DEVELOPMENT BANK OF
FEDERATION OF BOSNIA AND HERZEGOVINA

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

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

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

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

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

The financial statements set out on pages 7 to 77 were authorized by the Management Board on 10 March 2021 for issuing to the Supervisory Board and are signed below to signify this:

On behalf of the Management Board

dr.sc. Semir Fejzić
Acting President of the Management Board

Razvojna banka FBiH
Igmanska 1
71000 Sarajevo
Bosna i Hercegovina

10 March 2021

Independent Auditor´s report

Grant Thornton d.o.o. Banja Luka
Vase Pelagića 2/IV
78 000 Banja Luka
Republika Srpska
Bosna i Hercegovina

T +387 51 211 509; +387 51 211 294
F +387 51 211 501
E office@ba.gt.com
www.grantthornton.ba

To the owners of the Development Bank of Federation of Bosnia and Herzegovina

Opinion

We have audited the accompanying financial statements of the Development Bank of Federation of Bosnia and Herzegovina (hereinafter: "the Bank"), which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

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

Other Information

In accordance with the Ordinance on criteria and manner of supervising the operations of the Development Bank of the Federation of Bosnia and Herzegovina and the Decisions of the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: „the Regulator"), the Bank prepared separate reports as at 31 December 2020 in accordance with the requirements of the Regulator. The separate reports will be subject to a separate review and may differ significantly in presentation from the accompanying financial statements.

Emphasis of Matter

As disclosed in Note 20 to the accompanying financial statements, the total value of litigation pending against the Bank as at 31 December 2020 are stated in the amount of BAM 3.449 thousand and mostly relates to labor disputes. The Bank made provisions based on enforcement lawsuits in the total amount of BAM 240 thousand. The Bank's management believes that these provisions based on litigation are made in accordance with best estimates as at 31 December 2020 and that there will be no other enforcement judgments in 2021, which may require significant outflows.

Article 7 of the Law on the Development Bank of the Federation of Bosnia and Herzegovina defines that the Bank does not operate with the primary objective of making profit, but within the established development objective and development financing conditions. For its business, basic principles of profitability, liquidity and investment security should be applied. Given the significant decline in revenues in 2019 and 2020, it is necessary to adopt a Management Plan in the coming period in order to provide the principles defined in Article 7 of the Law on the Development Bank of the Federation of Bosnia and Herzegovina. Furthermore, the Bank's business is organized in accordance with the Regulation on criteria and manner of monitoring of the Development Bank of the Federation of Bosnia and Herzegovina (hereinafter: the Regulation) and in accordance with the Law on the Development Bank of the Federation of Bosnia and Herzegovina. This Regulation is in conflict with the New Regulatory Framework, which means that most of the normative acts applied by the Bank are not in compliance due to this conflict. According to the information obtained during the audit, the Bank undertook activities on the proposed text of the new Regulation in cooperation with the FBiH Banking Agency in order to adjust the Regulation and the New Regulatory Framework to the actual needs and possibilities of the Bank.

Our opinion has not been modified in respect of these matters.

Responsibilities of the Management of the Bank for the Financial Statements

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

In preparing the financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Management of the Bank is responsible for overseeing the Bank's financial reporting process.

Auditor´s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Aleksandar Džombić, Certified auditor.

Grant Thornton d.o.o. Banja Luka
Banja Luka, 11 March 2021

d.o.o. Grant Thornton Banja Luka

Aleksandar Džombić, PhD
Managing Partner – Director
Grant Thornton d.o.o. Banja Luka

Aleksandar Džombić
Certified auditor
Grant Thornton d.o.o. Banja Luka

(All amounts are expressed in thousand KM, unless otherwise stated)

	Notes	2020	2019
Interest income	4	6.970	6.808
Interest expense	5	(476)	(454)
Net interest income		**6.494**	**6.354**
Fee and commission income	6	1.800	1.739
Net fee and commission income		**1.800**	**1.739**
Other operating income	7	383	1.035
Operating income		**8.677**	**9.128**
Personnel expenses	8	(6.030)	(6.097)
Depreciation and amortization		(375)	(454)
Administrative and other expenses	9	(1.578)	(1.477)
Operating expenses		**(7.983)**	**(8.028)**
Profit before impairment losses and provisions		**694**	**1.100**
Impairment losses and provisions	10	(333)	(741)
Profit before tax		**361**	**359**
Income tax	2(e)	-	-
Net profit for the year		**361**	**359**

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

dr.sc. Semir Fejzić
Acting President of the Management Board

RAZVOJNA BANKA FEDERACIJE BOSNE I HERCEGOVINE
RB FBIH
Sarajevo

Suada Pita
Certified accountant

CERTIFICIRANI RAČUNOVOĐA
PITA SUADA
Dozvola-Licenca broj 0833

	Notes	2020	2019
Net profit for the year		**361**	**359**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**361**	**359**

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

(All amounts are expressed in thousand KM, unless otherwise stated)

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	11	89.626	100.489
Obligatory reserve with the Central Bank	12	17.438	13.498
Loans to and receivables from banks	13	-	-
Loans to and receivables from customers	14	248.980	204.752
Other assets	15	196	99
Property and equipment	16	4.175	4.105
Intangible assets	17	58	84
Total assets		**360.473**	**323.027**
Liabilities			
Current accounts and deposits from customers	18	180.349	132.519
Borrowings	19	854	1.395
Provisions	20	1.802	1.130
Other liabilities	21	7.835	18.711
Total liabilities		**190.840**	**153.755**
Equity			
Registered capital	22	163.615	163.615
Retained earnings		6.018	5.657
Regulatory reserves for credit losses			-
Total equity		**169.633**	**169.272**
Total liabilities and equity		**360.473**	**323.027**

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

(All amounts are expressed in thousand KM, unless otherwise stated)

	2020	**2019**
Operating activities		
Profit for the year	361	359
Adjustments for:		
Depreciation and amortization	375	454
Impairment losses and provisions, net	333	741
Net interest income	(6.508)	(6.354)
	(5.439)	*(4.800)*
Changes in:		
Net increase in obligatory reserve with the Central Bank	(3.940)	(2)
Net (increase) / decrease in given loans and receivables	(43.817)	(8.147)
Net decrease / (increase) in other assets	(145)	1.087
Net increase / (decrease) in current accounts and deposits from customers	47.830	(9.597)
Net (decrease) / increase in other liabilities	(9.745)	9.075
	(15.256)	*(12.384)*
Interest received	5.829	6.140
Interest paid	(476)	(454)
Net cash used in / from operating activities	**(9.903)**	**(6.698)**
Investing activities		
Purchase of property and equipment	(412)	(73)
Purchase of intangible assets	(7)	-
Net cash used in investing activities	**(419)**	**(73)**
Financial activities		
Repayment of borrowings	(541)	(471)
Net cash used in financial activities	**(541)**	**(471)**
Net increase / (decrease) in cash and cash equivalents	**(10.863)**	**(7.242)**
Cash and cash equivalents at the beginning of the year	**100.489**	**107.731**
Cash and cash equivalents at the end of the year	**89.626**	**100.489**

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

(All amounts are expressed in thousand KM, unless otherwise stated)

	Registered capital	**Regulatory reserves for credit losses**	**Equity reserves**	**Retained earnings**	**Total**
Balance at 1 January 2019	**163.615**	**8.057**	**1.587**	**(4.346)**	**168.913**
Profit allocation per decisions (for 2014 and 2016)	-	-	2.786	(2.786)	-
Profit allocation for 2018	-	-	507	(507)	-
Net profit for the year	-	-	-	359	359
Effect of IFRS 9 application (allocation per decision)	-	-	(7.639)	7.639	-
Equity reserves (allocation per decision)	-	(8.057)	8.057	-	-
Total comprehensive income	-	-	-	-	-
Balance at 31 December 2019	**163.615**	**-**	**5.298**	**359**	**169.272**
Balance at 1 January 2020	**163.615**	**-**	**5.298**	**359**	**169.272**
Net profit for the year	-	-	-	361	361
Total comprehensive income	-	-	-	-	-
Balance at 31 December 2020	**163.615**	**-**	**5.298**	**720**	**169.633**

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

1. GENERAL INFORMATION

History and incorporation

The Development Bank of Federation of Bosnia and Herzegovina ("the Bank") was established by the Law on the Development Bank of Federation of Bosnia and Herzegovina ("Official Gazette of Federation of Bosnia and Herzegovina", no. 37/08). The Bank is headquartered in Igmanska 1, Sarajevo. The Bank is in 100% ownership of Federation of Bosnia and Herzegovina.

In compliance with the Law on the Development Bank and the Statute of the Bank, bodies of the Bank are: the Assembly (consisting of the Government of FBiH), the Supervisory Board, the Management Board and the Audit Board.

As at 31 December 2020, the Bank had branch offices in Mostar, Bihać, Zenica, Orašje, Tuzla and Livno.

Principal activities of the Bank

The goals of the Bank are encouragement of economic development and overall social development and the encouragement of sustainable growth on the territory of Federation of Bosnia and Herzegovina, relating to the financial and general social goals defined by the Law on the Development Bank.

Corporate loan and guarantee approvals are the key activities of the Bank either directly or through other banks, in order to support the local economy, regional development and increase in employment. The Bank performs credit operations in the name and on behalf of the Bank (from capital, collected deposits and borrowings), as well as in the name and on behalf of the Federation of BiH, on which behalf it manages its domestic and foreign funds aimed for development projects, as well as receives cash deposits and takes loans, as a function of financing development projects.

Governing bodies of the Bank:

Supervisory Board of the Bank, until 16.01.2020

Dr.sc. Igor Živko	Chairman
Dr.sc. Božo Vukoja	Member
Zvonko Landeka	Member
Asim Omanić	Member
Amir Avdić, mr.oec.	Member
Edin Bandić	Member

Supervisory Board of the Bank, from 17.01.2020 to 17.04.2020 and from 17.07.2020 to 17.10.2020

Dr.sc. Igor Živko	Acting Chairman
Dr.sc. Božo Vukoja	Acting Member
Zvonko Landeka	Acting Member
Dr.sc. Adisa Omerbegović Arapović	Acting Member
Amir Avdić, mr.oec.	Acting Member
Dr.sc. Mehmedalija Hadžović	Acting Member
Almir Zulić	Acting Member

Management Board of the Bank:

dr.sc. Semir Fejzić	Acting President of the Management Board
Marijan Oršolić, mr.oec.	Acting Vice President of the Management Board
Senija Bubić	Acting Executive Director for Operations Support
dr.sc. Mersiha Slipičević	Acting Executive Director for Risk Management
Dalibor Milinković	Acting Executive Director for Projects and Development

Audit Board:

The term of the Audit Board expired on 4 December 2018.

1. GENERAL INFORMATION (CONTINUED)

Assembly of the Bank

In 2020, the Assembly of the Bank held two meetings.

At the meeting in January 2020, the Bank's Assembly confirmed the FBiH Development Bank's Financial Statements for 2018 and the Independent Auditor's Report, the Internal Audit Report for 2018, and adopted the Decision on determining the amount and profit allocation of the Bank for 2014, the Decision on the determination of the Bank's profit allocation for the period 2016, the Decision on the determination of the amount and the profit allocation of the Bank for the period 2018. At the same meeting, the Assembly of the Bank also adopted the Decision on determining and recording the effect of the first application of IFRS 9, the Decision on the inclusion of formed reserves for credit losses in the core capital, the Decision on covering the loss - the negative effect of applying IFRS 9 from the Bank's capital reserves, as well as the Decision on the adoption of the Bank's business plan and program for 2019.

In July 2020, the Assembly of the Bank held a meeting at which it adopted a Decision on dismissal of acting members of the Bank's Supervisory Board and a Decision on the appointment of acting members of the Bank's Supervisory Board.

Supervisory Board

The Supervisory Board, as the controlling body, has an important role in overseeing the Bank's operations and representing the interests of the owners, and, together with the members of the Management Board, is responsible for the preparation of financial statements in accordance with legal requirements.

According to the Law on the Development Bank of FBiH, the Supervisory Board of the Bank consists of the Chairman and six members, which are appointed and dismissed by the Assembly. This is also defined by the Statute of the Development Bank of FBiH and the adopted Rules of Procedure of the Supervisory Board of the Development Bank of FBiH (September 2015).

As at 31 December 2020, the Bank has no appointed Supervisory of the Bank, while the previous appointed Bord's term expired on 17 October 2020.

Management Board of the Bank

Pursuant to the Law on the Development Bank of FBiH and the Statute of the Bank, the Management Board comprises the President of the Management Board, Vice President of the Management Board and executive directors, appointed and dismissed by the Supervisory Board.

According to the organizational scheme adopted in 2018, the Management Board of the Bank comprises of the following: President, Vice President and functions of three executive directors – Executive Director for Operations Support, Executive Director for Risk Management, and Executive Director for Projects and Development.

Secretary of the Bank

The Bank has no Secretary of the Bank since 23 September 2017.

1. GENERAL INFORMATION (CONTINUED)

Statement of compliance

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

The financial statements were authorized for issue by the Management Board on 10 March 2021 for submission to the Supervisory Board.

a) Going concern

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

b) Basis of measurement

These financial statements have been prepared on the historical or amortized cost basis.

c) Functional and presentation currency

The financial statements are presented in Convertible Marks ("BAM"), which is the functional currency of the Bank.

The Central Bank of Bosnia and Herzegovina ("CBBiH" or "Central Bank") implemented a currency board arrangement aligning KM to EUR at an exchange rate of 1 : 1,95583 throughout 2019 and 2020. This is expected to continue in the foreseeable future.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they are revised and potentially in future periods if they affect them.

Information on areas with significant uncertainty in the estimates and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange profits and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

b) Interest income and expense

Interest income and expense are recognized in the income statement as they accrue using the effective interest rate method. Effective interest rate is the rate that discounts estimated future cash flows of financial assets or liabilities over the life of financial instrument (or, if appropriate, a shorter period) to its net carrying value. In the calculation of effective interest rates, the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

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.

Interest income and expense recognized in the income statement include interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest rate method.

c) Fee and commission income and expenses

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

Fee and commission income and expenses, reported as such, mainly comprise of fees related to agency activities, the issuance of guarantees and letters of credit and other services and are recognized in the income statement upon performance of the relevant service.

d) Operating lease payments

Payments made under operating leases are recognized in the statement of profit or loss in accordance with the International Financial Reporting Standard 16 – Leases, which is applied from January 2019 and which replaced the International Accounting Standard (IAS) 17 – Leases.

The fundamental change relates to the accounting treatment of leases by lessees. IFRS 16 provides that all assets used by lessees are recorded as assets with the right of use in the lessee's business records.

The income statement shows interest expense based on the lease liability as a financial expense, separate from the depreciation expense of the right to use, which differs from the previous IAS 17 where the lease was recorded as a lease expense. In order to record the right to use, the Bank opted for a retroactive approach with a cumulative effect, by measuring the asset in an amount equal to the lease liability, adjusted to the amount of all prepayments or accrued payments related to that lease recognized in the statement of financial position immediately before the date of first application of the standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Income tax

According to Article 32 of the Law on Development Bank of the Federation of Bosnia and Herzegovina ("Official Gazette of Federation of Bosnia and Herzegovina", No. 37/08), the Bank is not subject to corporate income tax.

f) Financial instruments

Recognition

Loans, both received and given, as well as receivables and other financial liabilities are recognized at the time they are given or received (settlement date).

Classification

The Bank classifies its financial instruments in the following categories: loans, receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The Management determines the classification of financial assets and liabilities upon initial recognition and reviews that classification on an ongoing basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank extends cash to customers without the intention to trade in those receivables, and includes investments and loans to banks, loans and receivables from customers and assets with the Central Bank.

Other financial liabilities

Other financial liabilities comprise all financial liabilities and include current and deposit accounts and borrowings.

Initial and subsequent measurement

Loans and receivables, as well as other financial liabilities are initially recognized at fair value. After initial recognition, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method less any eventual impairment.

Derecognition

The Bank derecognizes financial assets (in full or in part) when the contractual rights to receive cash flows from the financial instrument have expired or when it loses the control over the contractual rights of this financial asset. This happens, when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or expired.

The Bank derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is fulfilled, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Identification and measurement of impairment of financial assets

IFRS 9 requires earlier recognition of impairment and an estimate of expected credit losses for a wider range of assets. The expected credit loss model is applied to debt instruments measured at amortized cost or fair value through other comprehensive income, including loans, debt securities, trade receivables, lease receivables, credit commitments and financial guarantees. The basic principle of the expected credit loss model is to reflect the deterioration or improvement in the quality of a financial instrument.

Fair value measurement principle

Fair value is the price that would be obtained for the sale of assets or that would be paid for the transfer of a liability in a regular transaction between market participants at the measurement date on the principal, or if that is not possible, in the most favorable market to which the Bank has access on that date. The fair value of a liability expresses its risk of default.

When possible, the Bank measures the fair value of an instrument over the quoted price in an active market for that instrument. A market is considered active if transactions for an asset or liability occur frequently enough and to the extent sufficient to provide price information on a regular basis (Level 1 of the fair value hierarchy).

If there are no quoted prices in an active market, the Bank uses assessment techniques that maximize the use of relevant available input data (Level 2 and Level 3 of the fair value hierarchy) and minimize the use of unavailable input data. The valuation technique chosen includes all factors that market participants would consider when determining the transaction price.

The analysis of financial instruments measured after initial recognition at fair value are grouped into Levels from 1 to 3 as follows:

- Level 1 - fair value indicators derived from quoted prices in active markets;
- Level 2 - fair value indicators derived from data other than quoted prices in Level 1;
- Level 3 - fair value indicators derived from valuation methods that are not based on observable market data.

Business models

As of 1 January 2018, the Bank has implemented International Financial Reporting Standard (IFRS) 9: Financial Instruments. Accordingly, the current period is also based on IFRS 9.

The effects of applying IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018 and amount to BAM 7.639 thousand.

The Management of the Bank has chosen a business model that aims to hold assets solely for the purpose of collecting contractual cash flows, which combines all the financial assets held for the purpose of charging the contracted cash flows throughout the life of the financial instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Identification and measurement of impairment of financial assets (continued)

The business model for keeping assets for collection passes the SPPI test (Solely Payments of Principal and Interest, hereinafter the “SPPI test”), and the following financial assets are allocated to this model:

- cash and cash on bank transaction account,
- current account and obligatory reserve with the CBBH
- loans
- other receivables (other assets)

The underlying basic risk in this business model is credit r.

SPPI test

The SPPI test is a test of contractual cash flows from the aspect of paying only principal and interest on the outstanding principal amount, one of the criteria for classifying financial assets in a particular category of measurement. The SPPI test is conducted to determine whether the interest on the outstanding principal reflects only the time value of money, or includes credit risk, other basic lending risks, lending costs and profit margins.

SPPI is performed:

- for each financial asset, allocated to a business model whose purpose is to hold a financial asset for the purpose of collecting contractual cash flows,
- for each financial asset in cases where the original asset is significantly modified and therefore recognized as new asset,
- when introducing new credit products to determine in advance the eligibility of the credit conditions considered in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

Classification of financial assets

The Bank classifies its financial assets on the basis of allocation to the business model and the SPPI test as assets subsequently measured at amortization cost if both conditions are met:

- financial assets are allocated to a business model whose purpose is to hold assets for the payment of contractual cash flows and
- the SPPI test is satisfied – for financial assets, cash flows are defined which represent only the payment of principal and interest on the outstanding principal amount.

The classification depends on the purpose for which the financial asset has been acquired. The Management determines the classification of financial assets at initial recognition and reviews this classification at each reporting date.

Reclassification of financial assets

In case of change in the business model of financial asset management, a reclassification will be made of all financial assets affected by the reclassification. Reclassification will take place prospectively, from the date of the reclassification, i.e. from the first day of the next accounting period, whereby not modifying previously recognized profit, loss or interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

Impairment of financial assets is recognized on the basis of the expected credit loss model for assets that are subsequently measured at amortized cost.

Impairment is carried out on a monthly basis, during the accounting periods and at the end of the year at the balance sheet date, and the impairment effects are reported on each placement individually in the statement of financial position and statement of profit and loss.

Impairment is carried out using the Internal Methodology for impairment of loans and other financial assets in accordance with IFRS 9 (hereinafter “the Methodology”).

On the date of first application of IFRS 9, the asset is allocated in three stages or three levels of credit risk:

- Stage 1 – financial assets without significant credit risk (the client is not in default status, it is overdue by the IFRS counter less than or equal to 30 days and the FBA risk rating is less than or equal to B5%).
- Stage 2 – The client is not in default status, it is overdue by the IFRS counter more than or equal to 31 days and less than or equal to 90 days, and the FBA risk classification is greater than B5%, deteriorating the client's position.
- Stage 3 – The client is in default status on any basis, it is overdue by the IFRS counter more than 90 days.

Starting from default status as the sole criterion, the Bank distinguishes two different approaches to impairment:

- individual and
- group.

The Bank assesses on an individual basis (Stage 3) all exposures that are in default status (expected credit loss for the entire life).

Impairment on a group basis (Stage 1 and Stage 2) is applied to all exposures that are not in default status, taking into account the estimate of the amount of loss as a result of past events.

For the purposes of calculating impairment on a group basis the following is applied:

- the portfolio is segmented into homogeneous risk groups
- a time period for estimating PD and CR parameters has been determined
- the parameters of expected credit loss LGD, PD and CR parameter for each of the risk groups have been determined

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

The amount of Expected Credit Loss (ECL) that is recognized depends on the degree of credit deterioration from the initial recognition of the instrument. There are two bases for calculation:

- 12-month ECL, which is applied on a group basis in Stage 1, and which refers to all items as long as there is no significant deterioration in credit quality
- A lifelong ECL, which is applied on a group basis in Stage 2, and on an individual basis in Stage 3, when there is a significant increase in credit risk.

For each reporting period, that us at the end of each month, the Bank assesses whether there has been a significant change (increase or decrease) in the credit risk of initial recognition and whether the credit impairment of each financial instrument has been identified for each portfolio subject to assessment in order to determine whether the calculation of impairment is applied on a 12-month basis or during the entire life of the financial instrument.

Also, at the same time, the method of calculating interest income is assessed, which depends on the level of credit risk of the financial instrument. For loans classified in Stages 1 and 2, interest is calculated on the gross carrying amount, while in Stage 3 (default status on any basis) interest is calculated off-balance sheet and recognized in income only after the collection.

Impairment is carried out on a monthly basis, during accounting periods and at the end of the year at the balance sheet date, and the effects of impairment are recognized for each investment individually in the statement of financial position and income statement.

The Bank also calculates provisions in accordance with the Regulation on the criteria and manner of conducting supervision over the operations of the Development Bank of the Federation of BiH (hereinafter: the Regulation). Relevant investments are classified into appropriate groups in accordance with these regulations depending on the days of delay, the financial position of the debtor and collateral and reserve in accordance with the prescribed provisions. The general provision is also calculated in accordance with these regulations at the rate of 2% on all exposures that are not specifically reduced.

Provisions calculated as described in the previous paragraph are not recognized in these financial statements of the Bank. If the impairment loss for potential losses calculated in accordance with the provisions of the Regulation is greater than the impairment calculated in accordance with the requirements of IFRS, the difference is shown as an adjustment in the calculation of capital adequacy.

When the loan is uncollectible, it is written off to the allowance account. Such loans are written off after all necessary activities have been conducted and the amount of the loss has been determined. Subsequent collected written-off amounts are recognized as reversals of impairment losses in the income statement.

Exposure to the Central Bank of Bosnia and Herzegovina and other banks in the country and abroad is multiplied by expertly determined PD of 0,1%.

As for other receivables (other assets) it is not practicable to estimate credit risk and expected credit losses, the Bank has decided to apply a matrix to determine impairment, with fixed rates of impairment depending on the number of days overdue or maturity overdue.

Details of the Methodology are listed in Note 25. Financial risk management, Note 25.1. Credit risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of financial assets

Modification of a financial asset is any change in the contractual provisions that results in the conversion of contracted cash flows. In the event that the modification is not significant, the amendment to the contractual provisions does not result in derecognition of the financial asset but a new gross carrying amount is determined as the present value of the modified contractual cash flows discounted at the original effective interest rate (EIR).

In this case, the difference between the original gross carrying amount before the modification and gross carrying amount determined on the basis of modified cash flows after the change is recognized in profit or loss as income or loss.

In the event that the modification of a financial asset is significant, the financial asset is derecognized prior to the modification and the modified financial asset is re-recognized as a “new” financial asset and a new EIR is established. The date of initial recognition shall be deemed to be the date of modification of the contractual provisions. Impairment on re-recognized financial assets is recognized in the amount of expected credit losses for lifetime credit losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchased or originated credit-impaired financial assets (POCI assets)

POCI assets are financial assets where, at initial recognition, there is objective evidence of individual impairment for credit losses because credit risk is created or issued, or property purchased at a discount of at least 5%.

For the purposes of calculating impairment, lifetime credit losses are recognized.

Specific financial instruments

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise of cash, balances with the Central Bank and current accounts with other banks.

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

Obligatory reserve with the Central Bank

Obligatory reserve funds with the Central Bank are measured at amortized cost less impairment losses.

Given loans and receivables

Given loans and receivables from banks and customers are stated subsequently at amortized cost less impairment losses in order to reflect the estimated recoverable amounts.

Borrowings

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

Current accounts and deposits from customers

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

g) Property and equipment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is provided on all property and equipment, except for land and assets in the course of construction, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The depreciation rates used by the Bank are as follows:

Buildings	3%
Furniture and equipment:	
- Furniture and other office equipment	20%-33,33%
- Mobile phones	50%
Vehicles	20%
Leasehold improvements	20%

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

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

h) Intangible assets

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

Amortization is provided on all intangible assets, except assets in the course of construction, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The following amortization rates are used:

Software	20%

The amortization method, useful lives and net values are reassessed, and adjusted if appropriate, at each reporting date.

i) Impairment of non-financial assets

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

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Employee benefits

Short-term employee benefits

On behalf of its employees, the Bank pays pension and health insurance, which is calculated on the gross salary paid, as well as tax on salaries which are calculated on the net salary paid. The Bank pays the above contributions into the state pension and health funds according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the statement of profit and loss in the period in which the salary expense is incurred.

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Long-term employee benefits: retirement severance payments

According to the local legislation the Bank pays to its employees retirement severance benefits upon retirement in an amount of six employee’s salaries received in the last six months or six average salaries at the Federation of BiH level in the last six months, depending on what is more favourable for the employee.

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

k) Provisions for liabilities and expenses

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures.

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

Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

l) Registered capital

Registered capital consists of one share of the Federation of Bosnia and Herzegovina.

m) Off-balance sheet commitments and contingent liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Funds managed for and on behalf of third parties

The Bank manages significant funds for and on behalf of the Government of the FBiH (Ministry of Finance, Ministry of Development, Entrepreneurship and Craft, Ministry of Agriculture, Water Management and Forestry, Ministry of Displaced Persons and Refugees, Ministry of Environment and Tourism and Ministry of Energy, Mining and Industry) and the Federal Employment Agency. Income and expenses from such operations are charged to the principal and the Bank does not bear any liabilities and risks. For these services, the Bank charges fees. For details refer to Note 24.

o) Standards and interpretations effective in the current period

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

- Amendments to IFRS 9 "Financial instruments", IAS 39 „Financial instruments: Recognition and Measurement" and IFRS 7 „Financial instruments: Disclosure": Interest Rate Benchmark Reform – (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 16 „Leases": Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020).

p) Standards and interpretation published but not yet adopted

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

- Amendments to IFRS 3 „Business Combinations" (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 1 „Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 16 „Property, Plant and Equipment" – (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37 „Provisions, Contingent Liabilities and Contingent Assets" – (effective for annual periods beginning on or after 1 January 2022);
- Annual improvements 2018-2020

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment losses on loans and receivables and provisions for off-balance-sheet 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 sheet exposure to credit risk is assessed on a monthly basis.

Impairment losses are made mainly against the carrying value of loans to banks and customers (as disclosed in Notes 13 and 14) and as provisions for liabilities and charges arising from off-balance exposure to customers, mainly in the form of guarantees and letters of credit (as disclosed in Note 20).

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

Summary of impairment allowances	**Note**	**31 December 2020**	**31 December 2019**
Impairment allowance for balance sheet exposures, including cash and other assets	11, 12, 13, 14, 15	39.478	40.524
Provisions for off-balance sheet exposures	20	824	482
		40.302	**41.006**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONITNUED)

Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (continued)

Regulatory requirements

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

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

The following table summarizes impairment allowances calculated in accordance with the Agency regulations. Regulatory provisions as of 31 December 2020 are calculated in accordance with the new methodology (as explained in Note 2 i).

Summary of impairment allowances	**31 December 2020**	**31 December 2019**
Provisions for balance-sheet exposure (Agency)	55.885	56.965
Provisions for off-balance–sheet exposure (Agency)	2.286	1.653
	58.171	**58.618**
Impairment allowances under IFRS	40.302	41.006
Negative difference between provisions for balance-sheet exposure (Agency) and impairment allowance in accordance with IFRS	1.866	1.727
Positive difference between provisions for balance-sheet exposure (Agency) and impairment allowance in accordance with IFRS	19.735	19.339
Missing reserves	19.735	19.339

As at 31 December 2020 and as presented in the above table, the total amount of provisions in accordance to Agency regulations exceeded provisions recognized under IFRS by BAM 19.735 thousand (31 December 2019: BAM 19.339 thousand). Given that by the Decision of the Assembly of the Bank and in accordance with the Decision of the Banking Agency on the conditions for inclusion of generated reserves for credit losses in the Bank's core capital, earlier loan loss reserves generated from profit in the amount of BAM 8.057 thousand are allocated to the core capital, and cannot be used as a calculation category in the calculation of missing reserves for credit losses, the total amount of BAM 19.735 thousand represents the missing reserves for credit losses in the business year 2020, and is shown as a deductible item in the calculation of capital adequacy.

Litigation

The Bank individually assesses all litigation and, on that basis, determines the amount of provisions.

As stated in Note 20, the Bank has made provisions for litigation in the amount of BAM 240 thousand with regards to enforcement judgments based on labor disputes for which payments are expected in 2021.

4. INTEREST INCOME

	2020	2019
Interest on loans to customers	6.970	6.808
	6.970	**6.808**

5. INTEREST EXPENSE

	2020	2019
Interest on borrowings and deposits	476	454
	476	**454**

6. FEE AND COMMISSION INCOME

	2020	2019
Fee income from commission transactions	1.271	1.249
Fee income from guarantees and letters of credit	371	305
Fee income from other transactions	158	185
	1.800	**1.739**

7. OTHER OPERATING INCOME

	2020	2019
Income from sale of acquired real estate	268	918
Donations	28	11
Other	87	106
	383	**1.035**

8. PERSONNEL EXPENSES

	2020	2019
Net salaries	2.712	2.652
Taxes and contributions	1.981	1.998
Other	1.337	1.447
	6.030	**6.097**

Personnel expenses include BAM 1.098 thousand (2019: BAM 1.107 thousand) of defined pension contributions paid into the State pension fund. Contributions are calculated as percentage of the gross salary paid. The average number of employees during 2020 was 110 (2019: 113).

9. ADMINISTRATIVE AND OTHER EXPENSES

	2020	2019
Memberships and charges	290	256
Maintenance	258	230
Supervisory Board and Audit Board remunerations	80	143
Energy	123	132
Telecommunications	123	122
Services	124	97
Bank fees	105	100
Materials	98	94
Advertising, entertainment, sponsorship	67	89
Rent	23	11
Insurance	21	21
Other expenses	266	182
	1.578	**1.477**

10. IMPAIRMENT LOSSES AND PROVISIONS, NET

	2020	2019
Loans to banks (Note 13)	(29)	(80)
Loans to clients (Note 14)	(411)	1.945
Provisions for employee benefits (Note 20)	194	76
Provisions for litigation	240	-
Impairment of cash and cash equivalents (Note 11,12)	(7)	(434)
Impairment of acquired assets (Note 15)	-	1.101
Increase/decrease of value of other assets (Note 15)	4	(12)
Disbursement / impairment income for contingent liabilities (Note 20)	342	(1.855)
	333	**741**

11. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Current accounts with the Central Bank of Bosnia and Herzegovina	83.745	92.440
Current accounts with other banks in foreign and domestic currency	5.961	8.144
Cash in hand	10	6
	89.716	**100.590**
Effect of IFRS 9 application		-
Impairment of cash and cash equivalents (Note 10)	(90)	(101)
Net cash and cash equivalents	**89.626**	**100.489**

Cash and bank accounts contain a cash amount for commission activities of BAM 6.538 thousand (2019: BAM 17.688 thousand) (Note 21).

12. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2020	31 December 2019
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	17.455	13.511
	17.455	**13.511**
Effect of IFRS 9 application	-	-
Impairment of the obligatory reserve with the Central Bank (Note 10)	(17)	(13)
Net obligatory reserve with the Central Bank	**17.438**	**13.498**

During the reporting period the Bank has maintained regularly the prescribed obligatory reserves with the Central Bank (CBBiH), by applying a 10% rate on all deposits held by the Bank.

For the amount of the obligatory reserve and liquidity funds held with the CBBiH, no interest was accounted on above mentioned amounts by the CBBiH in 2019.

Calculated impairment of the obligatory reserve with the CBBiH amounts to BA 17 thousand.

13. LOANS AND RECEIVABLES FROM BANKS

	31 December 2020	31 December 2019
Loans to banks	1.379	1.408
Less: impairment allowance	(1.379)	(1.408)
Total net loans to banks	**-**	**-**

Loans and receivables from banks include interest receivable in the amount of BAM 108 thousand (31 December 2019: BAM 125 thousand).

Movement in gross exposure 31.12.2020

	Bank 31.12.2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 31 December 2019	**-**	**-**	**1.408**	**1.408**
New financing	-	-	-	-
Derecognized assets (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Repaid assets	-	-	(29)	(29)
Write-offs	-	-	-	-
Exchange rate adjustments	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2020	**-**	**-**	**1.379**	**1.379**

Movement in gross exposure 31.12.2019

	Bank 31.12.2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 31 December 2019	**-**	**-**	**1.488**	**1.488**
New financing	-	-	-	-
Derecognized assets (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Repaid assets	-	-	(80)	(80)
Write-offs	-	-	-	-
Exchange rate adjustments	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2019	**-**	**-**	**1.408**	**1.408**

13. LOANS AND RECEIVABLES FROM BANKS (CONTINUED)

Movement in impairment allowance

	Bank 31.12.2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2019	**-**	**-**	**1.408**	**1.408**
Derecognized assets (excluding write-offs)	**-**	**-**	**-**	**-**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Impairment allowances (Note 10)	**-**	**-**	*(29)*	*(29)*
Write-offs	**-**	**-**	**-**	**-**
Other changes	**-**	**-**	**-**	**-**
As at 31 December 2020	**-**	**-**	**1.379**	**1.379**

	Bank 31.12.2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2018	**-**	**-**	**1.488**	**1.488**
Derecognized assets (excluding write-offs)	**-**	**-**	**-**	**-**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Impairment allowances (Note 10)	**-**	**-**	*(80)*	*(80)*
Write-offs	**-**	**-**	**-**	**-**
Other changes	**-**	**-**	**-**	**-**
As at 31 December 2020	**-**	**-**	**1.408**	**1.408**

14. LOANS AND RECEIVABLES FROM CLIENTS

Short-term loans (including current portion of long-term loans)

	31 December 2020	31 December 2019
Corporate	5.009	2.640
Retail	-	-
Current portion of long-term loans	33.038	36.282
	38.047	***38.922***
Long-term loans (excluding current portion):		
Corporate	243.944	201.443
Retail	3.334	1.683
	247.278	***203.126***
	285.325	**242.048**
Less: impairment allowance	(36.345)	(37.296)
	248.980	**204.752**

Loans and receivables include interest receivables, which comprise of unpaid due interest and fees, and accrued interest in the amount of BAM 922 thousand (31 December 2019: BAM 773 thousand), and are presented net of deferred fees in the amount of BAM 883 thousand (31 December 2019: BAM 755 thousand).

Changes in impairment allowance can be presented as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the year	37.296	36.357
Net changes in impairment allowance (Note 10)	(411)	1.945
Write-offs	(540)	(1.006)
Balance at the end of the year	**36.345**	**37.296**

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Analysis of gross amount of loans before impairment by industry:

	31 December 2020	31 December 2019
Corporate loans		
Manufacturing	80.098	58.572
Real estate and rental business, etc.	-	35.951
Trade	19.854	33.290
Construction	35.893	8.995
Public administration and defense	104.820	74.477
Agriculture	25.178	11.495
Hospitality	879	1.179
Transportation, storage and communication	11.836	1.103
Financial intermediation	2.558	-
Other	-	14.612
	281.116	***239.674***
Retail loans		
Entrepreneurship	4.112	2.252
Housing loans	97	122
	4.209	***2.374***
	285.325	**242.048**

The weighted average nominal and effective interest rates as at 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020		31 December 2019	
Corporate loans	nominal i. r.	effective i. r.	nominal i. r.	effective i. r.
Corporate	2,93%	3,28%	3,33%	3,53%
Retail	3,22%	3,41%	3,70%	3,99%

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Gross exposure

	31 December 2020						31 December 2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**	**Total**
Internal rating level							
Performing							
Low risk	192.429	-	-	-	-	192.429	155.089
Medium risk	-	29.544	-	7.497	-	37.041	14.140
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	44.403	-	11.452	55.855	72.819
Total	**192.429**	**29.544**	**44.403**	**7.497**	**11.452**	**285.325**	**242.048**

	31 December 2019					31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Internal rating level						
Performing						
Low risk	155.089	-	-	-	155.089	152.145
Medium risk	-	14.140	-	-	14.140	9.962
High risk	-	-	-	-	-	-
Non-performing						
Default	-	-	53.121	19.698	72.819	72.376
Total	**155.089**	**14.140**	**53.121**	**19.698**	**242.048**	**234.483**

Movement in gross exposure

	Bank					
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Gross carrying amount as at 31 December 2019	**155.089**	**14.140**	**53.121**	**-**	**19.698**	**242.048**
New financing	82.071	7.711	368	-	-	90.150
Derecognized assets (excluding write-offs)	(11.511)	(5.230)	(979)	-	(210)	(17.930)
Transfers to Stage 1	530	(530)	-	-	-	-
Transfers to Stage 2	(6.756)	17.950	(11.194)	-	-	-
Transfers to Stage 3	(458)	(3.843)	4.301	-	-	-
Transfers to POCI S2	-	-	-	7.497	(7.497)	-
Transfers to POCI S3	-	-	-	-	-	-
Repaid assets	(26.536)	(654)	(662)	-	(539)	(28.391)
Write-offs	-	-	(552)	-	-	(552)
As at 31 December 2020	**192.429**	**29.544**	**44.403**	**7.497**	**11.452**	**285.325**

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in gross exposure (continued)

	Bank				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 31 December 2018	**152.145**	**9.962**	**51.926**	**20.450**	**234.483**
New financing	53.851	6.272	4.518	-	64.641
Derecognized assets (excluding write-offs)	(16.046)	(1.242)	(9.615)	-	(26.903)
Transfers to Stage 1	1.827	(1.827)	-	-	-
Transfers to Stage 2	(2.351)	8.272	(5.921)	-	-
Transfers to Stage 3	(10.640)	(4.847)	15.487	-	-
Repaid assets	(23.697)	(2.450)	(2.268)	(752)	(29.167)
Write-offs	-	-	(1.006)	-	(1.006)
Exchange rate differences	-	-	-	-	-
Other changes	-	-	-	-	-
As at 31 December 2019	**155.089**	**14.140**	**53.121**	**19.698**	**242.048**

Movement in impairment allowance

	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2019	**3.601**	**1.862**	**26.083**	**-**	**5.750**	**37.296**
New financing	2.406	627	56	-	-	3.089
Derecognized assets (excluding write-offs)	(799)	(471)	(548)	-	(32)	(1.850)
Transfers to Stage 1	37	(37)	-	-	-	-
Transfers to Stage 2	(168)	4.593	(4.425)	-	-	-
Transfers to Stage 3	(43)	(484)	527	-	-	-
Transfers to POCI S2	-	-	-	704	(704)	-
Transfers to POCI S3	-	-	-	-	-	-
(Decrease) / increase from balance change	(274)	(3.013)	1.584	(22)	75	(1.650)
Write-offs	-	-	(540)	-	-	(540)
Other changes	-	-	-	-	-	-
As at 31 December 2020	**4.760**	**3.077**	**22.737**	**682**	**5.089**	**36.345**
Impairment allowance (Note 10)	*1.159*	*1.215*	*(2.806)*	*682*	*(661)*	*(411)*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in impairment allowance

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance for expected credit losses as at 31 December 2018	**3.844**	**1.425**	**25.760**	**5.328**	**36.357**
New financing	1.691	1.116	1.366	-	4.173
Derecognized assets (excluding write-offs)	(552)	(178)	(2.727)	-	(3.457)
Transfers to Stage 1	661	(661)	-	-	-
Transfers to Stage 2	(120)	1.097	(977)	-	-
Transfers to Stage 3	(406)	(269)	675	-	-
(Decrease) / increase from balance change	(1.517)	(668)	2.992	422	1.229
Write-offs	-	-	(1.006)	-	(1.006)
Other changes	-	-	-	-	-
As at 31 December 2019	**3.601**	**1.862**	**26.083**	**5.750**	**37.296**
Impairment allowance (Note 10)	*(243)*	*437*	*1.329*	*422*	*1.945*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

a) Corporate – credit quality

Gross exposure

	31 December 2020						31 December 2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**	**Total**
Internal rating level							
Performing							
Low risk	95.214	-	-	-	-	95.214	84.136
Medium risk	-	29.483	-	7.497	-	36.980	14.073
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	43.351	-	11.452	54.803	71.718
Total	**95.214**	**29.483**	**43.351**	**7.497**	**11.452**	**186.997**	**169.927**

	31 December 2019					31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Internal rating level						
Performing						
Low risk	84.136	-	-	-	84.136	112.313
Medium risk	-	14.073	-	-	14.073	9.823
High risk	-	-	-	-	-	-
Non-performing						
Default	-	-	52.020	19.698	71.718	68.239
Total	**84.136**	**14.073**	**52.020**	**19.698**	**169.927**	**190.375**

Movement in gross exposure

	Bank					
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Gross carrying amount as at 31 December 2019	**84.136**	**14.073**	**52.020**	**-**	**19.698**	**169.927**
New financing	49.343	7.711	368	-	-	57.422
Derecognized assets (excluding write-offs)	(11.165)	(5.213)	(978)	-	(210)	(17.566)
Transfers to Stage 1	530	(530)	-	-	-	-
Transfers to Stage 2	(6.683)	17.877	(11.194)	-	-	-
Transfers to Stage 3	(423)	(3.793)	4.216	-	-	-
Transfers to POCI S2	-	-	-	7.497	(7.497)	-
Transfers to POCI S3	-	-	-	-	-	-
Repaid assets	(20.524)	(642)	(556)	-	(539)	(22.261)
Write-offs	-	-	(525)	-	-	(525)
As at 31 December 2020	**95.214**	**29.483**	**43.351**	**7.497**	**11.452**	**186.997**

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in gross exposure (continued)

	Bank				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 31 December 2018	**112.313**	**9.823**	**47.789**	**20.450**	**190.375**
New financing	17.678	6.272	4.518	-	28.468
Derecognized assets (excluding write-offs)	(13.622)	(1.242)	(6.622)	-	(21.486)
Transfers to Stage 1	1.827	(1.827)	-	-	-
Transfers to Stage 2	(2.308)	8.197	(5.889)	-	-
Transfers to Stage 3	(10.640)	(4.747)	15.387	-	-
Repaid assets	(21.112)	(2.403)	(2.157)	(752)	(26.424)
Write-offs	-	-	(1.006)	-	(1.006)
As at 31 December 2019	**84.136**	**14.073**	**52.020**	**19.698**	**169.927**

Movement in impairment allowance

	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2019	**2.121**	**1.858**	**25.675**	**-**	**5.750**	**35.404**
New financing	1.686	627	56	-	-	2.369
Derecognized assets (excluding write-offs)	(775)	(470)	(548)	-	(32)	(1.825)
Transfers to Stage 1	37	(37)	-	-	-	-
Transfers to Stage 2	(164)	4.589	(4.425)	-	-	-
Transfers to Stage 3	(40)	(481)	521	-	-	-
Transfers to POCI S2	-	-	-	704	(704)	-
Transfers to POCI S3	-	-	-	-	-	-
(Decrease) / increase from balance change	(131)	(3.014)	1.458	(22)	75	(1.634)
Write-offs	-	-	(524)	-	-	(524)
Other changes	-	-	-	-	-	-
As at 31 December 2020	**2.734**	**3.072**	**22.213**	**682**	**5.089**	**33.790**
Impairment allowance (Note 10)	*613*	*1.124*	*(2.938)*	*682*	*(661)*	*(1.090)*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

a) Corporate – credit quality (continued)

Movement in impairment allowance

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance for expected credit losses as at 31 December 2018	**3.006**	**1.401**	**24.477**	**5.328**	**34.212**
New financing	949	1.116	1.366	-	3.431
Derecognized assets (excluding write-offs)	(505)	(178)	(1.858)	-	(2.541)
Transfers to Stage 1	661	(661)	-	-	-
Transfers to Stage 2	(119)	1.091	(972)	-	-
Transfers to Stage 3	(406)	(247)	653	-	-
(Decrease) / increase from balance change	(1.465)	(664)	3.015	422	1.308
Write-offs	-	-	(1.006)	-	(1.006)
Other changes	-	-	-	-	-
As at 31 December 2019	**2.121**	**1.858**	**25.675**	**5.750**	**35.404**
Impairment allowance (Note 10)	*(885)*	*457*	*2.204*	*422*	*2.198*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

b) State and public sector – credit quality

Bank			31 December 2020				**31 December 2019**
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**	
Internal rating level							
Performing							
Low risk	94.119	-	-	-	-	94.119	69.747
Medium risk	-	-	-	-	-	-	-
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	-	-	-	-	-
Total	**94.119**	**-**	**-**	**-**	**-**	**94.119**	**69.747**

Bank		31 December 2019			**31 December 2018**
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Internal rating level					
Performing					
Low risk	69.747	-	-	69747	38.617
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**69.747**	**-**	**-**	**69.747**	**38.617**

Movement in gross exposure (continued)

				Bank		
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Gross carrying amount as at 31 December 2019	**69.747**	**-**	**-**	**-**	**-**	**69.747**
New financing	30.237	-	-	-	-	30.237
Derecognized assets (excluding write-offs)	-	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Repaid assets	(5.865)	-	-	-	-	(5.865)
Write-offs	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As at 31 December 2020	**94.119**	**-**	**-**	**-**	**-**	**94.119**

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in gross exposure		**Bank**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 31 December 2018	**38.617**	**-**	**-**	**38.617**
New financing	35.893	-	-	35.893
Derecognized assets (excluding write-offs)	(2.385)	-	-	(2.385)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Repaid assets	(2.378)	-	-	(2.378)
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2019	**69.747**	**-**	**-**	**69.747**

Movement in impairment allowance

				Bank		
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S2**	**Total**
Impairment allowance for expected credit losses as at 31 December 2019	**1.398**	**-**	**-**			**1.398**
New financing	606	-	-	-	-	606
Derecognized assets (excluding write-offs)	-	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
(Decrease) / increase from balance change	(118)	-	-	-	-	(118)
Write-offs						
Other changes	-	-	-	-	-	-
As at 31 December 2020	**1.886**	**-**	**-**	**-**	**-**	**1.886**
Impairment allowance (Note 10)	*488*	-	-	-	-	*488*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in impairment allowance (continued)

	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2018	**774**	**-**	**-**	**774**
New financing	719	-	-	719
Derecognized assets (excluding write-offs)	(47)	-	-	(47)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
(Decrease) / increase from balance change	(48)	-	-	(48)
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2019	**1.398**	**-**	**-**	**1.398**
Impairment allowance (Note 10)	*624*	-	*-*	*624*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality

				Banka 31 December 2020			31 December 2019
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**	
Internal rating level							
Performing							
Low risk	3.096	-	-	-	-	3.096	1.206
Medium risk	-	61	-	-	-	61	67
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	1.052	-	-	1.052	1.101
Total	**3.096**	**61**	**1.052**	**-**	**-**	**4.209**	**2.374**

		Bank 31 December 2019			31 December 2018
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Internal rating level					
Performing					
Low risk	1.206	-	-	1.206	1.215
Medium risk	-	67	-	67	139
High risk	-	-	-	-	-
Non-performing					
Default	-	-	1.101	1.101	4.137
Total	**1.206**	**67**	**1.101**	**2.374**	**5.491**

Movement in gross exposure

					Banka	
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Gross carrying amount as at 31 December 2019	**1.206**	**67**	**1.101**	**-**	**-**	**2.374**
New financing	2.491	-	-	-	-	2.491
Derecognized assets (excluding write-offs)	(346)	(17)	(1)	-	-	(364)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	(73)	73	-	-	-	-
Transfers to Stage 3	(35)	(50)	85	-	-	-
Repaid assets	(147)	(12)	(106)	-	-	(265)
Write-offs	-	-	(27)	-	-	(27)
Other changes	-	-	-	-	-	-
As at 31 December 2020	**3.096**	**61**	**1.052**	**-**	**-**	**4.209**

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality (continued)

	Banka			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 31 December 2018	**1.215**	**139**	**4.137**	**5.491**
New financing	280	-	0	280
Derecognized assets (excluding write-offs)	(39)	-	(2.993)	(3.032)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(43)	75	(32)	-
Transfers to Stage 3	-	(100)	100	-
Repaid assets	(207)	(47)	(111)	(365)
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2019	**1.206**	**67**	**1.101**	**2.374**

	Bank					
	Stage 1	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2019	**82**	**4**	**408**	**-**	**-**	**494**
New financing	114	-	-	-	-	114
Derecognized assets (excluding write-offs)	(24)	(1)	-	-	-	(25)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	(4)	4	-	-	-	-
Transfers to Stage 3	(3)	(3)	6	-	-	-
(Decrease) / increase from balance change	(25)	1	126	-	-	102
Write-offs	-	-	(16)	-	-	(16)
Other changes	-	-	-	-	-	-
As at 31 December 2020	**140**	**5**	**524**	**-**	**-**	**669**
Impairment allowance (Note 10)	*58*	*1*	*132*	*-*	*-*	*191*

14. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality (continued)

Movement in impairment allowance (continued)

Movement in impairment allowance	**Banka**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance for expected credit losses as at 31 December 2018	**64**	**24**	**1.283**	**1.371**
New financing	23	-	-	23
Derecognized assets (excluding write-offs)	-	-	(869)	(869)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(1)	6	(5)	-
Transfers to Stage 3	-	(22)	22	-
(Decrease) / increase from balance change	(4)	(4)	(23)	(31)
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2019	**82**	**4**	**408**	**494**
Impairment allowance (Note 10)	*18*	*(20)*	*(875)*	*(877)*

15 OTHER ASSETS

	31 December 2020	31 December 2019
Acquired assets	1.555	1.603
Other assets	288	202
Total impairment of other assets	(1.647)	(1.706)
Total other assets (net)	**196**	**99**

The impairment of other assets is mostly related to impairment of assets acquired for further sale.

Changes in impairment can be presented as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the year	1.706	617
Effect of change in accounting policy – IFRS 9	-	-
Increase/(decrease) of impairment allowance of acquired assets (Note 10)	-	1.101
Sale of acquired assets	(63)	-
Increase/(decrease) of impairment allowance of other assets (Note 10)	4	(12)
Balance at the end of the year	**1.647**	**1.706**

16. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture and equipment	Assets with usage right	Total
Cost					
Balance at 1 January 2019	**7.483**	**195**	**1.659**	**-**	**9.337**
Additions	-	-	72	83	155
Other adjustments	-	-	-	(12)	(12)
Disposals and write-offs			(57)	-	(57)
Balance at 31 December 2019	**7.483**	**195**	**1.674**	**71**	**9.423**
Additions	345	-	65	2	412
Other adjustments	-	-	-	(12)	(12)
Disposals and write-offs	-	-	(34)	-	(34)
Balance at 31 December 2020	**7.828**	**195**	**1.705**	**61**	**9.789**
Accumulated depreciation					
Balance at 1 January 2019	**3.375**	**139**	**1.504**	**-**	**5.018**
Charge for the year	224	29	88	28	369
Disposals and write-offs	-	-	(57)	(12)	(69)
Balance at 31 December 2019	**3.599**	**168**	**1.535**	**16**	**5.318**
Charge for the year	230	27	62	23	342
Disposals and write-offs	-	-	(34)	(12)	(46)
Balance at 31 December 2020	**3.829**	**195**	**1.563**	**27**	**5.614**
Net carrying amount					
Balance at 31 December 2020	**3.999**	**-**	**142**	**34**	**4.175**
Balance at 31 December 2019	**3.884**	**27**	**139**	**55**	**4.105**

17. INTANGIBLE ASSETS

	Leasehold improvements	Software	Total
Cost			
Balance at 1 January 2019	**-**	**1.051**	**1.051**
Additions	-	-	-
Disposals and write-offs	-	-	-
Balance at 31 December 2019	**-**	**1.051**	**1.051**
Additions	-	7	7
Disposals and write-offs	-	-	-
Balance at 31 December 2020	**-**	**1.058**	**1.058**
Accumulated amortization			
Balance at 1 January 2019	**-**	**883**	**883**
Charge for the year	-	84	84
Balance at 31 December 2019	**-**	**967**	**967**
Charge for the year	-	33	33
Balance at 31 December 2020	**-**	**1.000**	**1.000**
Net carrying amount			
Balance at 31 December 2020		**58**	**58**
Balance at 31 December 2019	**-**	**84**	**84**

18. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits		
Private enterprises	11.490	5.226
Cantonal and municipality governments	36.661	35.365
Retail and entrepreneurs	559	80
Public companies	6.043	701
Non-profit organizations	887	-
Total demand deposits	***55.640***	***41.372***
Purpose deposits		
Government of Federation of Bosnia and Herzegovina	1.648	2.277
Cantonal and municipality governments	5.898	5.360
Public companies	19	210
Total purpose deposits	***7.565***	***7.847***
Term deposits		
In domestic currency		
Government of Federation of Bosnia and Herzegovina – Guarantee fund	100.000	-
Government of Federation of Bosnia and Herzegovina (Guarantee deposit)	4.000	59.928
Federal Employment Agency	12.413	12.541
Government of Federation of Bosnia and Herzegovina	-	10.000
Private enterprises	500	600
	116.913	*83.069*
In foreign currency		
Government of Federation of Bosnia and Herzegovina – EUR	231	231
Total term deposits	***117.144***	***83.300***
Total deposits	**180.349**	**132.519**

As at 31 December 2020, current accounts and deposits from customers are stated in the amount of BAM 180.349 thousand.

The Bank does not charge interest on demand deposits, purpose deposits and term deposits.

19. BORROWINGS

	31 December 2020	31 December 2019
Government of Federation of Bosnia and Herzegovina – Saudi Fund loan for development, interest rate 2% p.a. with maturity date 31 August 2021	398	874
Government of Federation of Bosnia and Herzegovina – Belgian merchandise loan, interest free with maturity date 31 December 2027	456	521
	854	**1.395**

In accordance with the contract signed between the Bank and the Government of the FBiH, the Bank has assumed obligation to redeem part of the borrowings as contracted between the Government and the creditors.

20. PROVISIONS

	Retirement severance payments	Contingent liabilities	Litigation	Other liabilities	Total
Balance at 1 January 2019	**744**	**2.337**	**34**		**3.115**
Increase/(decrease) of provisions (Note 10)	110	(1.855)	-	-	(1.745)
Decrease of provisions (Note 10.)	-	-	(34)	-	(34)
Decrease due to payment	(206)	-	-	-	(206)
Balance at 31 December 2019	**648**	**482**	**-**	**-**	**1.130**
Increase/(decrease) of provisions (Note 10)	155	342	240	60	797
Decrease of provisions (Note 10.)	(21)	-	-	-	(21)
Decrease due to payment	(104)	-	-	-	(104)
Balance at 31 December 2020	**678**	**824**	**240**	**60**	**1.802**

As at 31 December 2020, the total value of litigation against the Bank amounts to BAM 3.075 thousand. From this total amount, the amount of BAM 2.296 thousand refers to labour disputes against the Bank, and the amount of BAM 779 thousand to all other claims. The Bank individually assesses all litigation and determines the amount of provisions based on these. The Bank has made provisions for litigation in the amount of BAM 240 thousand, which relate to enforcement judgments based on labor disputes and whose payments are expected in 2021.

Commitments and contingencies (Off balance sheet exposure) as at 31 December 2019 and 31 December 2020 were as follows:

	31 December 2020	31 December 2019
Performance guarantees	19.567	18.325
Undrawn lending commitments	24.190	7.131
Advance and payment guarantees	903	674
	44.660	**26.130**

21. OTHER LIABILITIES

	31 December 2020	31 December 2019
Liabilities from commission affairs (Note 24)	6.538	17.688
Deferred income	1.155	668
Accrued expenses	1	63
Trade payables	54	64
Liabilities for interest on deposits	-	38
Other	87	190
	7.835	**18.711**

22. REGISTERED CAPITAL

	%	31 December 2020	%	31 December 2019
Government of Federation of Bosnia and Herzegovina	100	**163.615**	100	**163.615**

According to Article 3 of the Law on Development Bank of the Federation of Bosnia and Herzegovina, the capital was supposed to be increased for the amount of BAM 400 million from the budget of the Federation in equal instalments in the period from 2008 to 2011.

Until 31 December 2020, the Government has not yet provided the capital injection according to the agreed dynamic and amounts.

23. RELATED PARTY TRANSACTIONS

Related parties are entities which directly or indirectly, through on or more intermediaries, control the Bank or are under the Bank's control.

The major part of transactions with related parties comprise of transactions with the Government of the FBiH, the 100% owner of the Bank, and other companies and institutions that are in the Government of the FBiH's major ownership (over 51%).

As at 31 December, balances resulting from related party transactions include:

	Type of relation	31 December 2020		31 December 2019	
		Receivables	Liabilities	Receivables	Liabilities
Government of Federation of Bosnia and Herzegovina	Owner	-	107.279	-	83.060
Public institutions	Joint owner	31	18.405	35	21.039
Companies in majority ownership of the Government of FBiH	Joint owner	59.825	6.036	46.993	429
		59.856	**131.720**	**47.028**	**104.528**

23. RELATED PARTY TRANSACTIONS (CONTINUED)

	Type of relation	2020 Revenue	2020 Expenses	2019 Revenue	2019 Expenses
Government of Federation of Bosnia and Herzegovina	Owner	904	66	863	124
Public institutions	Joint owner	367	-	387	-
Companies in majority ownership of the Government of FBiH	Joint owner	2.050	1.590	4.291	678
		3.321	**1.656**	**5.541**	**802**

Remuneration of the Management and Supervisory Board

The following amounts for remuneration of the members of the Management and Supervisory Board have been realized during the year ended 31 December 2019 and 31 December 2020:

	2020	2019
Gross salaries and other benefits	827	912
Supervisory Board members' remunerations	80	143
Other benefits	62	136
	969	**1.191**

24. COMMISSION AFFAIRS

The Bank manages significant funds on behalf and for the account of the Government of the Federation of Bosnia and Herzegovina (Ministry of Finance, Ministry of Development, Entrepreneurship and Crafts, Ministry of Agriculture, Water Management and Forestry, Ministry of Displaced Persons and Refugees and Ministry of Environment and Tourism), intended for financing reconstruction projects, as well as for the Federal Employment Bureau, intended to finance employment incentives and maintain employment. These assets are kept separate from other Bank assets. For these services, the Bank calculates and charges a fee in accordance with the contract concluded with the donor of funds.

	31 December 2020	31 December 2019
INVESTMENTS		
Per projects:		
Water supply and gas supply	31.746	37.406
Production and processing	42.241	40.692
Health and education	27.569	33.073
Agriculture	36.025	36.248
Incentive in employment	9.070	11.573
Road construction and transport	739	1.124
Forestry	339	352
Other	2.684	2.251
Total investments per projects:	***150.413***	***162.719***

24. COMMISSION AFFAIRS (CONTINUED)

	31 December 2020	**31 December 2019**
Receivables for accrued interest and fees	11.458	10.731
Total	**161.871**	**173.450**
SOURCES		
Government of the Federation of Bosnia and Herzegovina	147.258	167.672
Federal Employment Bureau	9.070	11.573
Other	61	42
Total sources:	***156.389***	***179.287***
Liabilities from accrued interest and fees	12.020	11.851
Total	**168.409**	**191.138**
Current liabilities from commission affairs (Note 21)	**6.538**	**17.688**

The Bank does not bear the risk on these investments, and it receives a fee for its services.

25. FINANCIAL RISK MANAGEMENT

Based on its activities, the Bank is exposed to various forms of financial risks: credit risk, liquidity risk, market risk and operational risk. Market risk includes (foreign exchange) currency risk, interest rate risk, and other forms of price risk.

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

Risk management is carried out by the Bank's departments in charge for individual risks under policies suggested by the Management Board and approved by the Supervisory Board.

The risk management and control process are adjusted in a timely manner to reflect changes in the operational and market environment

This note aims to provide information on Bank's exposure to all of the above stated risks, and its goals, policies and procedures aimed to measure and manage the risks, as well as to manage capital of the Bank.

25.1 Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will not be able to pay amounts in full when due, which will result in the Bank's financial loss.

The credit risk is the most significant risk which the Bank faces in the course of its operations, and it is analyzed and monitored on an individual loan and client basis, as well as in relation to the whole portfolio of the Bank.

In order to manage the level of credit risk, the Bank only deals with counterparties which are creditworthy and, if possible, obtains sufficient collateral.

The choice of appropriate securities of the credit exposures depends on the assessment of the following:

- Creditworthiness of the client;
- Risk of the financed project;
- Estimated value of offered collateral.

In order to minimize credit risk, the Bank applies the Decision on definition, evaluation and treatment of collateral for loan and potential placement security, and secures its credit exposures by taking one or more of the following instruments:

- cash;
- Bank and corporate guarantees;
- Bills of exchange and unconditional guarantees, issued by the responsible authorities as defined in the Decision;
- Mortgages over properties;
- Pledge over business assets such as equipment, inventory and receivables.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating)

Each exposure that is measured at amortized cost and at fair value are allocated to one of the following categories:

Credit risk level	Exposure	Expected credit loss
Credit risk level 1 Performing	Low credit risk level exposures Overdue less or equal to 30 days FBA classification lower or equal to B 5% Exposure in non-default status	12-month ECL group assessment
Credit risk level 2 Underperforming	Medium credit risk level exposures Overdue over 30 days and less or equal to 90 days FBA classification greater than B5% Significant increase of credit risk (increase of PD parameter; deterioration of debtor’s financial indicators; non-compliance with contractual provisions; on special watch list for exposures)	Lifetime ECL group assessment
Credit risk level 3 Non-performing	High credit risk level exposures (non-performing) Overdue over 90 days Impairment individually assessed. Exposure in default status	Lifetime ECL individual assessment

Impairment and provisioning policies (applicable as of 1 January 2018)

Beginning with 1 January 2018, in accordance with IFRS 9, the Bank applies an Expected Credit Loss (ECL) model for all debt instruments measured at amortized cost or at fair value.

Impairment losses for individual risk or portfolio risk are estimated for customers from all segments and for all types of exposures.

The Bank performs segmentation by group of clients (corporate, retail, financial institutions), level of risk (credit risk level 1, 2 or 3) and risk assessment method (group or individual).

For exposures and customers classified in Credit level 1 (Performing) group risk assessment method is applied, and 12-month expected credit losses (12-month ECL) are calculated.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating)(continued)

Impairment and provisioning policies (applicable as of 1 January 2018) (continued)

For exposures and customers classified in Credit risk level 2 (Underperforming) group risk assessment method is applied, and lifetime expected credit losses (lifetime ECL) are calculated.

For exposures and customers classified in Credit risk level 3 (Non-performing) group risk assessment method is applied, and lifetime expected credit losses (lifetime ECL) are calculated.

Definition of default and recovery status

The default status is determined at client level and its total exposure to both legal entities and population.

Default status is identified if any of the following conditions are met: the client is overdue for more than 90 days in a material amount; for reprogrammed / restructured loans at the moment of recognition; when it is estimated that it is unlikely that the client (debtor) will fully comply with his obligations, regardless of the possibility of settlement from collateral; when the liquidation or bankruptcy of the client was initiated.

A three-month recovery period was established for the client's recovery. Exception are rescheduled / restructured loans for which a six-month recovery period was established, that is, if the grace period is agreed, six months after the expiration of the grace period.

PD assessment process

PD represents the likelihood that an exposure will be in default status in the next 12 months or for the duration of the obligation.

For PD modelling, approach is based on TTC (Through-the-Cycle) migration matrices for exposures in homogeneous client groups.

In order to calculate PD parameters for each homogeneous group, the Bank observes the behavior or change in the status of all clients who are not in the status of settling liabilities at the beginning of a certain period, and within the observed time period. PD is calculated as the ratio of the number of clients who during the observed period of time passed into default status and the number of clients who were taken into consideration at the beginning of the period.

For the calculation of PD parameters, the initial period is the period of 24 months before the date on which the PD parameter is calculated, and within the same the client's behavior in the next 12 months is observed, with the last date for which PD is observed being 12 months before the date. calculation of PD. In the described way, 12 matrices / tables are obtained for which the PD parameter is calculated, the average of which is a twelve-month PD parameter.

For exposures classified in Credit risk level 2, i.e. exposures where there has been a significant increase in credit risk from initial recognition, but which still have regular operations, IFRS 9 requires the PD parameter to be calculated for the entire life of the instrument.

For exposures classified in Credit risk level 1, a portion of the PD parameter is used for 12 months, based on 12 migration matrices for each homogeneous group.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating)(continued)

Impairment and provisioning policies (applicable as of 1 January 2018) (continued)

Starting from the PD value at 12-month level to migration matrices, the cumulative and conditional probabilities of the PD parameter for the maturity of up to 5 years are calculated, which are used to calculate the marginal values of the PD parameter. The marginal value of the lifetime PD parameter is shifted to the macroeconomic value of expected future losses taking into account the movements of GDP. The value of lifetime PD depends on the remaining period until the maturity of the individual exposure.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating)(continued)

Exposure at default (EAD)

Exposure at Default (EAD) is calculated as the total amount of credit exposure (on-balance and off-balance sheet), including the interest that is expected to be collected up to the end of the loan term, for which impairment allowances for credit losses are to be created and is calculated at the client level.

For exposures classified in Credit risk level 1 and matured exposures, EAD is equal to current exposure.

For undue exposures, lifetime EAD is calculated on the basis of the repayment plan, taking into account amounts and maturity periods, up to the maximum exposure maturity date.

Loss given default (LGD)

Loss given default (LGD) is estimated for all exposures according to homogeneous groups on the basis of transactions after the date of default and is expressed as a percentage. Each exposure is discounted at the date of default at the appropriate discount rate.

The estimate and calculation of the LGD parameter is based on the effective value of collateral that falls under each individual contract and based on the Cure Rate (CR) at the 12-month level and/or the lifetime of the instrument, depending on whether the level of credit risk is 1 or2.

Grouping financial assets measured on a group basis

For the purpose of determining a significant increase in credit risk and recognition of group-based allowances, on the basis of common credit risk characteristics, homogeneous groups were formed by the type of client:

- corporate
- retail
- financial institutions

By applying the Internal Impairment Methodology, exposures to each of these homogeneous groups are classified according to the level of credit risk.

Credit risk is assessed at group level for all clients and exposures classified in credit risk levels 1 and 2.

For exposures classified in credit risk level 1, the expected credit loss is measured as a 12-month ECL.

For exposures classified into risk level 2 expected losses are measured as lifetime expected losses.

Grouping financial assets measured on an individual basis

For all exposures that are not classified in credit risk levels 1 and 2, the impairment loss, i.e. the expected credit loss, is accounted for on an individual basis for the entire lifetime of exposure at the client level and the associated individual exposures.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating)(continued)

Grouping financial assets measured on an individual basis (continued)

All customer exposures that have entered the default status are assessed on an individual basis.

In an individual basis assessment, the Bank performs a separate analysis of the expected cash flows, i.e. the expected credit loss (ECL) represents a probability weighted credit loss estimate based on three potential scenarios, weighted by the likelihood of the occurrence of each scenario and their discounting to the present value of the impairment loss.

The Bank uses three (3) most probable cash flow assessment scenarios whose aggregate probability must be = 1.

The individual basis implies an analysis of the expected future cash flows by observable placement and the calculation of their present value.

Methodology for POCI

POCI assets include loans / agreements for which at the time of initial recognition under IFRS 9 it is determined that their value is decreased for credit losses at the individual level due to the existence of significant credit risk.

The Bank classifies as a POCI asset loans/agreements which meets any of the following criteria:

- that in the 12 months prior to the first application of IFRS 9, significant modifications of contractual obligations were made, i.e. a loan rescheduling in order to overcome the client's financial difficulties (e.g. extending the repayment period, subsequently introducing a grace period, etc., and assessing that the servicing of liabilities it can be difficult even after reprogramming);
- that they are reprogrammed credit agreements which have not been recovered within the period defined for POCI assets, or that have delays greater than 90 days in a materially significant amount during the recovery period for POCI assets;
- new placements to clients who have placements with individual impairment in the portfolio (classified in Stage 3)
- items of assets purchased with economic loss (discount) of more than 5% of the net book value of the asset.

Improved Credit Risk of POCI Assets (Returning to Stage 2)

Items of POCI assets can be returned to Stage 2 (due to credit recovery or credit risk improvement).

For the transfer of POCI assets in Stage 2, a twelve-month period of recovery was established. POCI asset (loan) remain classified as POCI at least 12 months from the moment of classification, i.e. if a grace period was contracted for POCI asset (loan) at the moment of recognition, at least 12 months after the expiration of the grace period. Only after this recovery period, POCI assets (loans) can be classified in Stage 2 if not in the default status on another basis.

POCI assets (loans) can never be classified in Stage 1.

In the event that after the recovery and transition to Stage 2 there is a re-emergence of default status, exposure is classified in Stage 3.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Credit risk classification (internal rating) (continued)

Methodology for POCI (continued)

Accounting model of POCI asset treatment

POCI assets are measured at amortized cost.

Significant Increase of Credit Risk – SICR

For the purpose of continuously determining increased credit risk, the risk changes for all the Bank's clients are monitored at least annually. According to the Methodology, all placements to a client for which an increased credit risk is determined for the next reporting date are classified in Stage 2 according to any of the following criteria:

- customer's delay in paying any significant overdue liabilities longer than 31 days by the IFRS counter, and less than 90 days;
- the client is in financial difficulties but is not in the default status;
- FBA classification is greater than B5%

In addition, the criteria for assigning a client to Stage 2 may be as follows:

- non-compliance with contractual provisions;
- loss of key customers or suppliers;
- similar

Exit from the status of increased credit risk is due to the lack of any criteria that have been classified by the client in the relevant status for its occurrence, and the verification of all indicators is carried out at least once a year, within the annual client monitoring.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk (continued)

The maximum exposure to credit risk without taking into account any collateral or other increased value

	Maximum credit exposure			
	Net exposure	**Contingent liabilities / guarantees**	**Total**	**Fair value of collateral**
31 December 2020				
Cash and cash equivalents	89.626	-	89.626	-
Obligatory reserve with the Central Bank	17.438	-	17.438	-
Loans and receivables from clients	248.980	44.660	293.640	279.727
	356.044	**44.660**	**400.704**	**279.727**
31 December 2019				
Cash and cash equivalents	100.489	-	100.489	-
Obligatory reserve with the Central Bank	13.498	-	13.498	-
Loans and receivables from clients	204.752	26.130	230.882	240.624
	318.739	**26.130**	**344.869**	**240.624**

For statement of financial position items, the above exposures are based on net carrying amounts as shown in the statement of financial position. The table above represents the maximum credit risk exposure as at 31 December 2020 and 31 December 2019, without taking account of any collateral or other increase in value.

Estimated value of property that serves as collateral is determined by the value of the initial evaluation by independent evaluators / real estate agents at the time of loan approval, reduced by a fixed percentage, depending on the type of collateral and reduced proportionately to the extent that it also serves as collateral security for other credit exposure. In order to verify the adequacy of the impairment, the re-valuation of collateral is done in accordance with the principles and rules of the collateral management system, taking into consideration the volatility of the value of the collateral and the time required for its implementation, under the influence of local and global market conditions. Guarantees and promissory notes do not have the declared value in the table, although they are usually required as collateral.

During the year, the Bank, in positions of non-financial assets, has items acquired by taking possession of collateral that are used as collateral in credit exposure in the case of non-repayment of the debt by the debtor. This process of acquiring is mainly related to real estate, equipment, vehicles. The acquired assets are shown as such in the statement of financial position of the Bank at the time when the conditions are met for its acquisition in accordance with IFRS and local regulations. The Bank's policy is to sell the assets acquired in this way, and during the time of ownership of these assets until they are sold to third parties, the assets can be temporarily used for the operations of the Bank or to rent to third parties. The acquired assets are presented in Note 15.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

Restructured loans

During the year, the Bank carried out the restructuring of certain loans to customers, with the aim of achieving better recoverability. Restructuring is usually done after the initial deterioration of the financial situation of the client or for the purpose of preventing further deterioration. Wherever possible, the Bank's position improves by acquisition of additional collateral.

	31 December 2020	31 December 2019
Gross restructured loans	47.725	38.977
Less: impairment allowance	(14.330)	(13.197)
	33.395	**25.780**

25.1.1 Credit risk management and policy provisions and impairment

Classification of loans by credit risk level

For the purpose of credit monitoring and credit risk management, the Bank's credit portfolio is divided into the following groups:

- Loans with low credit risk (performing loans) – loans not impaired for 12-month expected losses, on group level;
- Loans with medium risk level (performing loans) – loans impaired for lifetime credit losses, on group level;
- Loans with high credit risk level (non-performing loans) – loans impaired for lifetime expected losses, on individual level, including POCI assets

Analysis of the credit portfolio in accordance with the aforementioned categories is as follows:

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

25.1.1 Credit risk management and policy provisions and impairment (continued)

Classification of loans by credit risk level (continued)

	31 December 2020	31 December 2019
Banks		
Loans with high risk level	1.379	1.408
Gross exposure	**1.379**	**1.408**
Less: impairment allowance	(1.379)	(1.408)
Net exposure	**-**	**-**
Corporate		
Loans with low risk level (performing loans)	189.333	153.883
Loans with medium risk level (performing loans)	29.483	14.073
Loans with low risk level (non-performing loans)	43.351	52.020
Gross exposure	**262.167**	**219.976**
Less: impairment allowance	(29.905)	(31.052)
Net exposure	**232.262**	**188.924**
Gross exposure – POCI S2	**7.497**	**-**
Gross exposure – POCI S3	**11.452**	**19.698**
Less: Impairment allowance	(5.771)	(5.750)
Net exposure	**245.440**	**202.872**
Retail		
Loans with low risk level (performing loans)	3.096	1.206
Loans with medium risk level (performing loans)	61	67
Loans with low risk level (non-performing loans)	1.052	1.101
Gross exposure	**4.209**	**2.374**
Less: impairment allowance	(669)	(494)
Net exposure	**3.540**	**1.880**
Retail	**286.704**	**243.456**
Portfolio impairment allowance (12-month ECL)	(4.760)	(3.601)
Portfolio impairment allowance (lifetime ECL)	(3.759)	(1.862)
Individual impairment allowances	(29.205)	(33.241)
Net exposure	**248.980**	**204.752**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

25.1.1 Credit risk management and policy provisions and impairment (continued)

Classification of loans by credit risk level (continued)

a) Loans with low credit risk level

The quality of the portfolio of loans to customers that have a low risk level and are impaired on portfolio level for 12-month ECL can be assessed through the internal standard monitoring system. Loans to customers are regularly monitored and systematically reviewed in order to identify any irregularities or warning signs. These loans are subject to constant monitoring with the aim of taking timely action based on improvement/deterioration of client risk profile.

An overview of gross exposure of loans with low risk level according to the type of loan user is as follows:

	Banks	Corporate	Retail	Total
31 December 2020				
Gross exposure (overdue loans)	-	189.333	3.096	**192.429**
Impairment	-	(4.620)	(140)	**(4.760)**
Net	**-**	**184.713**	**2.956**	**187.669**
Impairment rate	*-*	*2%*	*5%*	*3%*
Exposure share in total loans	*-*	*72%*	*74%*	*67%*

	Banks	Corporate	Retail	Banks	Total
Estimated value of collateral as at 31 December 2020					
Deposits	-	4.500	-	-	**4.500**
Mortgages	-	186.307	8.442	-	**194.749**
Total	**-**	**190.807**	**8.442**	**-**	**199.249**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

25.1.1 Credit risk management and policy provisions and impairment (continued)

Classification of loans by credit risk level (continued)

	Banks	Corporate	Retail	Total
31 December 2019				
Gross exposure	-	153.883	1.206	**155.089**
Impairment	-	(3.519)	(82)	**(3.601)**
Net	**-**	**150.364**	**1.124**	**151.488**
Impairment rate	*-*	*2%*	*7%*	*2%*
Exposure share in total loans	*-*	*64%*	*51%*	*64%*

	Banks	Corporate	Retail	POCI	Total
Estimated value of collateral as at 31 December 2019					
Deposits	-	35.887	-	-	**35.887**
Mortgages	-	141.521	4.419	-	**145.940**
Total	**-**	**177.408**	**4.419**	**-**	**181.827**

b) Loans with medium credit risk level

For loans to and receivables from customers between 31 and 90 days overdue, i.e. loans with medium risk level, gross exposure is impaired on portfolio level for lifetime ECL. The gross amount of loans to and receivables from customers with medium credit risk was as follows:

	Banks	Corporate	Retail	POCI S2	Total
31 December 2020					
Gross exposure (due unimpaired loans)	-	29.483	61	7.497	**37.041**
Impairment	-	(3.072)	(5)	(682)	**(3.759)**
Net	**-**	**26.411**	**56**	**6.815**	**33.282**
Impairment rate	*-*	*10%*	*8%*	*9%*	*10%*
Exposure share in total loans	*-*	*10%*	*1%*	*40%*	*13%*

	Banks	Corporate	Retail	POCI S2	Total
Estimated value of collateral as at 31 December 2020					
Deposits	-	-	-	-	**-**
Mortgages	-	82.160	190	22.915	**105.265**
Total	**-**	**82.160**	**190**	**22.915**	**105.265**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

25.1.1 Credit risk management and policy provisions and impairment (continued)

Classification of loans by credit risk level (continued)

b) Loans with medium credit risk level (continued)

	Banks	Corporate	Retail	Total
31 December 2019				
Gross exposure	-	14.073	67	**14.140**
Impairment	-	(1.858)	(4)	**(1.862)**
Net	**-**	**12.215**	**63**	**12.278**
Impairment rate	*-*	*13%*	*6%*	*13%*
Exposure share in total loans	*-*	*6%*	*3%*	*6%*

	Banks	Corporate	Retail	POCI	Total
Estimated value of collateral as at 31 December 2019					
Deposits	-	100	-	-	**100**
Mortgages	-	43.463	889	-	**44.352**
Total	**-**	**43.563**	**889**	**-**	**44.452**

c) Loans with high credit risk level

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

	Banks	Corporate	Retail	POCI S3	Total
31 December 2020					
Gross exposure	1.379	43.351	1.052	11.452	**57.234**
Impairment	(1.379)	(22.213)	(524)	(5.089)	**(29.205)**
Net	**-**	**21.138**	**528**	**6.363**	**28.029**
Impairment rate	*-*	*51%*	*50%*	*44%*	*51%*
Exposure share in total loans	*-*	*17%*	*25%*	*61%*	*20%*

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

25.1.1 Credit risk management and policy provisions and impairment (continued)

Classification of loans by credit risk level (continued)

c) Loans with high credit risk level (continued)

	Banks	Corporate	Retail	POCI S3	Total
Estimated value of collateral as at 31 December 2020					
Deposits	-	-	-	-	**-**
Mortgages	-	87.295	3.861	26.275	**117.431**
Total	**-**	**87.295**	**3.861**	**26.275**	**117.431**

	Banks	Corporate	Retail	POCI	Total
31 December 2019					
Gross exposure	1.408	52.020	1.101	19.698	**74.227**
Impairment	(1.408)	(25.675)	(408)	(5.750)	**(33.241)**
Net	**-**	**26.345**	**693**	**13.948**	**40.986**
Impairment rate	*100%*	*49%*	*37%*	*29%*	*45%*
Exposure share in total loans	*100%*	*24%*	*46%*	*100%*	*30%*

	Banks	Corporate	Retail	POCI	Total
Estimated value of collateral as at 31 December 2019					
Deposits	-	-	-	-	**-**
Mortgages	-	124.892	3.710	42.647	**171.249**
Total	**-**	**124.892**	**3.710**	**42.647**	**171.249**

25.2 Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of positions. Treating liquidity risk, the Bank consolidates its operations in accordance with the relevant decisions and internal policies aimed at maintenance of liquidity reserves, harmonization of assets and liabilities indicators and liquidity limits.

The Bank has limited access to sources of finance. Funds are raised through a limited number of instruments including deposits of FBiH Government and the Federal Employment Service, deposits of legal entities, borrowings and equity. This limits the flexibility of financing and represents a reliance on deposits and payments of capital by the FBiH Government.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with different maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals. Furthermore, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Liquidity risk (continued)

The table below shows the remaining contractual maturity of the Bank's assets and liabilities:

As at 31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	89.626	-	-	-	-	**89.626**
Obligatory reserve with the Central Bank	17.438	-	-	-	-	**17.438**
Loans and receivables from clients	16.766	8.451	27.866	119.353	76.544	**248.980**
Other assets	196	-	-	-	-	**196**
Property, equipment and intangible assets	-	-	-	-	4.233	**4.233**
Total assets	**124.026**	**8.451**	**27.866**	**119.353**	**80.777**	**360.473**
Liabilities and equity						
Current accounts and deposits from customers	63.205	-	1.300	3.200	112.644	**180.349**
Borrowings	-	199	264	261	130	**854**
Provisions for liabilities and charges	593	144	384	287	394	**1.802**
Other liabilities	6.703	-	39	427	666	**7.835**
Registered capital and reserves	-	-	-	-	169.633	**169.633**
Total liabilities and equity	**70.501**	**343**	**1.987**	**4.175**	**283.467**	**360.473**
Liquidity gap	**53.525**	**8.108**	**25.879**	**115.178**	**(202.690)**	**-**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Liquidity risk (continued)

Na dan 31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	100.489	-	-	-	-	**100.489**
Obligatory reserve with the Central Bank	13.498	-	-	-	-	**13.498**
Loans and receivables from clients	18.773	5.065	34.248	100.780	45.886	**204.752**
Other assets	99	-	-	-	-	**99**
Property, equipment and intangible assets	-	-	-	-	4.189	**4.189**
Total assets	**132.859**	**5.065**	**34.248**	**100.780**	**50.075**	**323.027**
Liabilities and equity						
Current accounts and deposits from customers	49.219	-	-	31.420	51.880	**132.519**
Borrowings	-	218	284	697	196	**1.395**
Provisions for liabilities and charges	252	4	276	203	395	**1.130**
Other liabilities	18.050	3	110	256	292	**18.711**
Registered capital and reserves	-	-	-	-	169.272	**169.272**
Total liabilities and equity	**67.521**	**225**	**670**	**32.576**	**222.035**	**323.027**
Liquidity gap	**65.338**	**4.840**	**33.578**	**68.204**	**(171.960)**	**-**

25.3 Market risk

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

The Management Board sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored.

25.3.1 Foreign currency risk

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

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.1 Foreign currency risk (continued)

The following table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 31 December 2019. The tables include the Bank's assets and liabilities at carrying amounts categorized by currency.

31 December 2020	**KM**	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	83.675	5.765	186	-	**89.626**
Obligatory reserve with the Central Bank	17.438	-	-	-	**17.438**
Loans and receivables from clients	248.980	-	-	-	**248.980**
Other assets	195	1	-	-	**196**
Property, equipment and intangible assets	4.233	-	-	-	**4.233**
Total assets	**354.521**	**5.766**	**186**	**-**	**360.473**
Liabilities and equity					
Current accounts and deposits from customers	180.118	231	-	-	**180.349**
Borrowings	-	456	398	-	**854**
Provisions for liabilities and charges	1.802	-	-	-	**1.802**
Other liabilities	7.823	12	-	-	**7.835**
Registered capital and reserves	169.633	-	-	-	**169.633**
Total liabilities and equity	**359.376**	**699**	**398**	**-**	**360.473**
Net foreign exchange position	**(4.855)**	**5.067**	**(212)**	**-**	**-**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.1 Foreign currency risk (continued)

31 December 2019	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	92.354	7.203	932	-	**100.489**
Obligatory reserve with the Central Bank	13.498	-	-	-	**13.498**
Loans and receivables from clients	204.734	-	18	-	**204.752**
Other assets	98	1	-	-	**99**
Property, equipment and intangible assets	4.189	-	-	-	**4.189**
Total assets	**314.873**	**7.204**	**950**	**-**	**323.027**
Liabilities and equity					
Current accounts and deposits from customers	132.075	233	211	-	**132.519**
Borrowings	-	521	874	-	**1.395**
Provisions for liabilities and charges	1.130	-	-	-	**1.130**
Other liabilities	18.707	4	-	-	**18.711**
Registered capital and reserves	169.272	-	-	-	**169.272**
Total liabilities and equity	**321.184**	**758**	**1.085**	**-**	**323.027**
Net foreign exchange position	**(6.311)**	**6.446**	**(135)**	**-**	**-**

Foreign currency sensitivity analysis

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

The following table shows the Bank's sensitivity to a 10% increase and decrease in BAM against the USD. 10% is the sensitivity rate used for reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible changes in foreign exchange rates. The analysis includes only outstanding foreign currency denominated monetary items and represent an adjustment to their value at period end for an USD exchange rate movement of 10%. The sensitivity analysis includes external loans that are denominated in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit when BAM strengthens by 10% against the USD. For a 10% weakening of the BAM against the USD, there would be an equal but opposite impact on the profit.

	USD effect	
	31 December 2020	**31 December 2019**
Loss	(21)	(14)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.2. Interest rate risk

The Bank is subject to the risk of interest rate changes, the extent to which interest-bearing assets and liabilities mature or change rates at different times or in different amounts.

The majority of loans to legal entities and individuals are initially contracted at fixed interest rates. These financial instruments are classified as instruments with fixed interest rates, and other such instruments with variable interest rates. The Bank does not pay interest on received deposits.

Interest rate sensitivity of assets and liabilities

The table below summarizes the Bank's exposure to interest rate risk at the end of the year. Assets and liabilities are presented in the table at book value and are categorized by the earlier contractual maturity date. Those assets and liabilities that are not applicable interest rates are classified as "Non-interest bearing".

As at 31 December 2020	**Non-interest bearing**	**Less than 1 month**	**1 – 3 months**	**3 months – 1 year**	**1 – 5 years**	**Over 5 years**	**Total**	**Fixed interest rate**	**Effective interest rate**
Assets									
Cash and cash equivalents	89.626	-	-	-	-	-	**89.626**		
Obligatory reserve with the Central Bank	17.438	-	-	-	-	-	**17.438**		
Loans and receivables from clients	-	16.766	8.451	27.866	119.353	76.544	**248.980**	248.795	3,27%
Other assets	196	-	-	-	-	-	**196**		
Property, equipment and intangible assets	4.233	-	-	-	-	-	**4.233**		
Total assets	**111.493**	**16.766**	**8.451**	**27.866**	**119.353**	**76.544**	**360.473**	**248.795**	
Liabilities and equity									
Current accounts and deposits from customers	180.349	-	-	-	-	-	**180.349**		
Borrowings	456	-	199	199	-	-	**854**	398	2,00%
Provisions for liabilities and charges	1.802	-	-	-	-	-	**1.802**		
Other liabilities	7.835	-	-	-	-	-	**7.835**		
Registered capital and reserves	169.633	-	-	-	-	-	**169.633**		
Total liabilities and equity	**360.075**	**0**	**199**	**199**	**0**	**0**	**360.473**	**398**	
Interest rate risk		**16.766**	**8.252**	**27.667**	**119.353**	**76.544**	**0**	**248.397**	

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.2. Interest rate risk (continued)

As at 31 December 2019	**Non-interest bearing**	**Less than 1 month**	**1 – 3 months**	**3 months – 1 year**	**1 – 5 years**	**Over 5 years**	**Total**	**Fixed interest rate**	**Effective interest rate**
Assets									
Cash and cash equivalents	100.489	-	-	-	-	-	**100.489**	-	
Obligatory reserve with the Central Bank	13.498	-	-	-	-	-	**13.498**	-	
Loans and receivables from clients	-	18.773	5.065	34.248	100.780	45.886	**204.752**	204.537	3,33%
Other assets	99	-	-	-	-	-	**99**	-	
Property, equipment and intangible assets	4.189	-	-	-	-	-	**4.189**	-	
Total assets	**118.275**	**18.773**	**5.065**	**34.248**	**100.780**	**45.886**	**323.027**	**204.537**	
Liabilities and equity									
Current accounts and deposits from customers	122.519	-	-	-	-	10.000	**132.519**	10.000	1,00%
Borrowings	521	-	218	219	437	-	**1.395**	874	2,00%
Provisions for liabilities and charges	1.130	-	-	-	-	-	**1.130**	-	
Other liabilities	18.711	-	-	-	-	-	**18.711**	-	
Registered capital and reserves	169.272	-	-	-	-	-	**169.272**	-	
Total liabilities and equity	**312.153**	**-**	**218**	**219**	**437**	**10.000**	**323.027**	**10.874**	
Interest rate risk	**-**	**18.773**	**4.847**	**34.029**	**100.343**	**35.886**	**-**	**193.663**	

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4. The estimation of fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length conditions. Where available, fair values are based on market prices. However, for a significant part of the Bank's financial instruments, there are no readily available market prices. In conditions when market prices are not readily available, fair value is estimated using discounted cash flows or other appropriate techniques pricing. Changes in the accompanying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates may not be realized in the sale of financial instruments in the current period, particularly taking into account the impact of the global financial crisis and the lack of a liquid market in Bosnia and Herzegovina.

Cash and cash equivalents
The carrying values of cash and balances with banks are generally deemed to approximate their fair values.

Loans to clients
Given the specificity of the Bank, a large amount of the total loan portfolio carries a fixed interest rate and long-term maturity and an interest rate below the market of the interest rate, which reflect the development component of the Bank. Since the bank has no commercial orientation nor set goals that are a rarity for other market participants, it is not practicable to calculate the fair value of loans to customers, nor would the information have particular added value, taking into account the above stated specificities.

Deposits from clients
For demand deposits and deposits with no defined maturities, fair value is the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. It is not practicable to calculate the fair value of fixed-maturity deposits.

Borrowings
Bank borrowings are interest-free or carry a low fixed interest rate. The fair value of borrowings with fixed interest rate is determined using a discounted future cash flows using interest rates currently offered for loans with similar terms and conditions to borrowers with similar credit worthiness. It is not practicable to calculate the fair value of borrowings.

25.5. Capital management

The Bank's objectives when managing capital, which is a broader concept of "share capital" of the statement of financial position, are the following:

- To comply with the capital requirements set by the regulators of the banking market in the domestic environment;
- To maintain a strong capital base to support business development.

The Bank's Management regularly monitors capital adequacy and the use of regulatory capital on the basis of appropriate techniques that are based on the regulations of the Banking Agency of the Federation of Bosnia and Herzegovina.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.5. Capital management (continued)

As at 31 December 2020, the Bank was in line with all regulatory capital requirements and in accordance with local regulations achieved a capital adequacy ratio of 58,1% (31 December 2019: 85,0%).

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

- Core Capital - share capital (net of the carrying value of treasury shares), share premium, retained earnings and reserves created by appropriations of retained earnings; negative revaluation reserves arising from the revaluation of the fair value of assets;
- Supplementary Capital - general reserves to cover loan losses of the Bank's assets estimated as good assets.

Risk-weighted assets are measured by means of hierarchy of four weights classified according to the nature of the assets and reflecting an estimate of associated credit, market and other risks, taking into consideration all eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposures, with certain adjustments made in order reflect the volatility of potential losses.

The table below shows the structure of regulatory capital and capital adequacy indicators as at 31 December 2020 and 31 December 2019, taken from the calculation submitted to the Agency for the periods then ending (information on risk weighted assets is not audited):

	2020	**2019**
Core Capital		
Share capital	163.615	163.615
Reserves	5.298	5.298
Intangible assets	(58)	(84)
Total core capital	**168.855**	**168.829**
Supplementary Capital		
General reserves – Agency regulations	3.278	2.231
Audited profit for the year	-	-
Total supplementary capital	**3.278**	**2.231**
Adjustment for missing regulatory reserves	(19.735)	(19.339)
Net Capital	**152.398**	**151.721**
Risk weighted assets (unaudited) *	250.181	165.246
Other weighted assets (unaudited) *	12.029	13.195
Total weighted risk assets	**262.210**	**178.441**
Capital adequacy ratio (%)	**58,1%**	**85,0%**

* The risk weighted asset amounts in the table above were calculated in accordance with FBA regulations.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.5. Capital management (continued)

In accordance with the regulations of the Agency, the Decision on Minimum Standards for Capital Management of Banks and Capital Protection adopted on 30 May 2014 ("Official Gazette of the Federation of BiH" No. 46/14), audited profit for the period are included in the calculation of regulatory capital as of the day when the audited financial statements are issued and approved by the management bodies of the Bank. In this calculation, the profit for 2020 is not included in the calculation of capital adequacy as at 31 December 2020, since it has not been audited or adopted by the Bank's governing body.

26. POST REPORTING DATE EVENTS

In the period between 31 December 2020 and the issuance date of these financial statements, no events occurred that would require an adjustment.

27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 10 March 2021.

Signed on behalf of the Management Board:

RAZVOJNA BANKA FEDERACIJE BOSNE I HERCEGOVINE
RB FBiH
Sarajevo

dr.sc. Semir Fejzić
Acting President of the Management Board