit risk levels which directly affect the establishment of expected credit losses.

In accordance with the schedule of exposures to credit risk levels, the Bank is required to apply the following minimum rates for expected credit losses:

1. Level 1: if the Bank does not have an adequate time series, and/or quantity or quality of historical relevant data and is unable to determine a value of PD parameter using its model in an adequate and documented manner, the Bank cannot determine expected credit losses for other exposures which are allocated to the credit level risk 1 less than 1 % of the exposure.
2. Level 2: For exposure allocated to credit risk level 2, the Bank is required to determine and record expected credit losses in the amount greater than two:

   a) 5% exposures,

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

b) amount determined in accordance with internal methodology of the Bank.

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

a) exposures secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	from 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

b) exposures not secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	from 180 days	15%
2.	from181 to 270 days	45%
3.	From 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 465 days	100%

Minimum rates of expected credit losses for trade receivables, factoring and financial leasing receivables, and other receivables, are applied according to the table as follows:

Ordinal number	Day of delay	Minimum expected credit loss
1.	No delay in materially significant amount	0.5%
2.	to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

Parameters of credit risk

Credit loss for exposures on individual basis is determined as positive differences between gross carrying amount of exposures and the estimated future cash flows (from operating income and/or realization of collateral) during expected useful life of the financial asset item, discounted at the effective interest rate which is valid at the reporting date. The Bank may use a number of different scenarios (from operating income and/or realization of collateral) when assessing certainty of future cash flows with a probability of their realization.

The Bank determine expected credit loss for exposures on group basis in accordance with the following general formula:

$$ECL = PD \times LGD \times EaD$$

Probability of default status (PD parameter)

The Bank determined the value of PD parameter on the basis on defined segments of credit exposures or PD of homogeneous group, which are appropriately (in accordance with its internal methodology) assigned the value of the PD parameter. The PD paramotor for homogeneous group is estimated as the ratio of the number of placements at

3. **BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial instruments (continued)

which default status occurred during the observation period (historical data for 3 years) and the total number of placements that were not in default at the beginning of the observed period.

Loss given default (LGD parameter)

Loss given default (LGD parameter) represents the banks internal estimate of the level of expected loss related to exposure in the event of default status. LGD parameter is also calculated at the level of the relevant homogenous group, based on historical data on collections from collateral or other sources after the occurrence of default status for identified homogenous groups for a period of a least recent five years. If the Bank does not have adequate time series, and/or quantity or quality of historical relevant data, and is unable to determine a value of PD parameter using its model in an adequate and documented manner, then the Bank uses fixed values of this parameter based on conservative estimates, which cannot be lower than:

a. 45% for exposures secured by acceptable collateral,

b. 75% for exposures not secured by acceptable collateral.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset in the case of transfers of financial assets that meet the definition of derecognition:

- The Bank has transferred its contractual rights to receipts cash flows from the financial asset.

- The Bank retains the rights to the cash flows from financial assets, but has assumed an obligation to pay the received cash flows to one or more recipients.

When the bank transfers the financial assets, it is obliged to assess the extent to which it retains the risks and the benefit of the financial asset. In this case:

- if Bank has transferred substantially all the risks and rewards of the assets, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

- if Bank has retained substantially all the risks and rewards of the assets, it is obliged to continue to recognize the financial assets.

- If Bank has neither transferred nor retained substantially all the risks and the benefits of the financial assets, it is obliged to determine whether it has retained control over financial assets. In this case:

(i) if Bank has not retained the control, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

(ii) if the Company retained the control, it is obliged to continue to recognize the financial assets in the amount of its part in financial assets.

c) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the amount of received funds, less then direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities initially are measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets"; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss", or "other financial liabilities".

Other financial liabilities

Other financial liabilities, including liabilities to banks, customers and subordinated debt, are initially recognized at fair value less transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, expect for short-term leases and leases of low value assets. For these leases, the Group recognises 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.

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable by the lessee under *residual value* guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank adjusts the value of the lease liability determined by remeasurement and recognises it as an adjustment to the right-use of asset using the effective interest method. The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any *lease incentives* received, any *initial direct costs* incurred by the lessee. Asset with the right-of-use is subsequently measure at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment

Property and equipment are initially stated at procurement cost less impairment losses and accumulated impairment losses. Procurement cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. The costs of ongoing maintenance and repairs, replacement and investment maintenance of a smaller scale are recognized as an expense when incurred.

Assets under construction, built for the purpose of providing services or for administrative purposes, are stated at cost less any impairment loss. The cost of procurement includes professional fees, and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such assets are reclassified to appropriate categories of property and equipment after being completed and ready for intended use.

Depreciation is charged from the moment the asset is ready for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets. Estimated useful lives were as follows:

	2020	2019
Buildings	1.5%	1.5%
Furnitures and vehicles	10% - 15%	10% - 15%
Computers and other equipment	10% - 20%	10% - 20%

The gain and loss arising on the disposal or retirement of an asset is recognized in the statement of profit and loss in the period they occur.

Impairment

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (continued)

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

If the recoverable amount of an asset is estimated to be less than it's carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or building other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives using rate of 14.3% annually.

Assets classified as held for sale

Non-current assets are classified as held for sale if it's carrying amount will be largely compensated by selling rather than by constant use. This requirement is met only if the sale is highly probable and the assets available for sale in the current state. Management must be decisive in sales, which should be determined for recognition as a complete sale within one year from the date of classification. Assets classified as held for sale are measured at a lower of the carrying amount and fair value less costs to sell.

Employee benefits

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

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

Foreign currency translation

Transactions in currencies other than Bosnia and Herzegovina BAM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the year.

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

The Bank values its assets and liabilities by middle rate of CBBH valid at the date of balance sheet, which approximates market rates. The principal rates of exchange set forth by CBBH and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2020	1 EUR = 1,95583 KM	1 USD = 1,592566 KM	1 CHF = 1,801446 KM
31 December 2019	1 EUR = 1,95583 KM	1 USD = 1,747994 KM	1 CHF = 1,799126 KM

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, it's carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of procurement of assets, until the assets are substantially ready for its intended use or sale.

All other borrowing costs are charged to the statement of income in the period in which they are incurred.

Equity and reserves

Share capital

Share capital includes paid ordinary and preference shares and is expressed in KM at nominal value.

Revaluation reserve for investments

Revaluation reserve for investments comprises changes in fair value of financial assets through other comprehensive income.

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data.

loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

During 2020 and 2019 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Influence of the COVID-19 pandemic

The Bank's management has made estimates releted to consideration of the impact of Coronavirus pandemic (COVID-19) on current and future operation based on available information. This consideration relates to the nature of the products and services offered, customers, the lending and deposit collection process, employees and the geographical regions in which the Bank operates. Except as described in certain notes to the financial statements, there are currently no indicators that there is a material impact on the financial statements or any material uncertainties regarding events or conditions that may adversely affect the Bank at the reporting date or subsequently as a result of the Coronavirus pandemic (COVID-19).

On March 20, 2020 and August 24, 2020, the Banking Agency of the Federation of Bosnia and Herzegovina adopted bylaws, ie measures enabling the granting of benefits to bank clients affected by the negative effects of the Covid-19 pandemic, as well as creating a framework for preservation stability of the financial sector in the Federation of Bosnia and Herzegovina. The decision on temporary measures applied by banks for recovery from the negative economic consequences caused by the viral disease "COVID-19", adopted on August 24, 2020, provides for the following special measures:

- moratorium, as a cesssation in repayment of loan obligations for a maximum of 6 months,
- introduction of a "grace" period of 12 months for repayment of the principal of loan obligations in the case of loans that are repaid in annuity,
- extension of the maturity for repayment of annuity loans,
- extension of the maturity of single-maturity loans, including revolving loans and overdrafts on bank transaction accounts for a maximum period of 12 months, whereby the bank's client could use the part of the exposure that was unused on the day of modification, during that period,
- approving an additional amount of exposure for the purpose of overcoming the client's current liquidity difficulties,
- adjusting the repayment schedule in proportion to the reduction in income or some other relevant parameter determined by the bank and
- other measures taken by the bank in order to facilitate the servicing of the client's loan obligations and the establishment of sustainable business of the client.

Banks are left with the possibility to opt for other forms of customer support, ie other modalities of facilities, with the obligation to carry out all necessary activities in order to adequately manage credit risk. During the contracting of special measures, the bank cannot charge additional fees related to the modification of the exposure, ie during the moratorium no default interest is calculated on overdue receivables.

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

Influence of the COVID-19 pandemic (continued)

Also, the aforementioned Decision defines the segment of clients for whom special measures are available, level of credit risk 1 and 2, and level of credit risk 3 if the client is in the recovery period in accordance with Article 22, paragraph (3), Item b) of the Decision on credit risk management and where there is regular repayment in the last 3 months until the date of application. Clients could submit requests for the application of the aforementioned measures to banks until December 31, 2020.

During 2020, the Bank's Management Board adopted internal act "Program of Temporary Measures for Recovery from Negative Economic Consequences Caused by the COVID-19 Virus", which served as the basis for the activities that followed until December 31, 2020.

As on 31 December 2020, the Bank, in its loan portfolio, had 26 credit accounts of natural persons covered by special measures, and whose gross exposure balance was BAM 2,014 thousand, i.e., net exposure balance of BAM 1,966 thousand. In the segment of the portfolio related to legal entities, the number of parties covered by special measures was 85, with a gross exposure balance of BAM 56,819 thousand, or a net exposure balance of BAM 52,851 thousand.

Useful lives of property and equipment

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Impairment losses on loans and receivables

As described in Note 3 above, at each reporting period date, the Bank assessed indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Impairment losses on loans and receivables and provisions for off-balance exposure

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on-and off-balance credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of unused loan facilities and guarantees. Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

With regard to the financial assets carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant and collectively for assets that are not individually significant.

In assessing collective impairment, the following guidelines are used:

- future cash flows of a homogeneous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- criteria for assessing a significant increase in credit risk and measurement of losses on LTECL basis;
- information on historical loss rates is applied consistently to defined homogeneous segments/groups;
- historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- methodology and assumptions used to estimate future cash flows are regularly revised, and updated as necessary.

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

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

As explained further below, the Bank calculates provisions under FBA rules, as well as estimating impairment allowances under IFRS.

On December 23, 2020, the Supervisory Board of the Bank passed a Decision on the adoption of the Validation of the internal impairment methodology according to IFRS.

Fair value of financial instruments

As described in Note 34, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

5. INTEREST INCOME

	2020	2019
Interest on corporate loans	9,613	10,882
Interest on retail loans	4,627	3,946
Financial assets at fair value through OCI (Note 20)	1,158	1,167
Debt instruments at amortised cost (Note 21)	113	151
Factoring income	1	8
Interest income from banks	9	52
Other interest income	-	9
	15,521	**16,195**

6. INTEREST EXPENSES

	2020	2019
Interest on retail deposits	2,500	2,587
Interest on corporate deposits	1,822	1,657
Interest on subordinated debt	130	168
Other interest expenses	418	315
	4,870	**4,727**

7. FEE AND COMMISSION INCOME

	2020	2019
Fees from services rendered	4,161	4,165
Payment operations fees	3,109	3,049
Fees on issued guarantees	471	440
	7,741	**7,654**

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

8. FEE AND COMMISSION EXPENSE

	2020.	2019.
Payment transactions fees	2,127	2,108
Other fees to banks	598	573
	2,725	**2,681**

9. OTHER GAINS

	2020	2019
Foreign exchange differences, net	894	1,262
Collected written-off receivables	814	343
Income from rented premises or equipment	472	496
Gains on sale of property, equipment and assets available for sale (Note 22 and 23)	300	728
Fair value adjustment – financial assets at FVPL (Note 19)	10	32
Sale of bonds - financial assets at FVTOCI	-	63
Income from dividends	1	3
	2,491	**2,927**

10. OTHER OPERATING INCOME

	2020	2019
Income from suspended interest	69	190
Other income	322	122
	391	**312**

11. PERSONNEL EXPENSES

	2020	2019
Net salaries	4,091	4,091
Tax and contributions	2,479	2,472
Other	672	801
	7,242	**7,364**

The average number of personnel employed by the Bank on 31 December 2020 and 2019 was 212 and 219 respectfully.

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

12. OTHER ADMINISTRATIVE EXPENSES

	2020	2019
Equipment and building maintenance	1,453	1,257
Services	1,320	1,226
Energy	367	400
Marketing and representation	321	226
Telecommunication services	318	288
Tax expenses	260	271
Donations	253	169
Insurance	247	179
Material expenses	206	191
Membership fees	166	180
Subsequently identified other expenses	119	53
Rent	117	126
Utilities	56	56
Supervisory Board fees	49	49
Services contracts	29	27
Penalties	7	12
Card business fees	4	-
Other	183	195
	5,475	**4,905**

During 2020, under other administrative expenses, Bank stated expenses in amount of KM 435 thousand which are related to merger process with Vakufska bank d.d. Those expenses relates to rendered services in amount of KM 279 thousand and maintenance of business premises and equipment in amount of KM 156 thousand.

13. IMPAIRMENT LOSSES AND PROVISIONS

	Note	2020	2019
Cash and cash equivalents	16	5	(4)
Loans to customers	18	(35)	(1,071)
Provisions for litigations	29	80	(77)
Financial assets at FVOCI	20	(10)	162
Provisions for commitments and contingencies	29	(198)	(7)
Provisions for employee benefits	29	5	358
Financial assets at AC	21	(10)	(4)
Other assets	22	(86)	169
		(249)	**(474)**

14. INCOME TAX

Total income tax recognised in income statement may be presented as follows:

	2020	2019
Current income tax	-	93
Total tax	**-**	**93**

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

14. INCOME TAX (CONTINUED)

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	2020	2019
Profit / (loss) before income tax	4,066	5,849
Income tax expense, at the statutory rate of 10%	*407*	*585*
Effects of non-deductible expenses	71	155
Effects of non-taxable income	(199)	(128)
Capital (losses) / gains	(646)	39
Decrease in tax liability based on accumulated losses	-	(558)
Current income tax	-	**93**
Effective income tax rate	-	**1,59%**

Responsible bodies of the Bank believe that tax losses of Moja Banka d.d. Sarajevo can be carried forward to the successor bank through the merger process. In accordance with the Corporate Income Tax Act, rights and obligations of merged, acquired or divided taxpayers are assumed by legal successors in tax-legal relation.

Provisions of the Rulebook on implementation of Corporate Income Tax Act stipulate that a taxpayer that merges another taxpayer cannot use tax loss of the merged entity for decrease of its future tax base. Responsible bodies of the Bank believe that, in this case, the provisions of the Law, as the supreme legal act, are applicable. On 4 April 2019, Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2019, the Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts. Until the day of our audit, there were no significant changes in this segment.

Changes in deferred tax asset can be presented as follows:

	2020	2019
Balance as on 1 January	**108**	**113**
Used deferred tax assets	(13)	(6)
Adjustment	-	1
Balance as on 31 December	**95**	**108**

15. PROFIT PER SHARE

	2020	2019
Net result (in BAM thousands)	4,053	5,750
Weighted average number of shares for the purpose of basic earnings per share	658,695	658,695
Basic earnings per share (in BAM)	**6,15**	**8,73**

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

16. CASH AND CASH EQUIVALENTS

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Current account in domestic currency with the Central Bank of BH	88,326	-	-	88,326
Current accounts with other banks	17,020	-	-	17,020
Cash in hand in domestic currency	31,324	-	-	31,324
Cash in hand in foreign currency	7,783	-	-	7,783
	144,453	-	-	**144,453**

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Current account in domestic currency with the Central Bank of BH	39,849	-	-	39,849
Current accounts with other banks	20,791	-	-	20,791
Cash in hand in domestic currency	35,041	-	-	35,041
Cash in hand in foreign currency	7,977	-	-	7,977
	103,658	-	-	**103,658**

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	***103,675***	-	-	***103,675***
Acquired financial assets	40,959	-	-	40,959
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
As on 31 December 2020	***144,634***	-	-	***144,634***

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	***91,635***	-	-	***91,635***
Acquired financial assets	12,040	-	-	12,040
Derecognition or proceeds from collection (excluding write off)	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
As on 31 December 2019	*103,675*	-	-	*103,675*

Changes in impairments are presented below

	Stage 1	Stage 2	Stage 3	Total
Impairments as on 1 January 2020	*17*	-	-	*17*
Effect of the first-time adoption FBA Decision	159	-	-	159
Impairment (Note 13)	5	-	-	5
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
As on 31 December 2020	***181***	-	-	***181***

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

16. CASH AND CASH EQUIVALENTS (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Impairments as on 1 January 2019	***21***	-	-	***21***
Impairment (Note 13)	(4)	-	-	(4)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
As on 31 December 2019	*17*	-	-	*17*

17. OBLIGATORY RESERVE WITH THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2020	31 December 2019
Obligatory reserve with CBBH	57,834	47,831
	57,834	**47,831**

As prescribed in this Decision, base for the calculation of mandatory reserve is deposits and loaned funds, regardless of the currency. Decision prescribes unified rate of 10% that CBBiH applies in calculation of the obligatory reserve.

The Decision also determine that no fee will be calculated for the obligatory reserve amount. For the amount of assets over the obligatory reserve, CBBH calculates fee at the rate applied by the European Central Bank (ECB) on commercial bank's deposits.

18. LOANS AND RECEIVABLES

	31 December 2020	31 December 2019
Short- term loans:		
(including current portion of long-term loans)		
Corporate	123,306	129,088
Retail	8,249	10,574
	131,555	*139,662*
Long- term loans:		
(including current portion of long-term loans)		
Corporate	173,160	167,088
Retail	103,064	68,249
	276,224	*235,337*
Total loans before allowance for impairment	***407,779***	***374,999***
Less: Allowance for impairment losses based on individual assessment	(18,735)	(34,130)
Less: Allowance for impairment losses based on collective assessment	(8,974)	(8,036)
	380,070	**332,833**

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

18. LOANS AND RECEIVABLES (CONTINUED)

Below is the overview of loans given to customers by segment and level of credit risk as at December 31, 2020:

	Stage 1	Stage 2	Stage 3		
31 December 2020	**Collective assessment**	**Collective assessment**	**Individually assessed**	**Collective assessment**	**Total**
Loans to individuals					
Housing loan	20,745	253	273	47	21,318
Other loans to individuals	84,442	814	1,353	3,386	89,995
	105,187	**1,067**	**1,626**	**3,433**	**111,313**
Loans to corporate					
Revolving loans	84,012	3,994	2,377		90,383
Investment loans	24,449	3,189	2,115		29,753
Other loans to corporate	147,496	5,808	23,026		176,330
	255,957	**12,991**	**27,518**	-	**296,466**
Less: Impairment	(4,084)	(1,551)	(18,735)	(3,339)	(27,709)
	357,060	**12,507**	**10,409**	**94**	**380,070**
31 December 2019					
Loans to individuals					
Housing loans	13,778	68	483	81	14,410
Other loans to individuals	56,211	642	3,619	3,941	64,413
	69,989	*710*	*4,102*	*4,022*	*78,823*
Loans to corporate					
Revolving loans	75,186	2378	4,730	-	82,294
Investment loans	21,427	660	3,795	-	25,882
Other loans to corporate	142,755	12,233	33,012	-	188,000
	239,368	*15,271*	*41,537*	-	*296,176*
Less: Impairment	(3,799)	(443)	(34,129)	(3,795)	(42,166)
	305,558	**15,538**	**11,510**	**227**	**332,833**

Changes in gross carrying amount for loans are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	***309,357***	***15,981***	***49,661***	***374,999***
Acquired financial assets	198,724	3,417	29	202,170
Derecognition or proceeds from collection (excluding write off)	(141,687)	(4,232)	(2,166)	(148,085)
Increase in exposure under existing contracts	1,988	119	54	2,161
Transfer to Stage 1	895	(845)	(50)	-
Transfer to Stage 2	(7,596)	7,615	(19)	-
Transfer to Stage 3	(537)	(7,996)	8,533	-
Write off	-	-	(23,466)	(23,466)
At 31 December 2020	**361,144**	**14,059**	**32,576**	**407,779**

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

18. LOANS AND RECEIVABLE (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	***281,637***	***14,428***	***53,271***	***349,336***
Acquired financial assets	184,357	4,134	633	189,124
Derecognition or proceeds from collection (excluding write off)	(151,750)	(4,418)	(6,182)	(162,350)
Increase in exposure under existing contracts	503	2	12	517
Transfer to Stage 1	976	(780)	(196)	-
Transfer to Stage 2	(3,383)	3,413	(30)	-
Transfer to Stage 3	(2,983)	(798)	3,781	-
Write off	-	-	(1,628)	(1,628)
At 31 December 2019	***309,357***	***15,981***	***49,661***	***374,999***

Changes in impairment for loans receivables are shown below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	***3,799***	***443***	***37,924***	***42,166***
Effect of the first-time adoption FBA Decision	1,535	1,220	6,289	9,044
Impairment (Note 13)	165	62	(262)	(35)
Transfer to Stage 1	7	(7)	-	-
Transfer to Stage 2	(1,174)	1,175	(1)	-
Transfer to Stage 3	(249)	(1,343)	1,592	-
Write off	-	-	(23,466)	(23,466)
At 31 December 2020	**4,083**	**1,550**	**22,076**	**27,709**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***4,745***	***708***	***39,412***	***44,865***
Impairment (Note 13)	(9)	17	(1,079)	(1,071)
Transfer to Stage 1	16	(15)	(1)	-
Transfer to Stage 2	(110)	111	(1)	-
Transfer to Stage 3	(843)	(378)	1,221	-
Write off	-	-	(1,628)	(1,628)
At 31 December 2019	***3,799***	***443***	***37,924***	***42,166***

Weighted average interest rate can be presented as follows:

	31 December 2020	31 December 2019
Corporate	3.92%	5.22%
Retail	6.23%	5.19%

An overview of the average parameters used to calculate impairments can be shown as follows:

31 December 2020	Average PD	Average CR	Average LGD
Corporate	0,0187	-	0,64
Retail	0,006	-	0,74
31 December 2019			
Corporate	0,030	0,050	0,705
Retail	0,008	0,056	0,934

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

18. LOANS AND RECEIVABLES (CONTINUED)

Analysis of loans before allowance for impairment losses by industry:

	31 December 2020	31 December 2019
Trade	127,839	131,960
Citizens	111,313	78,768
Agriculture, forestry, mining and industry	84,524	68,080
Services, finance, sport and tourism	39,750	51,264
Construction industry	25,609	23,066
Transport and communications	10,567	7,654
Governmental institutions, NGO's and other	8,177	14,187
	407,779	**374,999**

Reprograms and restructuring

Restructuring measures include a "concession" to the debtor as a result of the deterioration in the economic and financial position of the client and the impossibility of repaying the debt under the initially agreed terms. The "concession" may be change in terms of the original contract (annex) or a new contract (refinancing). Restructuring of the liabilities aims to enable the client to repay the obligations according to his real possibilities, with the provision of more efficient and secure collection of the Bank's receivables. According to this, restructuring of the liabilities represents a change in the terms and conditions agreed in the moment of loan approving (e.g., extension of repayment deadlines, reduction of interest rates, etc.). Decision on restructuring of the liabilities make authorized body of the Bank. Restructured exposures can be identified both in the non-performing and performing parts of the portfolio.

31 December 2020	**Number of reprogramed loans**	**Gross credit exposure**	**Stage 1**	**Stage 2**	**Stage 3**
Corporate	28	5,275	521	-	4,754
Retail	14	394	16	-	378
	42	**5,669**	**537**	**-**	**5,132**
31 December 2019					
Corporate	39	12,136	693	-	11,443
Retail	15	670	22	-	648
	54	**12,806**	**715**	**-**	**12,091**

Loans under special measures

At 31 December 2020, the Bank had in its loan portfolio 26 credit accounts of natural persons covered by special measures, and whose balance sheet gross exposure was KM 2,014 thousand, i.e., balance sheet net exposure of KM 1,966 thousand. In the segment of the portfolio related to legal entities, the number of parties covered by special measures was 85, with a balance sheet gross exposure of KM 56,819 thousand, or a balance sheet net exposure of KM 52,851 thousand.

Syndicated loans

During 2020, the Bank approved 8 syndicated loans (2019: 8 syndicated loans) together with other banks. On this basis, the participation of other banks as of December 31, 2020 was in the amount of KM 3,232 thousand. (2019: from KM 4,527 thousand). The Bank bears risks only for its portion of syndicated loans.

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2020	31 December 2019
Investments in funds:		
Investment fund "Raiffeisen Cash" Sarajevo	995	-
Shares:		
Shares of private companies	155	170
Shares of public companies	40	48
Shares of banks	21	21
Shares of non-banking financial institutions	2	4
	1,213	**243**

Movements in fair value of assets through profit and loss were as follows:

	2020	2019
Balance at the beginning of the year	**243**	**2,721**
New assets (purchased)	995	-
Reclassification of assets by FVOSD	-	(2,469)
Gains from fair value adjustments (Note 9)	10	32
Charged during the year	(35)	(41)
Balance at the end of the year	**1,213**	**243**

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Debt securities:		
Ministry of Finance RS	26,212	19,597
Ministry of Finance FBiH	9,486	27,776
JP Autoceste FBiH d.o.o. Mostar	-	1,003
Accrued interest	481	382
Sub-total	*36,179*	*48,758*
Equity instruments:		
Bamcard d.d. Sarajevo	219	219
Sarajevo Stock exchange d.d. Sarajevo	103	103
Securities' Register of FBiH d.d.	15	15
Vakufska banka d.d. Sarajevo	17	21
Bank Association	9	9
Sub-total	*363*	*367*
Investment in funds:		
Open investment fund "Lilium Global" Sarajevo	524	484
	37,066	49,609

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

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

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	*49,609*	-	-	*49,609*
New financial assets (purchased)	10,412	-	-	10,412
Derecognition or proceeds from collection (excluding write off)	(23,749)	-	-	(23,749)
Interest (Note 5)	1,158	-	-	1,158
Unrealised loss from fair value adjustment, net	(364)	-	-	(364)
At 31 December 2020	*37,066*	-	-	*37,066*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	*35,491*	-	-	*35,491*
New financial assets (purchased)	18,247	-	-	18,247
Transfer from financial assets at FVTPL	2,469	-	-	2,469
Derecognition or proceeds from collection (excluding write off)	(7,935)	-	-	(7,935)
Interest (Note 5)	1,167	-	-	1,167
Unrealised gain from fair value adjustment, net	170	-	-	170
At 31 December 2019	*49,609*	-	-	*49,609*

21. DEBT INSTRUMENTS AT AMORTISED COST

	31 December 2020	31 December 2019
Bonds:		
Ministry of Finance of FBiH	1,158	1,551
Less: Impairment, net	-	(10)
	1,158	**1,541**

Changes in debt instruments at amortised cost are presented below:

	2020	2019
Balance at beginning of the year	**1,541**	**1,973**
Interest (Note 5)	113	151
Decrease, net	(496)	(583)
Balance at end of the year	**1,158**	**1,541**

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	*1,551*	-	-	*1,551*
Derecognition or proceeds from collection (excluding write off)	(506)	-	-	(506)
Interest (Note 5)	113	-	-	113
At 31 December 2020	*1,158*	-	-	*1,158*

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

21. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	*1,987*	-	-	*1,987*
Derecognition or proceeds from collection (excluding write off)	(587)	-	-	(587)
Interest (Note 5)	151	-	-	151
At 31 December 2019	*1,551*	-	-	*1,551*

Changes in impairment are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairment as at 1 January 2020	*10*	-	-	*10*
Release of reservation (Note 13)	(10)	-	-	(10)
At 31 December 2020	-	-	-	-

	Stage 1	Stage 2	Stage 3	Total
Impairment as at 1 January 2019	*14*	-	-	*14*
Release in impairment due to changes in risk parameters (Note 13)	(4)	-	-	(4)
At 31 December 2019	*10*	-	-	*10*

22. OTHER ASSETS AND RECEIVABLES, NET

	31 December 2020	31 December 2019
Receivables from BH Pošta based on the foreign exchange Contract	2.969	2.969
Receivables from banks	2.645	1.058
Acquired tangible assets	2.296	2.729
Prepaid expenses	653	653
Advance income tax	219	126
Receivables from government institutions	108	93
Inventories and other office supplies	75	76
Cash allocated to other banks	-	2.591
Other	1.748	1.970
	10.713	*12.265*
Less: Impairment	(1.386)	(1.263)
	9.327	**11.002**

Changes in acquired assets are presented below:

	Book value	Gains from sale
January 1, 2019	**2.161**	-
Sale / (purchase) of acquired real estate	(699)	260
Collection of credit receivables through the acquisition of real estate	1.267	-
Balance as of December 31, 2019	**2.729**	**260**
Sale / (purchase) of acquired real estate	(370)	252
Collection of credit receivables through the acquisition of real estate	81	-
Impairment of acquired real estate	(144)	-
Balance as of December 31, 2020	**2.296**	**252**

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

22. OTHER ASSETS AND RECEIVABLES, NET (CONTINUED)

Changes in impairment are presented below:

	2020	2019
Balance at 1 January	**1,263**	**1,167**
The effect of the first-time adoption of the FBA Decision	209	-
Impairment (Note 13)	(86)	169
Write off	-	(73)
Balance at 31 December	**1,386**	**1,263**

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

23. TANGIBLE AND INTANGIBLE ASSETS

	Buildings and land	Assets under lease (IFRS 16)	Vehicles	Computer and other equipment	Intangible assets	Leasehold improvements	Investment in progress	Total
COST								
At 31 December 2018	**5,150**	-	**634**	**10,216**	**5,265**	**1,905**	**352**	**23,522**
Additions	-	3,734	-	-	-	-	1,291	5,025
Transfer (from) / to	-	-	134	353	139	141	(767)	-
Disposals	(1,547)	-	(67)	(1,241)	(7)	(843)	(53)	(3,758)
At 31 December 2019	**3,603**	**3,734**	**701**	**9,328**	**5,397**	**1,203**	**823**	**24,789**
Additions	-	1,452	-	139	-	175	1,661	3,427
Transfer (from) / to	3	-	247	44	193	796	(1,283)	-
Disposals	-	(1,514)	(178)	(53)	-	-	-	(1,745)
At 31 December 2020	**3,606**	**3,672**	**770**	**9,458**	**5,590**	**2,174**	**1,201**	**26,471**
ACCUMULATED DEPRECIATION								
At 31 December 2018	**1,579**	-	**367**	**8,930**	**3,986**	**1,247**	-	**16,109**
Depreciation	58	1,048	85	427	312	106	-	2,036
Disposals	(339)	-	(62)	(1,239)	(5)	(833)	-	(2,478)
At 31 December 2019	**1,298**	**1,048**	**390**	**8,118**	**4,293**	**520**	-	**15,667**
Depreciation	51	1,096	94	361	284	129	-	2,015
Disposals	-	(555)	(144)	(56)	-	-	-	(755)
Adjustments	6	-	-	-	-	-	-	6
At 31 December 2020	**1,355**	**1,589**	**340**	**8,423**	**4,577**	**649**	-	**16,933**
NET BOOK VALUE								
At 31 December 2020	**2,251**	**2,083**	**430**	**1,035**	**1,013**	**1,525**	**1,201**	**9,538**
At 31 December 2019	**2,305**	**2,686**	**311**	**1,210**	**1,104**	**683**	**823**	**9,122**

Cost of fully depreciated tangible and intangible assets in use as at 31 December 2020 is in amount of BAM 11.275 thousand (2019: BAM 10.339 thousand).

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

23. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

Assets under lease in accordance with IFRS 16 „Leases" are presented below:

	Property
Net book value at 31 December 2020 (BAM 000)	2,083
Addition investment in assets with right of use (BAM 000)	-
Depreciation rate	10% - 48%
Number of lease agreement	21
Period of right of use	from 2 to 10 years

24. DUE TO BANKS

	31 December 2020	31 December 2019
Deposits:		
Demand deposits	979	360
Fixed-term deposits	5,000	5,000
	5,979	**5,360**

25. DUE TO CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits		
Retail:		
In domestic currency	68,327	57,960
In foreign currencies	20,708	17,113
	89,035	*75,073*
Corporate:		
In domestic currency	77,990	43,155
In foreign currencies	12,138	4,628
	90,128	*47,783*
Deposits from non-profit organisations, cantonal government, municipalities etc.:		
In domestic currency	83,849	99,786
In foreign currencies	27,762	11,807
	111,611	*111,593*
	290,774	**234,449**
Fixed-term deposits:		
Retail:		
In domestic currency	63,495	60,214
In foreign currencies	75,990	79,620
	139,485	*139,834*
Corporate:		
In domestic currency	33,539	16,368
In foreign currencies	2,875	978
	36,414	*17,346*
Deposits from non-profit organisations, cantonal government, municipalities etc.:		
In domestic currency	50,580	38,103
In foreign currencies	49,225	43,501
	99,805	*81,604*
	275,704	**238,784**
	566,478	**473,233**

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

25. DUE TO CUSTOMERS (CONTINUED)

Interest rate during the year is presented below:

	2020	2019
Demand deposits in KM and foreign currencies	0% - 0.10%	0.05% - 0.60%
Fixed-term deposits of legal entities	(0.08)% - 1.69%	0.05% - 4.50%
Fixed-term deposits of private individuals	(0.15)% - 1.88%	0.05% - 6.40%

26. SUBORDINATED DEBT

	31 December 2020	31 December 2019
ASA Finance d.d. Sarajevo (3,000,000 BAM, interest rate 5% p.a., maturity 11 August 2020 - bonds)	-	3,000
Accrued interest	-	59
	-	**3,059**

27. LIABILITIES FOR LEASE

	31 December 2020	31 December 2019
Long term liabilities	1,027	1,715
Short term liabilities	1,094	1,034
	2,121	**2,749**
Maturity analysis:		
Within one year	1,094	1,034
In the second year	563	874
In the third year	347	493
In the fourth year	80	337
In the fifth year	37	11
	2,121	**2,749**

Lease agreement are signed from 2 to 10 years. The Bank used incremental borrowing rate from 0.35% to 3.50% p.a

28. OTHER LIABILITIES

	31 December 2020	31 December 2019
Liabilities for inactive accounts	587	655
Liabilities for undistributed inflows	554	560
Card operations	516	478
Liabilities for suppliers	430	296
Liabilities for managed funds commissions (Note 31)	21	23
Other	547	388
	2,655	**2,400**

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

29. PROVISIONS

	31 December 2020	31 December 2019
Provisions for commitments and contingencies	396	485
Provisions for legal proceedings	227	147
Provisions for employee benefits	349	344
	972	**976**

Commitments and contingencies

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

	31 December 2020	31 December 2019
Unused approved loans	22,086	20,536
Performance guarantees	15,654	13,473
Payment guarantees	2,373	2,461
	40,113	**36,470**

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	*36,273*	*194*	*3*	*36,470*
New financial liabilities	29,319	46	1	29,366
Derecognition or payment of liabilities (excluding write off)	(26,904)	(188)	(1)	(27,093)
Increase in exposure under existing contracts	1,357	10	3	1,370
Transfer to Stage 1	20	(17)	(3)	-
Transfer to Stage 2	(30)	30	-	-
Transfer to Stage 3	(2)	-	2	-
At 31 December 2020	*40,033*	*75*	*5*	*40,113*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	*28,060*	*274*	*1*	*28,335*
New financial liabilities	29,011	112	-	29,123
Derecognition or payment of liabilities (excluding write off)	(20,295)	(200)	-	(20,495)
Decrease in exposure under existing contracts	(490)	(2)	(1)	(493)
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(11)	11	-	-
Transfer to Stage 3	(3)	-	3	-
At 31 December 2019	*36,273*	*194*	*3*	*36,470*

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

29. PROVISIONS (CONTINUED)

Changes in impairment are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2020	*481*	*2*	*2*	*485*
The effect of the first-time adoption of the FBA Decision	83	24	2	109
Impairment (Note 13)	(172)	(24)	(2)	(198)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	(1)		1	-
At 31 December 2020	*390*	*3*	*3*	*396*

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	**488**	**3**	**1**	**492**
Impairment (Note 13)	(5)	(1)	(1)	(7)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(2)	-	2	-
At 31 December 2019	*481*	*2*	*2*	*485*

Changes in provisions are presented below:

	Court proceeding	Commitments and contingencies	Employee benefits	Total
Balance as of 1 January 2019	**240**	**492**	**43**	**775**
Increase in imapirment (Note 13)	(77)	(7)	358	274
Payments	(16)	-	(57)	(73)
Balance as of 31 December 2019	**147**	**485**	**344**	**976**
The effect of the first-time adoption of the FBA Decision	-	109	-	109
Decrease in impairment (Note 13)	80	(198)	5	(113)
Balance as of 31 December 2020	**227**	**396**	**349**	**972**

On 4 April 2019, Bank received Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2019, Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts. Until the day of audit, there were no significant changes in a complaint status filed to the Tax Authorities.

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

30. SHARE CAPITAL

Share capital as of 31 December 2020 consists of 658,695 ordinary shares at nominal value of BAM 100.

	31 December 2020		31 December 2021	
	'000 BAM	% of ownership	'000 BAM	% of ownership
ASA Finance d.d. Sarajevo	35,993	54,64%	30,964	47,01%
ZIF "prevent INVEST" d.d. Sarajevo	7,548	11,46%	7,548	11,46%
Validus d.d. Varaždin – in bankruptcy	1,780	2,70%	1,780	2,70%
Almy d.o.o. Zenica	1,403	2,13%	1,403	2,13%
Nermina Čago	1,279	1,94%	1,057	1,60%
Raiffeisen bank d.d. BIH	1,194	1,81%	1,314	2,00%
ZIF "PROF-PLUS" d.d. Sarajevo	1,010	1,53%	1,010	1,53%
E-MARDIN d.o.o. Sarajevo	-	-	4,810	7,30%
Other shareholders	15,663	23,79%	15,984	24,27%
	65,870	**100,00%**	**65,870**	**100,00%**

On June 30, 2020, the Bank's Assembly adopted a Decision on the merger of Vakufska banka d.d. Sarajevo to ASA Bank d.d. Sarajevo. In accordance with the Decision of the Supervisory Board of July 30, 2020, the integration of business activities and one accounting of the Banks was defined as of September 1, 2020. Considering the objective circumstances out of the control of the Banks, on 23 December 2020, the Supervisory Board amended the aforementioned Decision and set a new date for the integration of business activities started from 1 March 2021.

31. MANAGED FUNDS

The funds for which the Bank acts as commissioner for and of behalf of third party are not Bank's assets and therefore are not the part of financial statements. Analysis of managed funds is presented as follows:

	31 December 2020	31 December 2019
PLACEMENTS		
Corporate	9,332	9,950
Retail	2,025	2,297
	11,357	**12,247**
SOURCES:		
Zenica – Doboj Canton	9,359	9,808
Sarajevo Canton	1,705	1,957
Others	314	505
	11,378	**12,270**
Current obligations due to Managed funds (Note 28)	**21**	**23**

In accordance with the signed commission agreements with the Government of Zenica-Doboj Canton and the Government of Sarajevo Canton, the Bank had placed 9,332 thousand KM of loans to legal entities and 2,025 thousand KM to individuals, in order to invest in housing for third parties, employment and agricultural development. .

In accordance with the above agreements, the Bank was obliged to place these funds to third parties. The owners of the sources of funds bear the risk of collecting them.

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

32. RELATED PARTY TRANSACTIONS

In accordance with the requirements of the International Accounting Standard 24 "Related Party Disclosures" A related party is a person or entity that is related to the entity that is preparing its financial statements:

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

As at 31 December 2020 and 2019 balance outstanding with related parties comprised:

All transaction that are presented below are done by commercial and banking conditions:

	31 December 2020			31 December 2019		
	Loans	Off-balance sheet exposure	Total	Loans	Off-balance sheet exposure	Total
Employees	3,251	337	3,588	2,688	338	3,026
Shareholders	12,362	633	12,995	7,999	310	8,309
	15,613	**970**	**16,583**	**10,687**	**648**	**11,335**

Directors' remuneration

The remuneration of directors and other key management personnel during the year ended 31 December 2020 may be presented as follows:

	2020	2019
Compensation for Chairman and members of the Board	433	427
Taxes and contributions and other compensations	246	243
	679	**670**

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

33. RISK MANAGEMENT

a) Capital risk managements

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31 December 2020	31 December 2019
Debt	574,579	484,401
Capital	62,549	68,170
Net debt to capital ratio	**9,19**	**7,11**

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 24, 25, 26 and 27. Capital includes share capital and accumulated losses.

Regulatory capital of the Bank includes core and supplementary capital.

Core capital of bank (totally equal to ordinary share capital) includes paid shares, premium on share, accumulated retained earnings and other reserves formed from earn after tax based on decision of Bank Assembly, net revaluation reserves by change of fair value of assets (accumulated comprehensive income), impaired by amount of treasury stocks, intangible assets and deferred tax assets. Supplementary capital includes general impairment for credit risk, calculated as 1.25% from amount of risk- weighted exposure, impaired by missing reserves for credit loss by regulatory request. This provision was applied up to the 31 December 2019.

The prescribed minimum capital rates are as follows:

- rate of regular core capital 6.75%
- rate of core capital 9%
- rate of regulatory capital 12%

In addition to the regulatory minimum rates of adequacy, Bank also has to provide capital conservation buffer that needs to be in form of regular basis capital in amount of 2.5% of the total amount of risk exposure.

The total weighted risk used to calculate capital adequacy includes:

- risk- weighted assets and credit equivalents,
- positional, currency, commodity risk, and
- operational risk.

One of the basic processes that the Bank implements in the context of strategic risk management is the internal capital adequacy assessment process ("ICAAP"). The main objective of this process is to determine the positive level of capital that is sufficient to cover all risks that the Bank is exposed to and that are assessed as material. ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital.

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

33. RISK MANAGEMENT (CONTINUED)

At 31 December 2020, the rates and levels of capital were as follows:

The rate of core capital	15.73%
The rate of regulatory capital	15.73%
The rate of core capital including adjustments from Pillar 2	7.72%
The rate of core capital including adjustments from Pillar 2	10.29%
The rate of regulatory capital including adjustments from Pillar 2	13.72%

Table that is presented below shows structure of capital and capital indicators at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Regulatory capital	**56,995**	**54,735**
Core capital	*56,995*	*54,735*
Regular core capital	*56,995*	*54,735*
Paid-up equity instruments	65,870	65,870
Retained earnings	(13,924)	(10,154)
Other comprehensive income – revaluation reserves	466	713
Other reserves	5,992	5,992
Deductions from regular core capital		
intangible assets	(1,314)	(1,234)
deferred tax assets	(95)	(108)
Deductions from regular core capital – missing reserves	-	(6,344)
Total regular core capital	**56,995**	**54,735**
Supplementary core capital	-	-
Core capital	**56,995**	**54,735**
Supplementary capital		-
Subordinated debt	-	-
General value adjustment for credit risk	-	3,870
Deductions from supplementary capital – missing reserves	-	(3,870)
Total regulatory capital	**56,995**	**54,735**
Total risk-weighted assets (unaudited)	362,332	345,616
Rate of regular core capital	**15.73%**	**15.84%**

Capital adjustment plan

As of 31 December 2020, the ratio "tangible assets/core capital" amounted to 16,68% (31 December 2019: 14,35%). According to the Law on Banks, total bank's investments into tangible assets may not exceed 40% of the core capital.

Bank is obliged to ensure and maintain financial leverage rate, as additional security and simple capital protection, in minimum of 6%.

The bank's financial leverage rate is ratio of core capital and amount of total bank exposure on reporting date, expressed as a percentage. Financial leverage ratio at 31 December 2020 amounts to 8,57% (31 December 2019: 9,51%).

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

33. RISK MANAGEMENT (CONTINUED)

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

c) Categories of financial instruments

	31 December 2020	31 December 2019
Financial assets		
Loans and receivables:	582,357	484,322
Cash and cash equivalents (including Obligatory reserves with the CBBH)	*202,287*	*151,489*
Loans to clients and receivables, net	*380,070*	*332,833*
Financial assets at FVTPL	1,213	243
Financial assets at FVTOCI	37,066	49,609
Financial assets at amortised cost	1,158	1,541
	621,794	**535,715**
Financial liabilities		
At amortised cost:		
Borrowings and liabilities to banks	5,979	5,360
Subordinated debt	-	3,059
Due to customers	566,478	473,233
	572,457	**481,652**

d) Financial risk management objectives

The Bank's Risk department provides services to the business, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

e) Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

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

33. RISK MANAGEMENT (CONTINUED)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	BAM	EUR	USD	CHF	Other	Total
As at 31 December 2020						
ASSETS						
Cash and balances with other banks	119,616	17,703	4,756	1,485	893	144,453
Obligatory reserves with the CBBH	57,834	-	-	-	-	57,834
Loans to customers, net	380,070	-	-	-	-	380,070
Financial assets at FVTPL	1,213	-	-	-	-	1,213
Financial asset at FVTOCI	37,066	-	-	-	-	37,066
Debt instruments at amortised cost	1,158	-	-	-	-	1,158
Other receivables	7,582	1,740	5	-	-	9,327
Total	**604,539**	**19,443**	**4,761**	**1,485**	**893**	**631,121**
LIABILITIES						
Due to other banks and financial institutions	5,979	-	-	-	-	5,979
Amounts due to customers	377,777	181,730	4,763	1,485	723	566,478
Other financial liabilities	4,763	13	-	-	-	4,776
Total	**388,519**	**181,743**	**4,763**	**1,485**	**723**	**577,233**
As at 31 December 2019						
Total monetary assets	**316,643**	**222,985**	**4,490**	**1,258**	**1,341**	**546,717**
Total monetary liabilities	**256,362**	**223,687**	**4,499**	**1,258**	**995**	**486,801**

Foreign currency sensitivity analysis

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

The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD and CHF. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD and CHF, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Effect		CHF Effect	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Profit/(loss)	-	1	-	-

33. RISK MANAGEMENT (CONTINUED)

g) Interest rate risk management

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

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the reporting period date. The analysis is prepared assuming the number of financial instruments outstanding at the reporting period date was outstanding for the whole year. A 200-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2020 would decrease / increase by BAM 4,465 thousand (2019: BAM 643 thousand – used 50-basis point as per current methodology in 2019).

h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank, The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee (RICO) on a monthly basis.

The Bank does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities.

Except stated below in table, the carrying amount of financial asset presented in financial statements, decreased for losses based on impairments, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

33. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

	Total gross carrying amount	Unimpaired assets	Individually impairment assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
As of 31 December, 2020						
Cash and balances with other banks	144,534	39,107	105,527	-	(181)	144,453
Obligatory reserves with the CBBH	57,834	57,834	-	-		57,834
Loans to customers and receivables at amortised cost	407,779	3,717	404,062	(18,735)	(8,974)	380,070
Financial assets at FVTPL	1,213	1,213	-	-	-	1,213
Debt instruments at amortised cost	1,158	1,158	-	-	-	1,158
Financial assets at FVTOCI	37,066	887	36,179	-	-	37,066
	649,684	**103,916**	**545,768**	**(18,735)**	**(9,155)**	**621,794**
As of 31 December, 2019						
Cash and balances with other banks	103,675	43,018	60,657	-	(17)	103,658
Obligatory reserves with the CBBH	47,831	47,831	-	-	-	47,831
Loans to customers and receivables at amortised cost	374,999	760	374,239	(8,036)	(34,130)	332,833
Financial assets at FVTPL	243	243	-	-	-	243
Debt instruments at amortised cost	1,551	-	1,551	-	(10)	1,541
Financial assets at FVTOCI	49,609	851	48,758	-	-	49,609
	577,908	**92,703**	**485,205**	**(8,036)**	**(34,157)**	**535,715**

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

33. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	Loan commitments / Guarantees	Fair value of collateral
As at 31 December 2020			
Cash and balances with other banks	144,453	-	-
Obligatory reserves with the CBBH	57,834	-	-
Loans to customers and receivables at amortised cost	380,070	40,107	406,698
Financial assets at FVTPL	1,213	-	-
Financial assets at FVTOCI	37,066	-	-
Debt instruments at amortised cost	1,158	-	-
	621,794	**40,107**	**406,698**
As at 31 December 2018			
Cash and balances with other banks	103,658	-	-
Obligatory reserves with the CBBH	47,831	-	-
Loans to customers and receivables at amortised cost	332,833	36,469	380,263
Financial assets at FVTPL	243	-	-
Financial assets at FVTOCI	49,609	-	-
Debt instruments at amortised cost	1,541	-	-
	535,715	**36,469**	**380,263**

Fair value of the collaterals

	31 December 2020	31 December 2019
Real estate	387,640	363,386
Movable properties	8,837	9,842
Deposits	10,221	7,035
Total	**406,698**	**380,263**

Arrears

	Total gross loans to citizens	Not due	Up to 30 days	31 to 90 days	91 to 180 days	181 to 270 days	Over 270 days
31 December 2020							
Corporate	111,313	100,892	5,429	290	120	135	4,447
Retail	296,466	262,049	14,677	1,664	182	-	17,894
Total	**407,779**	**362,941**	**20,106**	**1,954**	**302**	**135**	**22,341**
31 December 2019							
Corporate	296,176	250,818	4,270	757	2,675	136	37,520
Retail	78,823	66,055	4,663	257	134	213	7,501
Total	**374,999**	**316,873**	**8,933**	**1,014**	**2,809**	**349**	**45,021**

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

33. RISK MANAGEMENT (CONTINUED)

l) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves and other financing sources, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial asset. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	5+ years	Total
31 December 2020							
Non- interest bearing	-	108,360	-	-	147	9	108,516
Variable interest rate instruments	3.66%	97,288	24,362	94,353	143,205	71,791	430,999
Fixed interest rate instruments	3.40%	18,987	7,643	44,988	34,490	14,855	120,962
		224,635	**32,004**	**139,341**	**177,842**	**86,656**	**660,478**
31 December 2019							
Non- interest bearing	-	112,884	-	146	-	9	113,039
Variable interest rate instruments	4.13%	45,051	15,147	88,117	138,794	47,901	335,010
Fixed interest rate instruments	3.05%	9,949	2,233	56,520	46,731	3,412	118,845
		167,884	**17,380**	**144,783**	**185,525**	**51,322**	**566,894**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	5+ years	Total
31 December 2020							
Non-interest bearing	-	97,333	278	3,428	1,449	826	103,314
Variable interest rate instruments	0.09%	200,000	484	3,565	3,706	-	207,754
Fixed interest rate instruments	1.50%	22,889	21,254	79,827	151,206	2,133	277,309
		320,222	**22,016**	**86,820**	**156,361**	**2,959**	**588,378**
31 December 2019							
Non-interest bearing	-	10,004	230	1,314	2,388	1,081	15,017
Variable interest rate instruments	0,10%	195,257	827	4,366	5,790	60	206,300
Fixed interest rate instruments	1,48%	38,582	9,790	81,768	145,549	1,532	277,221
		243,843	**10,847**	**87,448**	**153,727**	**2,673**	**498,538**

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial asset.

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

34. FAIR VALUE MEASUREMENT

34.1 Fair value of the Bank's financial assets and liabilities measured at fair value on a recurring basis, from period to period

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / financial liabilities	Fair value as at 31 December 2020	Fair value as at 31 December 2019	Fair value hierarchy	Valuation techniques and key inputs
1) Financial assets as at FVTPL (see Note19)	*Equity securities listed on a stock exchange in Bosnia and Herzegovina:* Shares of private and public companies, banks and non-banking financial institutions– 218 thousand BAM,	*Equity securities listed on the stock exchange in Bosnia and Herzegovina:* *Shares of private and state companies, banks and non-banking financial institutions - 243 thousand BAM*	Level 1	Prices quoted in an active market.
	Investment fund shares: Open-end investment funds - 995 thousand BAM	-	Level 2	Prices derived from the prices of other securities quoted in an active market
2) Financial assets as at FVTOCI	*Equity securities listed on the stock exchange in Bosnia and Herzegovina:* *Shares of private and state companies, banks and non-banking financial institutions - 363 thousand BAM*	*Debt securities listed on the stock exchange in Bosnia and Herzegovina:* *• Bonds issued by the Federation of BiH - BAM 27,776 thousand* *• Bonds of Republika Srpska - KM 19,597 thousand* *• JP Autoceste FBIH - 1,003 thousand BAM* *Equity securities listed on the stock exchange in Bosnia and Herzegovina:* *Shares of private and state companies, banks and non-banking financial institutions - 367 thousand BAM*	Level 1	Prices quoted in an active market,
	Investment fund shares: Open-end investment funds - 524 thousand BAM	Investment fund shares: Open-end investment funds - 484 thousand BAM	Level 2	Prices derived from the prices of other securities quoted in an active market
	Debt securities listed on the stock exchange in Bosnia and Herzegovina: *• Bonds issued by the Federation of BiH - BAM 9,486 thousand* *• Bonds of Republika Srpska – BAM 26,212 thousand*	-	Level 3	Discounted cash flow method

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

34. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers and receivables at amortised cost	380,070	401,734	332,833	350,174
- Debt instruments at amortised cost	1,158	1,482	1,541	1,987
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	572,457	569,194	478,593	469,485
	-	-	3,059	2,913

	Fair value hierarchy as of 31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables				
- Loans to customers and receivables at amortised cost	-	401,734	-	401,734
- Debt instruments at amortised cost	-	1,482	-	1,482
	-	**403,216**	**-**	**403,216**
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial liabilities	-	569,194	-	569,194
	-	**569,194**	**-**	**569,194**

The fair value of financial assets and liabilities included in the above categories of Level 2 were determined according to generally accepted models of assessment based on an analysis of discounted cash flows, the discount rate as most important input data, which reflects the credit risk of counterparties. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

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

35. EVENTS AFTER THE BALANCE SHEET DATE

On June 30, 2020, the Bank's Assembly adopted a Decision on the merger of Vakufska banka d.d. Sarajevo to ASA Bank d.d. Sarajevo. In accordance with the Decision of the Supervisory Board of July 30, 2020, the integration of business activities and one accounting of the Banks is defined to start from September 1, 2020. Given the objective circumstances out of the control of the Banks, as of 23 December 2020, the Supervisory Board amended the aforementioned Decision and set a new date for the integration of business activities starting from 1 March 2021. As of the date of these financial statements, the Bank does not have reliable and relevant information on whether the integration will actually take place on the new projected date.

In order to expand the existing office premises, and taking into account the business reorganization plan and the forthcoming merger of Vakufska banka d.d. Sarajevo, on February 1, 2021, the Bank signed a Real Estate Purchase Agreement with ASA Nekretnine BH d.o.o. Sarajevo in total amount of KM 9 million.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board on 5 February 2021.

Samir Mustafić Chairman of the Board	Arnela Alagić Acting Member of the Board	Davor Tomić Member of the Board

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