

**DEVELOPMENT BANK OF
FEDERATION OF BOSNIA AND HERZEGOVINA**

Financial statements for the year
ended 31 December 2021 and
Independent auditor's report

Table of content

	Page
Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements	3
Independent auditor's report	4 – 6
Statement of profit or loss	7
Statement of comprehensive income	8
Statement of financial position	9
Statement of cash flows	10
Statement of changes in equity	11
Notes to the financial statements	12 – 75

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 74 were authorized by the Management Board on 28.03.2022 for issuing to the Supervisory Board and are signed below to signify this:

On behalf of the Management Board

Acting President of the Management Board
Doc. dr. sci. Mersina Slijičević, dipl.oec.



Razvojna Banka FBiH
Igmanska 1
71000 Sarajevo
Bosna i Hercegovina

28.03.2022

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 2021, 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 2021, 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

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. 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 due to the adjustment of the Regulation and the New Regulatory Framework.

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

Other information

Management is responsible for the other information. Other information comprise information included in the annual report on the Bank's operations for the period 01.01.-31.12.2021, but does not include the financial statements and our audit report thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this regard, we do not have any significant facts that we consider appropriate for disclosure.

Furthermore, in accordance with the Ordinance on criteria and manner of supervising the operations of the Development Bank of Federation of Bosnia and Herzegovina and the Decisions of the Banking Agency of Federation of Bosnia and Herzegovina (hereinafter: „the Regulator“), the Bank prepared separate reports as at 31 December 2021 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.

Responsibilities of the Bank's Management for the Financial Statements

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

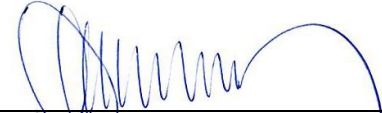
We communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, 29 March 2022



Isidora Džombić
Managing Partner – Director
Grant Thornton d.o.o. Banja Luka



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

Development Bank of Federation of Bosnia and Herzegovina
Statement of profit or loss
for the year ended 31 December 2021
(All amounts are expressed in thousand BAM, unless otherwise stated)

	Note	2021	2020
Interest income	4	7.954	6.970
Interest expense	5	(296)	(476)
Net interest income		7.658	6.494
Fee and commission income	6	2.214	1.800
Net fee and commission income		2.214	1.800
Other operating income	7	1.237	383
Operating income		11.109	8.677
Personnel expenses	8	(5.637)	(6.030)
Depreciation and amortization		(344)	(375)
Administrative and other expenses	9	(1.471)	(1.578)
Operating expenses		(7.452)	(7.983)
Profit before impairment losses and provisions		3.657	694
Impairment losses and provisions	10	(3.427)	(333)
Profit before tax		230	361
Income tax	2(e)		-
Net profit for the year		230	361

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

Doc. dr. sci. Mersiha Slipičević, dipl.oec.

Acting President of the Management Board



Almira Jahić

Certified accountant

Almira Jahić

CERTIFICIRANI RAČUNOVOĐA
Almira Jahić
Broj licence: CR-6523/5

Development Bank of Federation of Bosnia and Herzegovina
Statement of comprehensive income
for the year ended 31 December 2021
(All amounts are expressed in thousand BAM, unless otherwise stated)

	Note	2021	2020
Net profit for the year		230	361
<i>Other comprehensive income for the year</i>		-	-
Total comprehensive income for the year		230	361

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

Development Bank of Federation of Bosnia and Herzegovina

Statement of financial position

as at 31 December 2021

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

	Note	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	11	47.525	89.626
Obligatory reserve with the Central Bank	12	18.377	17.438
Loans to and receivables from banks	13	-	-
Loans to and receivables from customers	14	276.416	248.980
Other assets	15	12.303	196
Property and equipment	16	3.913	4.175
Intangible assets	17	67	58
Total assets		358.601	360.473
Liabilities			
Current accounts and deposits from customers	18	180.133	180.349
Borrowings	19	390	854
Provisions	20	1.957	1.802
Other liabilities	21	6.258	7.835
Total liabilities		188.738	190.840
Equity			
Registered capital	22	163.615	163.615
Retained earnings		6.248	6.018
Regulatory reserves for credit losses		-	-
Total equity		169.863	169.633
Total liabilities and equity		358.601	360.473

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

Development Bank of Federation of Bosnia and Herzegovina

Statement of financial position

as at 31 December 2021

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

	2021	2020
Operating activities		
Profit for the year	230	361
Adjustments for:		
Depreciation and amortization	344	375
Impairment losses and provisions, net	3.427	333
Net interest income	(7.660)	(6.508)
	<u>(3.659)</u>	<u>(5.439)</u>
Changes in:		
Net increase in obligatory reserve with the Central Bank	(939)	(3.940)
Net (increase) / decrease in given loans and receivables	(29.928)	(43.817)
Net decrease / (increase) in other assets	(12.139)	(145)
Net increase / (decrease) in current accounts and deposits from customers	(216)	47.830
Net (decrease) / increase in other liabilities	(1.178)	(9.745)
	<u>(48.059)</u>	<u>(15.256)</u>
Interest received	6.809	5.829
Interest paid	(296)	(476)
Net cash used in / from operating activities	<u>(41.546)</u>	<u>(9.903)</u>
Investing activities		
Purchase of property and equipment	(53)	(412)
Purchase of intangible assets	(38)	(7)
Net cash used in investing activities	<u>(91)</u>	<u>(419)</u>
Financial activities		
Repayment of borrowings	(464)	(541)
Net cash used in financial activities	<u>(464)</u>	<u>(541)</u>
Net increase / (decrease) in cash and cash equivalents	<u>(42.101)</u>	<u>(10.863)</u>
Cash and cash equivalents at the beginning of the year	<u>89.626</u>	<u>100.489</u>
Cash and cash equivalents at the end of the year	<u>47.525</u>	<u>89.626</u>

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

Development Bank of Federation of Bosnia and Herzegovina

Statement of changes in equity

for the year ended 31 December 2021

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

	Registered capital	Equity reserves	Retained earnings	Total
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
Balance at 1 January 2021	163.615	5.298	720	169.633
Profit allocation for 2019	-	359	(359)	-
Profit allocation for 2020	-	1361	(361)	-
Net profit for the year	-	-	230	230
Total comprehensive income	-	-	-	-
Balance at 31 December 2021	163.615	6.018	230	169.863

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 the Federation of Bosnia and Herzegovina ("FBiH").

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 FBiH Government), the Supervisory Board, the Management Board and the Audit Board.

As at 31 December 2021, the Bank had organizational parts 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 FBiH, 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 from 17.7.2020 to 17.10.2020:

prof. dr. Igor Živko, Acting Chairperson of the Supervisory Board
Amir Avdić, mag. oec., Acting Deputy Chairperson of the Supervisory Board
dr. sc. Adisa Omerbegović Arapović, acting member
Almir Zulić, dipl. oec., acting member
dr. sc. Mehmedalija Hadžović, acting member
dr. sc. Božo Vukoja, acting member
Zvonko Landeka, dipl. oec., acting member

Supervisory Board of the Bank from 17.4.2021:

Zoran Zeljko, Chairperson of the Supervisory Board
Sejfudin Krnjić, Deputy Chairperson of the Supervisory Board
prof. dr. Mehmedalija Hadžović, member
prof. dr. Adisa Omerbegović Arapović, member
Mario Gadžić, member
prof. dr. Igor Živko, member
Salih Dedić, member

The Bank didn't have a Supervisory Board from 17.10.2020 to 17.4.2021 when the Supervisory Board was appointed.

Management Board of the Bank until 17.9.2021:

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

Management Board of the Bank from 17.9.2021:

Mensud Bašić, Acting President of the Management Board
Dalibor Milinković, Acting Executive Director for Projects and Development
dr. sc. Semir Fejzić, Acting Executive Director for Risk Management
Senija Bubić, Acting Executive Director for Operations Support

The Bank didn't have a Vice-President of the Management Board from 1.1.2021 to 30.11.2021, when Luka Čelan was appointed as acting Vice-President of the Management Board.

Audit Board

The Bank didn't have an Audit Board from 4.12.2018 until 5.11.2021 when the following Audit Board was appointed:

Dženamina Husanović, chairperson
Josipa Grbavac, deputy chairperson
Lejla Demirović, member
Mario Glibić, member
Said Piralić, member

1. GENERAL INFORMATION (CONTINUED)

Assembly of the Bank

In 2021, the Assembly of the Bank held three meetings.

In March 2021, the Assembly of the Bank held a session at which the Financial Statements of the Development Bank of FBiH for 2019 was approved as well as the Independent Auditor's Report, the Internal Audit Report for 2019, and the Decision on determining the amount and distribution of the Bank's profit for 2019 was passed as well as the Decision on the adoption of the Bank's Business Plan and Program for 2020 and the Rebalance of the Business Plan and Program for 2020.

Also, at the same session, the Assembly of the Bank passed the Decision on the dismissal of the Bank's Supervisory Board as well as the Decision on the appointment of members of the Bank's Supervisory Board.

In June 2021, the Assembly of the Bank passed the Decision on the adoption of the Bank's Strategic Statement.

In August 2021, the Assembly of the Bank held a session at which the Financial Statements of the Development Bank of FBiH for 2020 was approved as well as the Independent Auditor's Report, the Internal Audit Report for 2020, and the Decision on determining the amount and distribution of the Bank's profit for 2020 was passed as well as the Decision on the adoption of the Bank's Business Plan and Program for 2021.

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 Bank's 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).

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, 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 28 March 2022 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

The financial statements of the Bank have been prepared under the cost convention (historical cost), unless otherwise stated in the accounting policies below. Historical cost is generally based on the fair value of the consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants on the valuation date, whether or not that price is directly verifiable or estimated using other valuation techniques. In estimating the fair value of assets or liabilities, the Bank considers those characteristics of assets or liabilities that would be considered by other market participants in determining the price of assets or liabilities at the measurement date.

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 2021 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 statement of profit or loss 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.

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 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.

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 risk.

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").

The IFRS 9 model of expected credit loss includes three stages, three levels of credit risk, where the financial asset moves through the stages as its credit quality changes, as follows:

- 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 risk classification in accordance with the regulation 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 risk classification in accordance with the regulation 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

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 is 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 statement of profit or loss.

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 statement of profit or loss.

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.

Impairment of financial assets

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

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.

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.

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 statement of profit or loss 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.

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 and internal acts, the Bank pays to its employees retirement severance benefits upon retirement in an amount of six employee's net salaries received in the last three 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.

j) 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.

k) Registered capital

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

l) 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.

m) 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 issued, 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).

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 2021	31 December 2020
Impairment allowance for balance sheet exposures, including cash and other assets	11, 12, 13, 14, 15	42.326	39.478
Provisions for off-balance sheet exposures	20	556	824
		42.882	40.302

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

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

Regulatory requirements in accordance with the regulation

The Agency is entitled to carry out regulatory inspections of the Bank's operations, and in accordance with the regulation, 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, that is in accordance with the regulation, for capital adequacy calculation purposes.

The following table summarizes impairment allowances calculated in accordance with the Agency regulations. That is in accordance with the regulation, regulatory provisions as of 31 December 2021 are calculated in accordance with the new methodology (as explained in Note 2 i).

Summary of impairment allowances	31 December 2021	31 December 2020
Provisions for balance-sheet exposure (in accordance with the regulation)	59.914	55.885
Provisions for off-balance-sheet exposure (in accordance with the regulation)	1.980	2.286
	61.894	58.171
Impairment allowances under IFRS	42.882	40.302
Negative difference between provisions for balance-sheet exposure (in accordance with the regulation) and impairment allowance in accordance with IFRS	2.526	1.866
Positive difference between provisions for balance-sheet exposure (in accordance with the regulation) and impairment allowance in accordance with IFRS	21.538	19.735
Missing reserves	21.538	19.735

As at 31 December 2021 and as presented in the above table, the total amount of provisions in accordance to Agency regulations, that is in accordance with the regulation, exceeded provisions recognized under IFRS by BAM 21.538 thousand (31 December 2020: BAM 19.735 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 21.538 thousand represents the missing reserves for credit losses in the business year 2021, 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 600 thousand with regards to enforcement judgments based on labor disputes for which payments are expected in 2022.

4. INTEREST INCOME	2021	2020
Interest on loans to customers	7.954	6.970
	7.954	6.970
 5. INTEREST EXPENSE	 2021	 2020
Interest on borrowings and deposits	296	476
	296	476
 6. FEE AND COMMISSION INCOME	 2021	 2020
Fee income from commission transactions	1.508	1.271
Fee income from guarantees and letters of credit	559	371
Fee income from other transactions	147	158
	2.214	1.800
 7. OTHER OPERATING INCOME	 2021	 2020
Income from sale of acquired assets	533	268
Donations	3	28
Other	701	87
	1.237	383
 8. PERSONNEL EXPENSES	 2021	 2020
Net salaries	2.531	2.712
Taxes and contributions	1.871	1.981
Other	1.235	1.337
	5.637	6.030

Personnel expenses include BAM 1.037 thousand (2020: BAM 1.098 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 2021 was 105 (2020: 110).

9. ADMINISTRATIVE AND OTHER EXPENSES

	2021	2020
Memberships and charges	280	290
Maintenance	291	258
Supervisory Board remunerations	98	80
Energy	121	123
Telecommunications	127	123
Services	89	124
Bank fees	131	105
Materials	92	98
Advertising, entertainment, sponsorship	88	67
Rent	9	23
Insurance	22	21
Other expenses	123	266
	1.471	1.578

10. IMPAIRMENT LOSSES AND PROVISIONS, NET

	2021	2020
Loans to banks (Note 13)	-	(29)
Loans to clients (Note 14)	2.492	(411)
Provisions for employee benefits (Note 20)	11	194
Provisions for litigation	600	240
Impairment of cash and cash equivalents (Note 11,12)	41	(7)
Impairment of acquired assets (Note 15)	(39)	-
Increase/decrease of value of other assets (Note 15)	590	4
Disbursement / impairment income for contingent liabilities (Note 20)	(268)	342
	3.427	333

11. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Current accounts with the Central Bank of Bosnia and Herzegovina	33.379	83.745
Current accounts with other banks in foreign and domestic currency	14.191	5.961
Cash in hand	3	10
	47.573	89.716
Impairment of cash and cash equivalents (Note 10.)	(48)	(90)
Net cash and cash equivalents	47.525	89.626

Cash and bank accounts contain a cash amount for commission activities of BAM 4.987 thousand (2020: BAM 6.538 thousand) (Note 21).

12. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2021	31 December 2020
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	<u>18.395</u>	<u>17.455</u>
	18.395	17.455
Impairment of the obligatory reserve with the Central Bank (Note 10.)	<u>(18)</u>	<u>(17)</u>
Net obligatory reserve with the Central Bank	<u>18.377</u>	<u>17.438</u>

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.

As of 2021, the CBBH does not charge interest on the mentioned amount on the required reserves with the CBBH.

Calculated impairment of the obligatory reserve with the CBBiH amounts to BAM 18 thousand.

13. LOANS TO AND RECEIVABLES FROM BANKS

	31 December 2021	31 December 2020
Loans to banks	1.379	1.379
Less: impairment allowance	<u>(1.379)</u>	<u>(1.379)</u>
Total net loans to banks	<u>-</u>	<u>-</u>

Loans to and receivables from banks include interest receivable in the amount of BAM 108 thousand (31 December 2020: BAM 108 thousand).

Movement in gross exposure 31.12.2021- Loans to and receivables from Banks

	Bank 31.12.2021			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at 31 December 2020	-	-	1.379	1.379
New financing	-	-	-	-
Derecognized assets (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Repaid assets	-	-	-	-
Write-offs	-	-	-	-
Exchange rate adjustments	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2021	<u>-</u>	<u>-</u>	<u>1.379</u>	<u>1.379</u>

13. LOANS TO AND RECEIVABLES FROM BANKS (CONTINUED)

Movement in gross exposure 31.12.2020

	Bank 31.12.2020			Total
	Stage 1	Stage 2	Stage 3	
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 impairment allowance

	Bank 31.12.2021			Total
	Stage 1	Stage 2	Stage 3	
Impairment allowance for expected credit losses as at 31 December 2020	-	-	1.379	1.379
Derecognized assets (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
<i>Impairment allowances (Note 10)</i>	-	-	-	-
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2021	-	-	1.379	1.379

	Bank 31.12.2020			Total
	Stage 1	Stage 2	Stage 3	
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	-	-	-	-
<i>Impairment allowances (Note 10)</i>	-	-	(29)	(29)
Write-offs	-	-	-	-
Other changes	-	-	-	-
As at 31 December 2020	-	-	1.379	1.379

14. LOANS TO AND RECEIVABLES FROM CLIENTS

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

	31 December 2021	31 December 2020
Corporate	4.364	5.009
Retail	-	-
Current portion of long-term loans	<u>37.907</u>	<u>33.038</u>
	<u>42.271</u>	<u>38.047</u>

Long-term loans (excluding current portion):

Corporate	269.367	243.944
Retail	<u>3.379</u>	<u>3.334</u>
	<u>272.746</u>	<u>247.278</u>
	<u>315.017</u>	<u>285.325</u>
<i>Less: impairment allowance</i>	<u>(38.601)</u>	<u>(36.345)</u>
	<u>276.416</u>	<u>248.980</u>

Loans and receivables include interest receivables, which comprise of unpaid due interest and fees, and accrued interest in the amount of BAM 967 thousand (31 December 2020: BAM 922 thousand), and are presented net of deferred fees in the amount of BAM 840 thousand (31 December 2020: BAM 883 thousand).

Changes in impairment allowance can be presented as follows:

	31 December 2021	31 December 2020
Balance at the beginning of the year	36.345	37.296
Net changes in impairment allowance (Note 10)	2.492	(411)
Write-offs	<u>(236)</u>	<u>(540)</u>
Balance at the end of the year	<u>38.601</u>	<u>36.345</u>

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

Analysis of gross amount of loans before impairment by industry:

	31 December 2021	31 December 2020
<i>Corporate loans</i>		
Manufacturing	99.390	80.098
Real estate and rental business, etc.	339	-
Trade	23.661	19.854
Construction	23.510	35.893
Public administration and defense	111.381	104.820
Agriculture	27.201	25.178
Hospitality	5.726	879
Transportation, storage and communication	14.230	11.836
Financial intermediation	5.372	2.558
	310.810	281.116
<i>Retail loans</i>		
Entrepreneurship	4.141	4.112
Housing loans	66	97
	4.207	4.209
	315.017	285.325

The weighted average nominal and effective interest rates as at 31 December 2021 and 31 December 2020 were as follows:

<i>Corporate loans</i>	31 December 2021		31 December 2020	
	nominal i. r.	effective i. r.	nominal i. r.	effective i. r.
Corporate	2,88%	3,21%	2,93%	3,28%
Retail	3,21%	3,39%	3,22%	3,41%

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

Gross exposure

	31 December 2021					Total	31 December
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3		2020
							Total
Internal rating level							
Performing							
Low risk	220.118	-	-	-	-	220.118	192.429
Medium risk	-	30.624	-	7.018	-	37.642	37.041
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	45.713	-	11.544	57.257	55.855
Total	220.118	30.624	45.713	7.018	11.544	315.017	285.325

	31 December 2020					Total	31
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3		December
							2019
							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

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in gross exposure

	Bank					Total
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3	
Gross carrying amount as at 31 December 2020	192.429	29.544	44.403	7.497	11.452	285.325
New financing	67.499	4.247	-	-	-	71.746
Derecognized assets (excluding write-offs)	(13.111)	(1.320)	(805)	(14)	-	(15.250)
Transfers to Stage 1	274	(254)	(20)	-	-	-
Transfers to Stage 2	(1.092)	1.112	(20)	-	-	-
Transfers to Stage 3	(1.614)	(1.523)	3.137	-	-	-
Transfers to POCI S3	-	-	-	(201)	201	-
Repaid assets	(24.267)	(1.182)	(726)	(264)	(109)	(26.548)
Write-offs	-	-	(256)	-	-	(256)
Exchange rate differences	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As at 31 December 2021	220.118	30.624	45.713	7.018	11.544	315.017

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 2020	4.760	3.077	22.737	682	5.089	36.345
New financing	2.248	262	-	-	-	2.510
Derecognized assets (excluding write-offs)	(403)	(66)	(273)	(1)	-	(743)
Transfers to Stage 1	16	(13)	(3)	-	-	-
Transfers to Stage 2	(44)	47	(3)	-	-	-
Transfers to Stage 3	(34)	(96)	130	-	-	-
Transfers to POCI S3	-	-	-	(10)	10	-
(Decrease) / increase from balance change	(811)	(251)	1.614	(319)	492	725
Write-offs	-	-	(236)	-	-	(236)
Other changes	-	-	-	-	-	-
As at 31 December 2021	5.732	2.960	23.966	352	5.591	38.601
<i>Impairment allowance (Note 10.)</i>	973	(117)	1.465	(330)	501	2.492

	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
<i>Impairment allowance (Note 10.)</i>	<i>1.159</i>	<i>1.215</i>	<i>(2.806)</i>	<i>682</i>	<i>(661)</i>	<i>(411)</i>

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

a) Corporate – credit quality

Gross exposure

	31 December 2021					31 December 2020	
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3	Total	Total
Internal rating level							
Performing							
Low risk	118.428	-	-	-	-	118.428	95.214
Medium risk	-	30.577	-	7.018	-	37.595	36.980
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	44.754	-	11.544	56.298	54.803
Total	118.428	30.577	44.754	7.018	11.544	212.321	186.997

	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

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

a) Corporate – credit quality (CONTINUED)

Movement in gross exposure

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
Gross carrying amount as at 31 December 2020	95.214	29.483	43.351	7.497	11.452	186.997
New financing	54.862	4.247	-	-	-	59.109
Derecognized assets (excluding write-offs)	(13.013)	(1.320)	(786)	(14)	-	(15.133)
Transfers to Stage 1	236	(236)	-	-	-	-
Transfers to Stage 2	(1.060)	1.060	-	-	-	-
Transfers to Stage 3	(1.614)	(1.480)	3.094	-	-	-
Transfers to POCI S3	-	-	-	(201)	201	-
Repaid assets	(16.197)	(1.177)	(654)	(264)	(109)	(18.401)
Write-offs	-	-	(251)	-	-	(251)
As at 31 December 2021	118.428	30.577	44.754	7.018	11.544	212.321

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
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)
Exchange rate differences	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As at 31 December 2020	95.214	29.483	43.351	7.497	11.452	186.997

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

a) Corporate – credit quality (CONTINUED)

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 2020	2.734	3.072	22.213	682	5.089	33.790
New financing	1.994	262	-	-	-	2.256
Derecognized assets (excluding write-offs)	(401)	(66)	(270)	(1)	-	(738)
Transfers to Stage 1	12	(12)	-	-	-	-
Transfers to Stage 2	(41)	41	-	-	-	-
Transfers to Stage 3	(34)	(92)	126	-	-	-
Transfers to POCI S3	-	-	-	(10)	10	-
(Decrease) / increase from balance change	(616)	(255)	1.670	(319)	492	972
Write-offs	-	-	(230)	-	-	(230)
Other changes						
As at 31 December 2021	3.648	2.950	23.509	352	5.591	36.050
<i>Impairment allowance (Note 10)</i>	915	(122)	1.526	(330)	501	2.490

	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
<i>Impairment allowance (Note 10)</i>	613	1.124	(2.938)	682	(661)	(1.090)

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

b) State and public sector – credit quality

Bank	31 December 2021						31
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3	Total	December 2020 Total
Gross exposure							
Internal rating level							
Performing							
Low risk	98.489	-	-	-	-	98.489	94.119
Medium risk	-	-	-	-	-	-	-
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	-	-	-	-	-
Total	98.489	-	-	-	-	98.489	94.119

Bank	31 December 2020						31
	Stage 1	Stage 2	Stage 3	POCI S2	POCI S3	Total	December 2019 Total
Gross exposure							
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

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

**Movement in gross exposure
(CONTINUED)**

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
Gross carrying amount as at 31 December 2020	94.119	-	-	-	-	94.119
New financing	12.140	-	-	-	-	12.140
Derecognized assets (excluding write-offs)	-	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Repaid assets	(7.770)	-	-	-	-	(7.770)
Write-offs	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As at 31 December 2021	98.489	-	-	-	-	98.489

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
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 TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

Movement in impairment allowance (CONTINUED)

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S2	
Impairment allowance for expected credit losses as at 31 December 2020	1.886	-	-	-	-	1.886
New financing	244	-	-	-	-	244
Derecognized assets (excluding write-offs)	-	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
(Decrease) / increase from balance change	(156)	-	-	-	-	(156)
Write-offs	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As at 31 December 2021	1.974	-	-	-	-	1.974
<i>Impairment allowance (Note 10.)</i>	88	-	-	-	-	88

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S2	
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
<i>Impairment allowance (Note 10.)</i>	488	-	-	-	-	488

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality

Gross exposure Internal rating level	Stage 1	Stage 2	Stage 3	Bank 31 December 2021		Total	31 December 2020
				POCI S2	POCI S3		Total
Performing							
Low risk	3.201	-	-	-	-	3.201	3.096
Medium risk	-	47	-	-	-	47	61
High risk	-	-	-	-	-	-	-
Non-performing							
Default	-	-	959	-	-	959	1.052
Total	3.201	47	959	-	-	4.207	4.209

Gross exposure Internal rating level	Stage 1	Stage 2	Stage 3	Bank 31 December 2020		Total	31 December 2019
				POCI S2	POCI S3		Total
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

14. LOANS TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality (CONTINUED)

Movement in gross exposure

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
Gross carrying amount as at 31 December 2020	3.096	61	1.052	-	-	4.209
New financing	497	-	-	-	-	497
Derecognized assets (excluding write-offs)	(98)	-	(19)	-	-	(117)
Transfers to Stage 1	38	(18)	(20)	-	-	-
Transfers to Stage 2	(32)	52	(20)	-	-	-
Transfers to Stage 3	-	(43)	43	-	-	-
Repaid assets	(300)	(5)	(72)	-	-	(377)
Write-offs	-	-	(5)	-	-	(5)
Other changes	-	-	-	-	-	-
As at 31 December 2021	3.201	47	959	-	-	4.207

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
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 TO AND RECEIVABLES FROM CLIENTS (CONTINUED)

c) Retail – credit quality (CONTINUED)

Movement in impairment allowance

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
Impairment allowance for expected credit losses as at 31 December 2020	140	5	524	-	-	669
New financing	10	-	-	-	-	10
Derecognized assets (excluding write-offs)	(2)	-	(3)	-	-	(5)
Transfers to Stage 1	4	(1)	(3)	-	-	-
Transfers to Stage 2	(3)	6	(3)	-	-	-
Transfers to Stage 3	-	(4)	4	-	-	-
(Decrease) / increase from balance change	(39)	4	(56)	-	-	(91)
Write-offs	-	-	(6)	-	-	(6)
Other changes	-	-	-	-	-	-
As at 31 December 2021	110	10	457	-	-	577
<i>Impairment allowance (Note 10.)</i>	(30)	5	(61)	-	-	(86)

	Stage 1	Stage 2	Stage 3	Bank		Total
				POCI S2	POCI S3	
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
<i>Impairment allowance (Note 10.)</i>	58	1	132	-	-	191

15 OTHER ASSETS

	31 December 2021	31 December 2020
Acquired assets	1.523	1.555
Other assets	210	288
Fee receivables	148	-
Long-term deposit based on counter-guarantee insurance	12.338	-
Guarantee fee receivables	364	-
Total gross:	14.583	1.843
Impairment of acquired assets	(1.501)	(1.540)
Impairment of other assets	(179)	(107)
Impairment of counter-guarantee insurance	(370)	-
Impairment of fees	(230)	-
Total impairment:	(2.280)	(1.647)
Total other assets (net)	12.303	196

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 2021	31 December 2020
Balance at the beginning of the year	1.647	1.706
Increase/(decrease) of impairment allowance of acquired assets (Note 10)	39	-
Sale of acquired assets	-	(63)
Increase/(decrease) of impairment allowance of other assets (Note 10)	672	4
Balance at the end of the year	2.280	1.647

16. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture and equipment	Assets with usage right	Total
Cost					
Balance at 1 January 2020	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
Additions	9	-	28	16	53
Disposals and write-offs	-	-	24	18	42
Balance at 31 December 2021	7.837	195	1.709	59	9.800
Accumulated depreciation					
Balance at 1 January 2020	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
Charge for the year	235	-	61	19	315
Disposals and write-offs	-	-	(24)	(18)	(42)
Balance at 31 December 2021	4.064	195	1.600	28	5.887
Net carrying amount					
Balance at 31 December 2021	3.773	-	109	31	3.913
Balance at 31 December 2020	3.999	-	142	34	4.175

17. INTANGIBLE ASSETS

	Leasehold improvements	Software	Total
Cost			
Balance at 1 January 2020	-	1.051	1.051
Additions	-	7	7
Disposals and write-offs	-	-	-
Balance at 31 December 2020	-	1.058	1.058
Additions	-	38	38
Disposals and write-offs	-	-	-
Balance at 31 December 2021	-	1.096	1.096
Accumulated amortization			
Balance at 1 January 2020	-	967	967
Charge for the year	-	33	33
Balance at 31 December 2020	-	1.000	1.000
Charge for the year	-	29	29
Balance at 31 December 2021	-	1.029	1.029
Net carrying amount			
Balance at 31 December 2021	-	67	67
Balance at 31 December 2020	-	58	58

18. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	31 December 2021	31 December 2020
<i>Demand deposits</i>		
Private enterprises	9.775	11.490
Cantonal and municipality governments	30.805	36.661
Retail and entrepreneurs	203	559
Public companies	7.073	6.043
Non-profit organizations	517	887
	<u>48.373</u>	<u>55.640</u>
<i>Purpose deposits</i>		
Government of Federation of Bosnia and Herzegovina	108	1.648
Cantonal and municipality governments	5.566	5.898
Public companies	144	19
Private enterprises	4	-
	<u>5.822</u>	<u>7.565</u>
<i>Term deposits</i>		
<i>In domestic currency</i>		
Government of Federation of Bosnia and Herzegovina – Guarantee fund	100.085	100.000
Government of Federation of Bosnia and Herzegovina (Guarantee deposit)	12.355	4.000
Federal Employment Agency	12.417	12.413
Private enterprises	850	500
	<u>125.707</u>	<u>116.913</u>
<i>In foreign currency</i>		
Government of Federation of Bosnia and Herzegovina – EUR	231	231
	<u>125.938</u>	<u>117.144</u>
Total term deposits	<u>125.938</u>	<u>117.144</u>
Total deposits	<u>180.133</u>	<u>180.349</u>

As at 31 December 2021, current accounts and deposits from customers are stated in the amount of BAM 180.133 thousand.

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

19. BORROWINGS

	31 December 2021	31 December 2020
Government of Federation of Bosnia and Herzegovina – Saudi Fund loan for development, interest rate 2% p.a. with maturity date 31 August 2021	-	398
Government of Federation of Bosnia and Herzegovina – Belgian merchandise loan, interest free with maturity date 31 December 2027	390	456
	390	854

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 2020	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
Increase/(decrease) of provisions (Note 10)	184	(268)	600	67	583
Decrease of provisions (Note 10.)	-	-	(240)	-	(240)
Decrease due to payment	(128)	-	-	(60)	(188)
Balance at 31 December 2021	734	556	600	67	1.957

As at 31 December 2021, the total value of litigation against the Bank amounts to BAM 2.258 thousand. From this total amount, the amount of BAM 1.449 thousand refers to labour disputes against the Bank, and the amount of BAM 809 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 600 thousand, which relate to enforcement judgments based on labor disputes and whose payments are expected in 2022.

Contingent liabilities (off-balance sheet) as at 31 December 2021 and 31 December 2020 were as follows:

	31 December 2021	31 December 2020
Performance guarantees	32.613	19.567
Undrawn lending commitments	5.984	24.190
Advance and payment guarantees	874	903
	39.471	44.660

21. OTHER LIABILITIES

	31 December 2021	31 December 2020
Liabilities from commission affairs (Note 24)	4.987	6.538
Deferred income	1.147	1.155
Accrued expenses	1	1
Trade payables	91	54
Other	32	87
	<u>6.258</u>	<u>7.835</u>

22. REGISTERED CAPITAL

	%	31 December 2021	%	31 December 2020
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 2021, 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 2021, balances resulting from related party transactions include the following:

BAM 000	Type of relation	31 December 2021		31 December 2020	
		Receivables	Liabilities	Receivables	Liabilities
Government of Federation of Bosnia and Herzegovina	Owner	-	114.758	-	107.279
Public institutions	Joint owner	24	15.819	31	18.405
Companies in majority ownership of the Government of FBiH	Joint owner	64.387	6.989	59.825	6.036
		<u>64.411</u>	<u>137.566</u>	<u>59.856</u>	<u>131.720</u>

23. RELATED PARTY TRANSACTIONS (CONTINUED)

BAM 000	Type of relation	2021		2020	
		Revenue	Expenses	Revenue	Expenses
Government of Federation of Bosnia and Herzegovina	Owner	1.078	6	904	66
Public institutions	Joint owner	347	-	367	-
Companies in majority ownership of the Government of FBiH	Joint owner	3.270	1.989	2.050	1.590
		4.695	1.995	3.321	1.656

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 2021 and 31 December 2020:

	2021	2020
Gross salaries and other benefits	743	827
Supervisory Board members' remunerations	98	80
Other benefits	54	62
	895	969

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 2021	31 December 2020
INVESTMENTS		
<i>Per projects:</i>		
Water supply and gas supply	29.726	31.746
Production and processing	41.476	42.241
Health and education	27.372	27.569
Agriculture	36.337	36.025
Incentive in employment	9.047	9.070
Road construction and transport	342	739
Forestry	339	339
Other	4.344	2.684
Total investments per projects:	148.983	150.413

24. COMMISSION AFFAIRS (CONTINUED)

	31 December 2021	31 December 2020
Receivables for accrued interest and fees	11.221	11.458
Total	160.204	161.871
SOURCES		
Government of the Federation of Bosnia and Herzegovina	144.285	147.258
Federal Employment Bureau	9.047	9.070
Other	56	61
Total sources:	153.388	156.389
Liabilities from accrued interest and fees	11.803	12.020
Total	165.191	168.409
Current liabilities from commission affairs (Note 21)	4.987	6.538

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 Classification in accordance with the regulation 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 Classification in accordance with the regulation 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.

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.

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 or 2.

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.

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)

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.

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 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;
- classification in accordance with the regulation 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.

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

	Maximum credit exposure			Fair value of collateral
	Net exposure	Contingent liabilities / guarantees	Total	
31 December 2021				
Cash and cash equivalents	47.525	-	47.525	-
Obligatory reserve with the Central Bank	18.377	-	18.377	-
Loans to and receivables from clients	276.416	39.471	315.887	313.500
	342.318	39.471	381.789	313.500
31 December 2020				
Cash and cash equivalents	89.626	-	89.626	-
Obligatory reserve with the Central Bank	17.438	-	17.438	-
Loans to and receivables from clients	248.980	44.660	293.640	279.727
	356.044	44.660	400.704	279.727

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (CONTINUED)

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 2021 and 31 December 2020, 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.

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 2021	31 December 2020
Gross restructured loans	51.815	47.725
Less: impairment allowance	<u>(15.313)</u>	<u>(14.330)</u>
	<u>36.502</u>	<u>33.395</u>

25.1.1 Credit risk management and policy provisions and impairment

Division of loans according to the 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;

Development Bank of Federation of Bosnia and Herzegovina

Notes to the financial statements

for the year ended 31 December 2021

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

- 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:

	31 December 2021	31 December 2020
Banks		
Loans with high risk level	1.379	1.379
Gross exposure	1.379	1.379
Less: impairment allowance	(1.379)	(1.379)
Net exposure	-	-
Corporate		
Loans with low risk level (performing loans)	216.917	189.333
Loans with medium risk level (performing loans)	30.577	29.483
Loans with low risk level (non-performing loans)	44.754	43.351
Gross exposure	292.248	262.167
Less: impairment allowance	(32.081)	(29.905)
Net exposure	260.167	232.262
Gross exposure – POCI S2	7.018	7.497
Gross exposure – POCI S3	11.544	11.452
Less: Impairment allowance	(5.943)	(5.771)
Net exposure	272.786	245.440
Retail		
Loans with low risk level (performing loans)	3.201	3.096
Loans with medium risk level (performing loans)	47	61
Loans with low risk level (non-performing loans)	959	1.052
Gross exposure	4.207	4.209
Less: impairment allowance	(577)	(669)
Net exposure	3.630	3.540
Total gross exposure	316.396	286.704
Portfolio impairment allowance (12-month ECL)	(5.732)	(4.760)
Portfolio impairment allowance (lifetime ECL)	(3.312)	(3.759)
Individual impairment allowances	(30.936)	(29.205)
Net exposure	276.416	248.980

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 2021					
Gross exposure	-	216.917	3.201	220.118	
Impairment	-	(5.622)	(110)	(5.732)	
Net	-	211.295	3.091	214.386	
<i>Impairment rate</i>	-	3%	3%	3%	
<i>Exposure share in total loans</i>	-	74%	76%	70%	
Estimated value of collateral as at 31 December 2021					
	Banks	Corporate	Retail	POCI	Total
Deposits	-	11.554	-	-	11.554
Mortgages	-	258.361	9.461	-	267.822
Total	-	269.915	9.461	-	279.376
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	
<i>Impairment rate</i>	-	2%	5%	3%	
<i>Exposure share in total loans</i>	-	72%	74%	67%	
Estimated value of collateral as at 31 December 2020					
	Banks	Corporate	Retail	POCI	Total
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)

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 2021					
Gross exposure	-	30.577	47	7.018	37.642
Impairment	-	(2.950)	(10)	(352)	(3.312)
Net	-	27.627	37	6.666	34.330
<i>Impairment rate</i>	-	10%	21%	5%	9%
<i>Exposure share in total loans</i>	-	10%	1%	38%	12%

	Banks	Corporate	Retail	POCI	Total
Estimated value of collateral as at 31 December 2021					
Deposits	-	-	-	-	-
Mortgages	-	100.185	98	24.181	124.464
Total	-	100.185	98	24.181	124.464

	Banks	Corporate	Retail	POCI S2	Total
31 December 2020					
Gross exposure (overdue loans)	-	29.483	61	7.497	37.041
Impairment	-	(3.072)	(5)	(682)	(3.759)
Net	-	26.411	56	6.815	33.282
<i>Impairment rate</i>	-	10%	8%	9%	10%
<i>Exposure share in total loans</i>	-	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)

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 2021					
Gross exposure	1.379	44.754	959	11.544	58.636
Impairment	(1.379)	(23.509)	(457)	(5.591)	(30.936)
Net	-	21.245	502	5.953	27.700
<i>Impairment rate</i>	100%	53%	48%	48%	53%
<i>Exposure share in total loans</i>	100%	15%	23%	62%	18%
Estimated value of collateral as at 31 December 2021					
Deposits	-	-	-	-	-
Mortgages	-	82.720	3.168	27.403	113.291
Total	-	82.720	3.168	27.403	113.291
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
<i>Impairment rate</i>	100%	51%	50%	44%	51%
<i>Exposure share in total loans</i>	100%	17%	25%	61%	20%
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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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

As at 31 December 2021	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	47.525	-	-	-	-	47.525
Obligatory reserve with the Central Bank	18.377	-	-	-	-	18.377
Loans to and receivables from clients	19.989	8.387	34.649	134.574	78.817	276.416
Other assets	335	-	-	11.968	-	12.303
Property, equipment and intangible assets	-	-	-	-	3.980	3.980
Total assets	86.226	8.387	34.649	146.542	82.797	358.601
Liabilities and equity						
Current accounts and deposits from customers	54.195	500	1.969	10.386	113.083	180.133
Borrowings	-	-	65	260	65	390
Provisions for liabilities and charges	250	225	715	384	383	1.957
Other liabilities	5.143	-	124	415	576	6.258
Registered capital and reserves	-	-	-	-	169.863	169.863
Total liabilities and equity	59.588	725	2.873	11.445	283.970	358.601
Liquidity gap	26.638	7.662	31.776	135.097	(201.173)	-

25. FINANCIAL RISK MANAGEMENT (CONTINUED)**25.2 Liquidity risk (CONTINUED)**

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 to 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)

25.3 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)

25.3.1 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 2021. The tables include the Bank's assets and liabilities at carrying amounts categorized by currency.

31 December 2021	BAM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	33.356	10.749	3.420	-	47.525
Obligatory reserve with the Central Bank	18.377	-	-	-	18.377
Loans to and receivables from clients	276.416	-	-	-	276.416
Other assets	334	1	11.968	-	12.303
Property, equipment and intangible assets	3.980	-	-	-	3.980
Total assets	332.463	10.750	15.388	-	358.601
Liabilities and equity					
Current accounts and deposits from customers	179.902	231	-	-	180.133
Borrowings	-	390	-	-	390
Provisions for liabilities and charges	1.957	-	-	-	1.957
Other liabilities	6.254	4	-	-	6.258
Registered capital and reserves	169.863	-	-	-	169.863
Total liabilities and equity	357.976	625	-	-	358.601
Net foreign exchange position	(25.513)	10.125	15.388	-	-

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (CONTINUED)

25.3.1 Foreign currency risk (CONTINUED)

31 December 2020	BAM	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 to 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)	-	-

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since 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 2021	31 December 2020
Loss	(1.539)	(21)

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 2021	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	47.525	-	-	-	-	-	47.525	-	-
Obligatory reserve with the Central Bank	18.377	-	-	-	-	-	18.377	-	-
Loans to and receivables from clients	-	19.989	8.387	34.649	134.574	78.817	276.416	275.943	3,27%
Other assets	12.303	-	-	-	-	-	12.303	-	-
Property, equipment and intangible assets	3.980	-	-	-	-	-	3.980	-	-
Total assets	82.185	19.989	8.387	34.649	134.574	78.817	358.601	275.943	-
Liabilities and equity									
Current accounts and deposits from customers	180.133	-	-	-	-	-	180.133	-	-
Borrowings	390	-	-	-	-	-	390	-	-
Provisions for liabilities and charges	1.957	-	-	-	-	-	1.957	-	-
Other liabilities	6.258	-	-	-	-	-	6.258	-	-
Registered capital and reserves	169.863	-	-	-	-	-	169.863	-	-
Total liabilities and equity	358.601	-	-	-	-	-	358.601	-	-
Interest rate risk	-	19.989	8.387	34.649	134.574	78.817	-	275.943	-

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (CONTINUED)

25.3.2. Interest rate risk (CONTINUED)

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 to 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)

25.4. 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 2021, the Bank was in line with all regulatory capital requirements and in accordance with local regulations achieved a capital adequacy ratio of 52,1% (31 December 2020: 58,1%).

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 to reflect the volatility of potential losses.

The table below shows the structure of regulatory capital and capital adequacy indicators as at 31 December 2021 and 31 December 2020, taken from the calculation submitted to the Agency for the periods then ending (information on risk weighted assets is not audited):

	2021 BAM 000	2020 000 BAM
Core Capital		
Share capital	163.615	163.615
Reserves	6.018	5.298
Intangible assets	(67)	(58)
Total core capital	169.566	168.855
Supplementary Capital		
General reserves – Agency regulations	3.637	3.278
Audited profit for the year	-	-
Total supplementary capital	3.637	3.278
Adjustment for missing regulatory reserves	(21.538)	(19.735)
Net Capital	151.665	152.398
Risk weighted assets (unaudited) *	279.491	250.181
Other weighted assets (unaudited) *	11.445	12.029
Total weighted risk assets	290.936	262.210
Capital adequacy ratio (%)	52,1%	58,1%

* The risk weighted asset amounts in the table above were calculated in accordance with the Banking Agency regulations, that is in accordance with the regulation.

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 2021 is not included in the calculation of capital adequacy as at 31 December 2021, 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 2021 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 28 March 2022.

Signed on behalf of the Management Board:



Doc. dr. sc. Mersiha Slipičević, dipl. oec.
Acting President of the Management Board

