Intesa Sanpaolo Banka d.d. Bosna i Hercegovina

Financial Statements as at 31 December 2021

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

Contents

The Management Board has pleasure in submitting its report for the year ended 31 December 2021.

Review of operations

The result for the year ended 31 December 2021 of the Bank is set out in the statement of profit or loss and other comprehensive income on page 9.

Supervisory Board, Management Board and Audit Committee

During the course of 2021 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board

Alessio Cioni	Chairman
Matija Birov	Vice-Chairman
Miroslav Halužan	Member
Gianluca Tiani	Member
Andrea Fazzolari	Member
Alden Bajgorić	Independent member
Massimo Lanza	Independent member

During the course of 2021 and up to the date of this report, the Audit Committee comprised:

Audit Committee

Andrea Nani	Chairman, from 27.07.2021
Ana Jadrešić	Member
Jadranko Grbelja	Member
Dražen Karakašić	Permanent invitee person
Salvatore Giuliano	Permanent invitee person
James Vason	Permanent invitee person, from 27.07.2021
Stefano Bruschi	Chairman, until 26.07.2021
Daniele Davini	Permanent invitee person, until 26.07.2021

As of 31 December 2021, the Management Board comprised a President and four Members, who served during the year and up to the date of this report as follows:

Management Board

Marco Trevisan	President of the Management Board, from 06.01.2021 (from 10.06.2021. responsible person for Retail Division)
Edin Izmirlija	Management Board Member and Head of Risk Management and Controlling Division
Stefano Borsari	Management Board Member and Chief Financial Officer
Alek Bakalović	Management Board Member and Head of Corporate & SME Division
Almir Krkalić	President of the Management Board, until 05.01.2021
Amir Termiz	Management Board Member and Head of Retail Division, until 10.06.2021

On behalf of the Management Board

Marco Trevisan

President of the Management Board

Stefano Borsari

Member of the Management Board

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

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

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

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

The financial statements set out on pages 9 to 95 were authorised by the Management Board on 15 February 2022 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

For and on behalf of Management Board

Marco Trevisan
President of the Management Board

Stefano Borsari
Member of the Management Board

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

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Independent auditor's report

To the Shareholders of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (the Bank), which comprise the statement of financial position as at 31 December 2021, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the allowance for the expected credit losses

The carrying amount of loans to customers amounts to BAM 1,593,375 thousand (or 64% of total assets) as at 31 December 2021. As described in Note 5.1 Financial risk management - Credit risk. The allowances for expected credit losses are determined under application of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

This is a key audit matter as significant judgement is involved to determine the expected credit losses, on an individual and collective basis.

Key areas of judgement include the interpretation of requirements to determine impairment under application of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors as well as evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment, as disclosed in Note 5.1 Financial risk management - Credit risk. The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas, such as impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization.

Additionally, the Bank is obliged to observe regulatory requirements regarding credit risk prescribed by Banking Agency of Federation of Bosnia and Herzegovina and adjust internal IFRS 9 calculations under expected credit loss models to be in line with these requirements. COVID-19 pandemic also affected the estimate due to given moratoriums and impact of COVID-19 on business performance of debtors in the current year. Uncertainty around those factors along with uncertain economic outlook resulted in more complex assessment of this effect onto the expected credit loss model.

We understood the processes and evaluated the design and operating effectiveness of related controls for collective impairment within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modelling and review of macroeconomic model, as well as IT experts for testing of effectiveness of IT application used for the expected credit losses calculation.

We assessed the modelling techniques and methodology against the requirements of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina and also the appropriateness of significant assumptions used in the models for calculating the expected credit losses. Also, we assessed if the Bank is compliant with regulatory requirements regarding expected credit losses calculation.

We examined a sample of loan exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and, classification of instruments in stages according to Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred to assess whether impairment events had been identified by management.
Our procedures included reassessment of the creditworthiness of clients, and review of input parameters such as probability of default, days past due, early warning system, watch list, or restructuring, as well as COVID-19 impact on those parameters. We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

For individually impaired loans, our procedures included assessing the identification of loss events and testing of assumptions used in the models on a sample basis. For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the loan loss provisions and considered whether key judgments were appropriate given the borrowers' circumstances.

Building a better working world

Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the expected credit losses

For further information, refer to Note 3z) Financial assets and liabilities and Note 5.1 Financial risk management - Credit risk of the accompanying financial statements.

In addition, we tested key inputs to the impairment calculation including the expected future cash flows and their timing and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines. We also re-performed management's impairment calculation for individually assessed loans for mathematical accuracy.

We also examined a sample of loan exposures that were approved for temporary and/or special measures in accordance decision of Banking agency of Federation of Bosnia and Herzegovina, as well as clients from industries highly affected by COVID 19 pandemic and evaluated if there are triggers for significant increase in credit risk (SICR) or default which may require client reclassification to stage 2 or stage 3. We assessed if approved measures are adequate to the current client's creditworthiness. We engaged risk modelling specialists to review forward looking information and input parameters used and to assess if COVID-19 impact was adequately reflected on probability of default and forward-looking information.

We assessed the adequacy of the disclosures included in Note 3 z) Financial assets and liabilities and Note 5.1 Financial risk management - Credit risk of the accompanying financial statements.

Other matter

The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 15 February 2021.

Other information included in the Bank's annual business report

Other information consists of the information included in the Annual Business Report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the Law on accounting and auditing in Federation of Bosnia and Herzegovina. Our opinion on the financial statements does not cover the Other information and we do not express any form of assurance conclusion 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. We have nothing to report in this regard.

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Independent auditor's report *(continued)*

Responsibilities of Management and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina and for such internal control as 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, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Audit Committee 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

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

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

We provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Nikola Ribar.

Sarajevo, 15 February 2022

DRUŠTVO ZA REVIZIJU ERNST & YOUNG SARAJEVO, d.o.o.

Danijela Mirković,
Procurist

Dženita Kadrić
Dženita Kadrić,
Authorized auditor

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71000 Sarajevo
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(all amounts are expressed in thousands of BAM, unless otherwise stated)

	Notes	**2021**	**2020**
Interest income	*8*	73,315	74,039
Interest expense	*9*	(10,011)	(11,856)
Net interest income		**63,304**	**62,183**
Fee and commission income	*10*	34,530	30,566
Fee and commission expense	*11*	(7,952)	(6,202)
Net fee and commission income		**26,578**	**24,364**
Net trading income	*12*	2,513	2,376
Other operating income/(expense)	*13*	(6,767)	(8,215)
Other operating expenses, net		**(4,254)**	**(5,839)**
Total operating income, net		**85,628**	**80,708**
Personnel expenses	*14*	(22,895)	(21,338)
Administrative expenses	*15*	(16,997)	(15,993)
Depreciation and amortisation	*25, 26*	(5,699)	(5,673)
Operating expenses		**(45,591)**	**(43,004)**
Profit before impairment losses and other provisions and income tax		**40,037**	**37,704**
Net impairment gains/(losses) and other provisions	*16*	(5,726)	(16,476)
Profit before tax		**34,311**	**21,228**
Income tax expense	*17*	(3,619)	(2,983)
Net profit for the year		**30,692**	**18,245**

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

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

		2021	2020
Profit for the year		**30,692**	**18,245**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Net loss from change in fair value of financial assets through other comprehensive income (Note 22.a)		(1,657)	1,511
Items that will not be reclassified to profit or loss			
Net gain from change in Fair Value of Property (Note 25)		**-**	1,208
Other comprehensive (expense)/income		**(1,657)**	**2,719**
Total comprehensive income for the year		**29,035**	**20,964**
Basic and diluted earnings per share (BAM)	*18*	**68.55**	**41.15**

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

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

	Notes	**31 December 2021**	**31 December 2020**
Assets			
Cash and cash equivalents	*19*	572,868	458,909
Reserves with Central Bank	*20*	196,884	190,280
Placements with other banks	*21*	2	29
Financial assets at fair value through other comprehensive income	*22 a)*	78,723	55,146
Financial assets at fair value through profit or loss	*22 b)*	305	467
Financial assets at amortized cost	*22 c)*	6,105	5,832
Loans and receivables from customers	*23*	1,593,375	1,578,987
Income tax prepayment		3,692	5,005
Deferred tax assets	*31*	451	329
Other assets	*24*	7,359	5,905
Property, equipment and right of use assets	*25*	23,417	25,694
Intangible assets	*26*	2,489	3,667
Total assets		**2,485,670**	**2,330,528**
Liabilities			
Due to banks and other financial institutions	*27*	393,566	387,529
Due to customers	*28*	1,706,238	1,572,713
Lease liability	*25*	10,717	11,899
Financial liabilities at fair value through profit or loss	*22 c)*	7	106
Other liabilities	*29*	33,308	31,450
Provisions for liabilities and charges	*30*	6,325	5,589
Deferred tax liabilities	*31*	54	68
Total liabilities		**2,150,215**	**2,009,354**
Equity			
Share capital	*32*	44,782	44,782
Share premium		57,415	57,415
Other reserves and fair value reserves		2,209	3,866
Retained earnings		231,049	214,833
Total equity		**335,455**	**320,896**
Total liabilities and equity		**2,485,670**	**2,330,250**

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

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

	Issued share capital	*Share premium*	*Other reserves*	*Fair value reserves on Property*	*Fair value reserves on Assets at FVOCI*	*Retained earnings*	*TOTAL*
Balance as at 1 January 2021	**44,782**	**57,415**	**614**	**1,701**	**1,551**	**214,833**	**320,896**
General Assembly Decision – dividend payment	-	-	-	-	-	(15,000)	(15,000)
Correction of Income Tax for 2020	-	-	-	-	-	524	524
Net profit for the year	-	-	-	-	-	30,692	30,692
Other comprehensive income							
Net loss from change in fair value of financial assets through other comprehensive income (Note 22.a)	-	-	-	-	(1,657)	-	(1,657)
Total other comprehensive income	-	-	-	-	**(1,657)**	-	**(1,657)**
Total comprehensive income	-	-	-	-	**(1,657)**	**30,692**	**29,035**
Balance as at 31 December 2021	**44,782**	**57,415**	**614**	**1,701**	**(106)**	**231,049**	**335,455**

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

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

	Issued share capital	*Share premium*	*Regulatory reserves for credit losses*	*Other reserves*	*Fair value reserves on Property*	*Fair value reserves on Assets at FVOCI*	*Retained earnings*	*TOTAL*
Balance as at 1 January 2020	**44,782**	**57,415**	**18,286**	**980**	**493**	**40**	**187,538**	**309,534**
First Time adoption of FBA new standards	-	-	-	-	-	-	**(7,773)**	**(7,773)**
								301,761
General Assembly Decision	-	-	(18,286)	(366)	-	-	16,823	(1,829)
Net profit for the year	-	-	-	-	-	-	18,245	18,245
Other comprehensive income								
Net loss from change in fair value of financial assets through other comprehensive income	-	-	-	-	-	1,511	-	1,511
Net gain from change in Fair Value of Property (Note 25)	-	-	-	-	1,208	-	-	1,208
Total other comprehensive income	-	-	-	-	1,208	1,511	-	2,719
Total comprehensive income	-	-	-	-	**1,208**	**1,511**	**18,245**	**20,964**
Balance as at 31 December 2020	**44,782**	**57,415**	-	**614**	**1,701**	**1,551**	**214,833**	**320,896**

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

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

	Notes	**31 December 2021**	**31 December 2020**
Cash flows from operating activities			
Profit before tax		34,311	21,228
Adjustments for:			
- depreciation and amortisation	*25, 26*	5,699	5,673
- net impairment losses and provisions	*16*	5,726	16,476
- net change in provisions for liabilities and charges	*30*	908	168
- net change in fair value of financial assets and liabilities at fair value through profit or loss	*12*	(62)	(186)
Net charge to profit or loss statement, property	*13*	-	1,021
- other comprehensive income		906	(1,208)
		47,488	43,172
Changes in:			
- placements with other banks		(54)	67
- loans and receivables from customers		(21,032)	(13,054)
- other assets		(1,549)	2,354
- obligatory reserve with the Central Bank		(6,610)	1,232
- financial assets and liabilities at fair value through profit or loss		125	41
- due to banks		(63,056)	(94,983)
- due to customers		132,343	65,288
- other liabilities		4,817	5,464
- provisions for liabilities and charges	*30*	(212)	113
- Income tax paid		(1,919)	(6,458)
Net cash from operating activities		**90,341**	**3,236**
Cash flows from investing activities			
Acquisition of property and equipment		(893)	(1,885)
Proceeds from the sale of property and equipment		117	-
Acquisition of intangible assets		(290)	(472)
Proceeds from financial assets at fair value through other comprehensive income		(25,389)	(53,757)
Net cash from investing activities		**(26,455)**	**(56,114)**
Cash flows from financing activities			
Net proceeds from borrowings		69,093	15,698
Lease outflow		(4,020)	(3,663)
Paid dividends		(15,000)	-
Net cash flow used in financing activities		**50,073**	**12,035**
Net increase in cash and cash equivalents		**113,959**	**(40,843)**
Cash and cash equivalents at the beginning of the year	*19*	**458,909**	**499,752**
Cash and cash equivalents at the end of the year	*19*	**572,868**	**458,909**
Additional information on operational cash flow from interest and dividends			
Interest received		72,733	72,704
Interest paid		9,125	-12,454
Dividend received		15	-

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

1. GENERAL

Incorporation and registered activities

Intesa Sanpaolo Banka d.d. Bosna i Hercegovina ("the Bank") was registered in the Cantonal Court in Sarajevo on 20 October 2000. Its registered address is Obala Kulina Bana 9a in Sarajevo.

The Bank's main operations are as follows:

1. Accepting deposits from the public,
2. Granting short-term and long-term loans and guarantees to corporate customers, private individuals, local municipalities and other credit institutions,
3. Money market activities,
4. Performing local and international payments,
5. Foreign currency exchange and other banking-related activities,
6. Providing banking services through an extensive branch network in Bosnia and Herzegovina.

2. BASIS OF PREPARATION

Basis of accounting

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

- Law on Accounting and Auditing of FBiH determines the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previous mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.
- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the "Decision"), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: "Financial instruments "(" IFRS 9 "). The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS).

In accordance with the provisions of the Decision, the Bank formed higher value credit allowances for credit losses in the amount of 8,603 thousand BAM as of December 31, 2021 (7,350 thousand BAM as of December 2020) in relation to the amount obtained by calculation resulting from the Bank's internal model, as it is required by IFRS 9. This difference is due to the following reasons:

• application of the minimal expected credit losses threshold determined in Article 23. of the Decision for level exposures credit risk 1 - difference in the amount of 3,094 thousand BAM as of December 31, 2021 (1,987 thousand BAM, as of December 2020)

• application of the minimal expected credit losses rates determined in Article 24. of the Decision for level exposures credit risk 2 - difference in the amount of 184 thousand BAM as of December 31, 2020 (114 thousand BAM, as of December 2020)

• application of the minimal expected credit losses rates prescribed in Article 25. of the Decision for level exposures credit risk 3 (non-performing assets) - the difference in the amount of 5,198 thousand BAM as of December 31, 2021, out of which the amount of 3,122 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,076 thousand BAM on exposures which are secured by acceptable collateral (5,106 thousand BAM as of December 2020, of which the amount of 2,690 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,426 thousand BAM on exposures which are provided with acceptable collateral).

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

2. BASIS OF PREPARATION (CONTINUED)

Basis of accounting (Continued)

• application of the minimum rates of expected credit losses rates determined in Article 26. of the Decision on receivables, receivables based on factoring and financial leasing and other receivables - difference in the amount of 126 thousand BAM as of December 31, 2021 (142 thousand BAM as of December 2020).

- Write-off of exposures to off-balance after the bank recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due in the total amount of BAM 4,124 thousand.

In accordance with Article 32 of the Decision, the banks are obliged, if not sell repossessed / acquired material property more than three years from acquisition date, to evaluate value to 1 KM.

As presented below, the Bank formed impairments before new regulation, and for all assets acquired before three years already built impairments, so no impact of new regulation was recorded.

Aquired material property	2021			2020		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Assets which has been acquired in the last three years	0	0	**0**	77	77	**0**
Assets which was acquired over a period of more than three years	29	29	**0**	196	196	**0**
Total	**29**	**29**	**0**	**273**	**273**	**0**

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

	31.12.2020 IFRS	**Effects of FBA Decision 31.12.2020**	**31.12.2020**
Assets	(66,798)	(73,735)	(6,937)
Liabilities	1,851	2,264	413
Equity	(68,949)	(75,999)	(7,350)

	31.12.2021 IFRS	**Effects of FBA Decision 31.12.2021**	**31.12.2021**
Assets	(69,125)	(77,239)	(8,114)
Liabilities	1,815	2,304	489
Equity	(70,940)	(79,543)	(8,603)
		Financial result before tax for the year ended 31.12.2021 if IFRS methodology is used would be higher by	**1,253**

**Note: a positive figure represents an increase in value, and a negative one a decrease in value*

These financial statements were authorised by the Management Board on 14 February 2022 for submission to the Supervisory Board.

2.BASIS OF PREPARATION (CONTINUED)

Basis of accounting *(Continued)*

a) Functional and presentation currency

These financial statements are presented in thousands of convertible marks ('000 BAM) which is the functional currency of the Bank.

b) The concept of going concern

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

c) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Results actually recorded upon settlement of transactions which were initially subject to estimates may eventually differ from those estimates.

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

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

3. SUMMARY OF ACCOUNTING POLICIES

(a) Foreign currency transactions

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

The Bank values its assets and liabilities at the middle rate of the Central Bank of Bosnia and Herzegovina valid at the reporting date. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

31 December 2020	EUR 1= BAM 1.95583	USD 1 = BAM 1. 59257
31 December 2021	EUR 1= BAM 1.95583	USD 1 = BAM 1.72563

(b) Net trading income

Net trading income comprises net gains and losses from foreign exchange trading, net gains and losses on financial instruments at fair value through profit or loss, and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date.

(c) Lease payments

At inception of contract, the Bank assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. The Bank recognizes a right-of use asset and lease liability at the lease commencement date. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise of following: fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(c) Lease payments *(continued)*

The Bank presents right-of-use assets in "Property, equipment and right-of-use assets" Note 25.

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(d) Income tax expense

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the profit or loss statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date and any adjustments to tax payable in respect of previous years.

The amount of deferred tax is calculated using the balance sheet liability method whilst considering the temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets and liabilities are recognized using the tax rates that are expected to apply on taxable income in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable future profits will be available against which the deferred tax assets can be utilized. At each reporting date the Bank reassesses unrecognized potential deferred tax assets and the carrying amount of recognized deferred tax assets for indications of potential impairment.

(e) Property and equipment

Recognition and measurement

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

Buildings are recognized at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognized in the asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognized against the asset revaluation reserve. All other decreases in carrying amounts are recognized as a loss in the statement of comprehensive income.

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

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated.

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Property and equipment

The depreciation rates used by the Bank are as follows:

	2021	**2020**
Computers	20%	20%
Furniture and equipment	10%-15%	10%-15%
Business premises	5%	5%
Leasehold improvements	20%	20%

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

(f) Intangible assets

Intangible assets are recognized 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 amortization rates used by the Bank were applied consistently in 2021 and 2020:

Intangible assets – licenses	10% - 33.33 %
Intangible assets – software	20%

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

(g) Assets repossessed from disbursement of loans

The Bank may recover assets that were originally received as collateral for the loan after exercising contractual rights or undertaking specific legal actions. When both of the following conditions are satisfied, the relevant assets shall be included in the Bank's balance sheet:

- The recovery activity has been completed
- The Bank has become owner of the asset

Classification and measurement of these assets depend on the scope for holding the property. More specifically, the asset may be classified according to IAS 16 (if the assets become instrumental), IAS 40 (if the property is held to earn rentals or for capital appreciation), IAS 2 (when the property has been acquired, in the ordinary course of business, exclusively with the intent to dispose of the asset in the reasonably short period of time). Classification under IFRS 5 is also possible when the conditions are met.

Following their initial recognition in the balance sheet at their fair value, the repossessed assets classified according to IAS 16, excluding property assets, shall be measured at cost (amortized and periodically tested for impairment). Repossessed property assets, such as functional property and valuable art collections (governed by IAS 16) and Investment property (governed by IAS 40) will be subsequently measured according to the revaluation model and fair value model respectively. Assets classified under IAS 2 shall be measured at the lower between cost and the net realizable value and shall not be amortized but only subject to the impairment test.

In accordance with Banking Regulatory Agency's Decision, assets repossessed from disbursement of loans should be registered at lower of following values:

a) Net carrying value of loan receivable. In addition in circumstances where carrying value of loan receivables is equal to the expected credit loss provisions, the Bank shall recognize repossessed assets in value of 1 BAM.

b) Estimated fair value, decreased for expected costs of sale, estimated by independent valuator.

According to the regulatory requirements, in the case that the bank fails to sell the repossessed assets within three years from the date of their initial recognition in the bank's books, it shall reduce their value to BAM 1.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(h) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date 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 profit or loss statement.

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 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 profit or loss statement in the period in which the salary expense is incurred.

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss statement as incurred.

Long-term employee benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees' retirement severance benefits upon retirement in an amount representing three times the average salary of the respective employee in the period of the last three months.

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.

Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued by the ultimate parent company. The Bank accounts for share-based payments as a cash-settled transaction.

The fair value of the amount payable to employees in respect of the ultimate parent company shares to be given to the employees is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payments. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a personnel expense in the profit or loss statement.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(k) Provisions for liabilities and charges

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

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

(l) Equity

Issued share capital

Issued share capital comprises ordinary and preference shares and is stated in BAM at nominal value.

Regulatory reserve for credit losses

Changes in regulation for Regulatory reserve for credit losses are explained in Note 4.*Retained earnings.*

Retained earnings represent the accumulation of net profits after appropriations to owners and other transfers, such as transfers to regulatory reserves as described above.

Fair value reserve

The fair value reserve comprises changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax.

Other reserves

Other reserves mainly relate to accumulated appropriations from retained earnings in accordance with the shareholder's decisions.

Dividends

Dividends on ordinary shares and preference shares are recognized as a liability until payment to beneficiaries in the period in which they are approved by the Bank's shareholders.

(m) Off-balance sheet commitments and contingent liabilities

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

(n) Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services rendered the Bank charges a fee.

(o) Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. A geographical segment is engaged in providing products or services within a particular economic environment distinguished from other segments engaged in providing products or services within other economic environments.

The Bank has identified 3 primary business segments: Retail, Corporate and Treasury. The primary segmental information is based on the Bank's internal reporting structure by business segment. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(v) Interest income and expense

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(w) 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, comprise mainly fees related to credit card transactions, the issuance of guarantees and letters of credit, domestic and foreign payment transactions and other services and are recognized in the profit or loss statement upon performance of the relevant service.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer’s account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer’s account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

A contract with a customer that results in a recognized financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

(x) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and, from 01 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(y) Dividend income

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities

1. Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2. Classification and subsequent measurement

Financial assets

The Bank classifies its financial assets in the following measurement categories:

- Financial assets measured at amortised cost
- Financial assets measured through other comprehensive income
- Financial assets at fair value through profit or loss

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables.

Classification and subsequent measurement of debt instruments depend on:

(i) The purpose of managing financial assets (business model)

(ii) The contractual characteristics of cash flows (Solely Payments of Principle and Interest, further “SPPI test” or “SPPI”)

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

- **Financial assets measured at amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 3(w)(6). Interest income from these financial assets is included in “Interest income” using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables occur when the Bank grants cash to customers without the intent to trade these receivables and includes placements and loans to banks, given loans and receivables from customers and assets with the Central Bank.

- **Financial assets measured through other comprehensive income**

Fair value through other comprehensive income (FVOCI) financial assets, that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in “Net trading income”. Interest income from these financial assets is included in “Interest income” using the effective interest rate method.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

2. Classification and subsequent measurement *(continued)*

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

Financial assets at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition.

The Bank designates financial assets at fair value through profit or loss when:

- the assets are managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include derivative financial instruments classified as financial instruments held for trading and equity instruments designated by management at fair value through profit or loss.

Purpose of managing financial assets (Business model)

The business model reflects how the Bank manages the assets in order to generate cash flows.

Business models of the Bank are:

- Business model whose objective is to hold assets for the collection of contractual cash flows - it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument. For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
  - Deposits with banks,
  - Loans,
  - Other receivables.

Credit risk is the underlying risk that is managed under this business model.

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.
  The following financial assets are allocated to the business model for collection and sale:
  - Debt securities (pass SPPI test),
  - Equity securities (fail SPPI test),

Liquidity risk is the underlying risk that is managed under this business model.

- The business model within which financial assets are measured at fair value through profit and loss - combines all financial assets that are not held under the two previously mentioned business models. Financial assets in this business model are managed in order to realize cash flows by selling assets and making short-term profits.

Contractual cash flow characteristics (SPPI)

Test of features of contractual cash flows from the point of view of solely payment of principal and interest (hereinafter: SPPI test) is one of the criteria for the classification of financial assets in an individual category of measurement. SPPI test is implemented for the purpose of establishing whether the interest rate on unsettled principle reflects the fee for time value of money, credit risk and other basic risks of borrowing, lending costs and profit margin.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

2. Classification and subsequent measurement *(continued)*

Contractual cash flow characteristics (SPPI) (continued)

The SPPI test is performed:
- for each financial asset, allocated to a business model whose purpose is to hold financial assets for the payment of contractual cash flows and a business model for the purpose of collecting contractual cash flows and selling financial asset on the date of its initial recognition,
- for each financial asset in cases where the original asset has been significantly modified and therefore re-recognised as new assets,
- when introducing new models and/or loan programs to determine in advance the eligibility of the considered loan term and conditions in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

- **Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the "Net trading income" line in the statement of profit or loss.

- **Financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 22 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(aa) Loans and receivables from customers

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

- loans and receivables measured at amortized cost (see Note 23); they are initially measures at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(ab) Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(ab) Investment securities (Continued)

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(ac) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- At the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(w)(6) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- The Bank recognizes a loss allowance

Liabilities arising from financial guarantees and loan commitments are included within provisions

3. Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

4. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

According regulation prescribed by Federal Banking Agency of BiH from 01.01.2020, Decision on Credit Risk Management and determination of expected credit losses, modification can be:

1) triggered by the debtor’s current needs (e.g. effective interest rate reduction due to changes in the market, collateral swap, etc.), and not by the debtor’ financial distress,
2) triggered by the debtor’s current financial distress or distress that will arise soon, i.e. deterioration of their creditworthiness, timeliness in meeting of their obligations to the bank or other creditors

According ISP Group Accounting Policies, modification can be:

- modification due to financial difficulties can be:
    - without derecognition of previous loan (impact is recognized as gain/losses from contractual modification without derecognition, and later, time value reversal effect has to be recognized in the interest margin
    - with derecognition (the modified asset is considered as a new financial asset
- modification due to commercial purposes will have no impact on the Income Statement.

Effects

The Bank calculated modification effects for loans that had some changes in contractual original terms during 2020 and 2021. Calculation was done manually, and the Bank is developing IT solution for automatic calculation.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

Financial liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

- **Offsetting**

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

4. Impairment

IFRS 9 outlines a "three-stage" model for impairment of financial assets based on changes in credit quality since initial recognition of financial assets.

Impairment of financial assets is recognized on the basis of the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments).

IFRS 9 requires entities to enter the expected losses at the level of losses expected in the next 12 months (Stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a “significant” deterioration in relation to the initial measurement (Stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

- Allocation of performing financial assets at different levels of credit risk ("staging"), corresponding to value adjustments based on expected losses over the next 12 months (the so-called “Stage 1”) or lifetime for the entire remaining duration of the instrument (the so-called “Stage 2”), in the presence of a significant increase in credit risk;
- Allocation of partially or fully non-performing financial assets in the so-called “Stage 3“, always with value adjustments based on expected losses over the entire duration of the instrument;
- Inclusion of Expected Credit Losses (“ECL”) in the calculation, as well as the expected future changes of the macroeconomic scenario.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

5.* Impairment *(Continued)

The following table summarizes requirements for impairment under IFRS 9.

	Stage 1	Stage 2	Stage 3
Deterioration in credit risk	Initial recognition (non-performing loans a origination are included in Stage 3)	Credit risk has increased significantly since initial recognition and is not considered "low"	Credit risk has increased to the point where it is considered that the value of the instrument is impaired.
Recognition of the provisioning in the balance sheet IFRS 9	12-month expected loss	Lifetime expected loss	Lifetime expected loss
Current classification	Performing	Performing	Non-performing
Current provision	Incurred loss	Incurred loss	Lifetime expected loss

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in “impairment losses on financial instruments” in the statement of profit or loss and OCI.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

(z) Financial assets and financial liabilities *(continued)*

5. Impairment (continued)

Write-off (Continued)

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The Bank wrote off a loan or an investment in debt security, either partially or in full, and any related allowance for impairment losses, when Bank's Credit determined that there was no realistic prospect of recovery.

Accounting Write-off

In July 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses which is explained in Accounting Summary Policies - Impairment.

According FBA Decision, Bank is obliged to perform write off of financial assets in time period of two years after the date on which total amount of expected credit risk had been registered in amount of 100% of the value of financial asset, and declared assets as completely due.

The Bank did not make an accounting write-off before January 1, 2020. years. Receivables in the Bank's books were recorded until collection or permanent write-off. Unlike to above explained Write-off, Accounting Write-off is part of Off-Balance Sheet records and in Financial Statement is part of movement of Impairments in single Notes 23 and 24.

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AA) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company as of 1 January 2021:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments had no impact on the financial statements of the Bank.

BB) Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Management has assessed no impact on the financial statements of the Bank.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

BB) Standards issued but not yet effective and not early adopted *(continued)*

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. The management has assessed no impact on the financial statements of the Bank.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The Management has assessed no impact on the financial statements of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**
  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Management has assessed no impact on the financial statements of the Bank.

3. SUMMARY OF ACCOUNTING POLICIES *(continued)*

BB) Standards issued but not yet effective and not early adopted *(continued)*

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed these amendments had no impact on financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed these amendments had no impact on financial statements.

  IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Management has assessed no impact on the financial statements of the Bank.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment losses on loans and receivables

The Bank continuously monitors the creditworthiness of its clients. The need for impairment of the Bank's balance sheet and off-balance sheet credit risk exposures is assessed on a monthly basis.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

(b) Taxation

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

(c) Regulatory requirements

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

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

In accordance with the Decision on credit risk management and determination of expected credit losses, the Bank applies the following rules of minimum coverage to define the ECL.

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

a) for low-risk exposures – 0.1% of exposures,

b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution, which is assigned to credit quality step 3 and 4 – 0.1 % in accordance with Article 69. of the Decision on calculating the bank's capital.

c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which is in accordance with Article 69 of the Decision on calculating the bank's capital is classified in credit quality step 1, 2 or 3 - 0.1 % exposure,

d) for other exposures - 0.5% of exposures.

For exposures allocated to credit risk level 2, the bank is obliged to determine and record the expected credit losses in the amount of more than the following:

a) 5% exposure,

b) the amount determined in accordance with the bank's internal methodology.

The Bank shall determine and record expected credit losses for exposures allocated to the level of credit risk 3 at least in the amounts defined in Table 1 or Table 2.

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

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

c) Regulatory requirements *(continued)*

Table 1. Minimum expected credit loss rates for exposures secured by eligible collateral:

Number:	*Days of delay*	*Minimum expected credit loss*
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 730 to 1460 days	80%
6.	over 1460 days	100%

Table 2. Minimum expected credit loss rates for exposures not secured by eligible collateral:

Number:	*Days of delay*	*Minimum expected credit loss*
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 456 days	100%

Exceptionally, if the bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure.

The estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable.

In case that the bank does not collect receivables in the specified period of three years, it is obliged to record the expected credit losses in the amount of 100% of the exposure.

The Bank shall determine the rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, and other receivables at least in the amounts as shown in Table 3.

Table 3. Minimum rates of expected credit losses for leasing and other receivables

Number:	*Days of delay*	*Minimum expected credit loss*
1.	no delay in material significant amount	0.5%
2.	up to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

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

(d) Litigation and claims

The total amount of litigations and claims amounts to BAM 9,178 thousand (2020: BAM 12,457 thousand).

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank’s management.

As stated in Note 30, the Bank provided BAM 3,185 thousand (20209: BAM 2,655 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case based on the likelihood and magnitude of an outflow of resources.

5. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, and interest rate risk.

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial services business and the operational risks are an inevitable consequence of being in business.

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

Risk management is carried out by the Risk Management Division whose main purpose is to support financial operations, coordinate access to domestic and international financial markets, and oversee and manage financial risk through internal risk reports including analysis by size and level of the risk.

5.1 Credit risk

5.1.1 Risk limit control and mitigation policies

The Bank takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Bank Risk.

The limits of credit risk are determined in relation to the Bank's regulatory capital.

According to the Bank's policy, decision-making on exposure to credit risk is centralized and concentrated on the Credit Committee. Decisions of the Credit Committees are made upon consideration of proposals provided by the Underwriting Department. The terms for approval of each corporate loan are determined individually depending on client type, the loan's purpose, estimated creditworthiness and current market situation. Conditions for collateral are also determined according to client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount.

Off-balance-sheet credit instruments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letter of credits carry the same risk as loans and are secured with similar collateral as are loans.

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

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt instruments and debt instruments at amortized costs. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3 (z).

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

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

	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Placements with other banks at amortized cost					
Performing – Stage 1	2	-	-	**2**	**29**
Total Gross	2	-	-	**2**	**29**
Less: impairment allowance	-	-	-	-	-
Carrying amount	**2**	-	-	**2**	**29**
Loans and receivables from customers at amortized cost					
Performing – Stage 1	1,522,524	-	-	**1,522,524**	**1,525,291**
Performing – Stage 2	-	79,464	-	**79,464**	**62,337**
Past due impaired	-	-	7,102	**7,102**	**7,695**
unlikely to pay	-	-	20,846	**20,846**	**22,555**
doubtful	-	-	39,047	**39,047**	**32,733**
Total Gross	1,522,524	79,464	66,995	**1,668,983**	**1,650,611**
Less: impairment allowance	(18,503)	(13,264)	(43,841)	**(75,608)**	**(71,624)**
Carrying amount	**1,504,021**	**66,200**	**23,154**	**1,593,375**	**1,578,987**
Debt instruments at FVOCI					
Performing - Stage1	78,587	-	-	**78,587**	**55,016**
Total Gross	78,587	-	-	**78,587**	**55,016**
Loss allowance	-	-	-	-	-
Carrying amount	**78,587**	-	-	**78,587**	**55,016**
Debt instruments at amortized cost					
Performing - Stage1	6,203	-	-	**6,203**	**6,203**
Total Gross	6,203	-	-	**6,203**	**6,203**
Loss allowance	(98)	-	-	(98)	(370)
Carrying amount	**6,105**	-	-	**6,105**	**5,833**

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

5.1 Credit risk (*continued*)

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

	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Contingent liabilities					
Stage 1	142,668	-	-	**142,668**	**139,318**
Stage 2	-	3,065	-	**3,065**	**3,006**
Stage 3	-	-	-	**-**	**67**
Total Gross	142,668	3,065	-	**145,733**	**142,391**
Less: impairment allowance	(328)	(162)	-	**(490)**	**(583)**
Carrying amount	**142,340**	**2,903**	**-**	**145,243**	**141,808**

				2021	2020
Loan commitments					
Stage 1	375,383	-	-	**375,383**	**401,306**
Stage 2	-	5,662	-	**5,662**	**5,536**
Stage 3	-	-	1,957	**1,957**	**1,177**
Total Gross	375,383	5,662	1,957	**383,002**	**408,019**
Less: impairment allowance	(1,011)	(232)	(571)	**(1,814)**	**(1,681)**
Carrying amount	**374,372**	**5,430**	**1,386**	**381,188**	**406,338**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.3 Collateral held and other credit enhancements

During the year the Bank obtains financial and non-financial assets by taking possession of collaterals it holds as security or calling on other credit enhancements, in case of failure by the debtors to repay their due amounts. Such process of foreclosure involves mainly real estate, equipment, vehicles and deposits. Repossessed items are presented as such in the statement of financial position once they meet the criteria for recognition according to IFRS and local law. The policy of the Bank is to sell repossessed assets; during the period of possession and pending their final sale to third parties, the assets can be temporarily used if they are functional to the Bank's standard operations, or leased operationally to third parties.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

LTV ratio	**31 December 2021**	**31 December 2020**
Less than 50%	36,528	32,150
51–70%	53,108	51,601
71–90%	54,973	49,209
91–100%	11,253	14,052
More than 100%	329	467
Total	**156,191**	**147,479**

Credit-impaired loans	**2021**	**2020**
Less than 50%	1,102	1,132
51–70%	514	703
More than 70%	1,384	1,358
Total	**3,000**	**3,193**

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year-end are shown below (Note 24).

	2021	**2020**
Property	29	273
Other	-	-
Total	**29**	**273**

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.4 Allowance for expected credit losses

(i) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met. Criteria for determining a significant increase in credit risk are defined for the proper allocation of exposure in "Stage 1" or "Stage 2".

Elements that will be the main determinants which need to be considered for the purpose of assessing the "steps" between the various "stages" are the following:

- Default probability change in relation to the moment of initial entry of the financial instrument in the financial statements. It is therefore an assessment implemented by adopting the "relative" criterion, which is configured as the main criteria;
- Eventual presence of due amount which remains overdue over 30 days. In the event of such case the credit risk of such exposure is considered “significantly increased” and is classified to Stage 2;
- Existence of “forbearance” measures;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Certain indicators of the internal credit risk monitoring system and early warning system

Determining whether the specific factor is relevant, as well as its significance in relation to other factors, depends on the type of products and characteristics of the financial instrument. Consequently, it is not possible to define a unique set of factors that determine whether there has been a significant increase in credit risk.

(ii) Definition of default

Staging criteria are selected in line with IFRS9, and based on risk parameters available in the Bank. Main indicators that are used are transaction classification, Days past due, Forbearance, PCEM (watch list) Indicator and/or Early Warning System (EWS) model for Micro Business, SME and Large Corporate portfolios as well as EWS indicators for Retail customers. Considering that, Stage 3 is equal to Non-performing status of the loan, the key element in Stage assignment is recognition of increasing credit risk of a financial instrument. Significant increase of credit risk could be highlighted by qualitative indicators as:

- - Past Due days
- - Forborne status
- - Early warning signals and/or Proactive Credit Management watch list status of the customer

In addition, forbearance measures could represent a significant increase in credit risk since they consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

Stage assignment for Loans:

Stage 1	**Stage 2**	**Stage 3**
1. Performing exposures without days past due 2. Performing exposures with less than or equal to 30 days past due under New DoD rules	1. Performing exposures with more than 30 days past due under New DoD rules 2. Performing exposures with significant increase in PD since origination 3. Forborne performing exposures 4. Forborne probation period 5. Performing exposures of Corporate customers showing Early Warning signals (**) (orange, red and light blue) or present in local PCEM 6. Exposures to customers whose account(s) in ISP BiH are blocked at reporting date (***) 7. Exposures to Retail Individual customers that has automatically cancelled Overdraft with due amount of principal (****) 8. Retail individuals performing exposures showing signs of increased credit risk based on internal behavioral indicators (*****)	1. Exposures with more than 90 days past due under New DoD rules 2. Past Due Probation period 3. Unlikely to Pay 4. UTP Probation Period 5. Doubtful 6. Forborne Non-performing NPV test>1% in case of distressed

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.4 Allowance for expected credit losses

(ii) Definition of default (continued)

Note: (**) EWS Model for Corporate customers incorporates level or risk estimated based on financial statement of the customer, transactions made in customer's account, blocking of account, behavioral data, AQR triggers.
Note: (***) According to FBA "Decision on credit risk management and estimation of expected credit losses" Article 19, bullet 4, point e), where

- For Legal entities any type of blockage is taken into consideration as a part of EWS model, while for
- Retail Individuals customers, technical blockages are not taken into consideration, such as one that occur when customer loses his debit card to prevent theft are not considered. Only external blockades that come from court decisions are used as Stage 2 trigger

Note: (****) In cases when customer doesn't have any more inflows to his account, automatic procedure cancels the Overdraft and client must repay entire amount. Until Overdraft is repaid, this is a signal of increased credit risk and all customer's exposures are classified into Stage 2. Automatic procedure is performed once in three months, checking if

- the customers had less than 3 inflows to his account, and if
- there is unauthorized overdue amount of overdraft until the end of current month.

If any of those two conditions is met, procedure will cancel utilization of overdraft.

Note:(*****) Signs of increased risk are applied on retail individuals' customers that don't have Residential Mortgage loan in the Bank, and have:
1) average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 110 BAM of overdue amount on revolving products on average in the last month, or
2) average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 250 BAM of overdue amount on all products at reporting date.

During 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses.

The FBA Decision regulates the rules for classification of financial instruments based of International Financial Reporting Standard 9: Financial Instruments (IFRS 9), with the introduction of some specific characteristics for the BiH market.

The key changes required by the Decision on Credit Risk Management and determination of Expected Credit Losses are in largely consistent with the Guidelines issued by the European Banking Supervisory Authority (EBA).

The Decision, like the Guidelines, prescribe automatically classification of clients who are significantly late in setting their financial obligations for more than 90 days into the default status.

Significant delay in settlement of financial liabilities according to FBA Decision is the total amount of receivables due from:

a) Individual - 200 KM and 1% of total debtor balance exposure;

b) Legal entity - KM 1,000 and 1% of total debtor balance sheet exposure.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.4 Allowance for expected credit losses *(continued)*

Significant delay in settlement of financial liabilities according to EBA Guidelines is the total amount of receivables due from:

a) Individual – 100 EUR and 1% of total debtor balance exposure;

b) Legal entity – 500 EUR and 1% of total debtor balance sheet exposure.

Intesa Sanpaolo Bank has applied unique materiality thresholds of € 100 and € 500 selecting more prudent approach.

Applying the lower absolute thresholds (100 Eur for Retail and 500 Eur for Corporate and similar portfolios), ensures that both requirements from FBA and ECB Regulations are satisfied.

(iii) Inclusion of forward looking element

The projection of credit risk parameters under IFRS 9 requires the inclusion of expected future macroeconomic elements in the calculation of lifelong expected credit losses.

In ISP BiH, in accordance with the methodology of ISP Group, the effect of this inclusion is based on the application of the coefficients of the EBA stress resistance test. The EBA Stress Test Coefficient is used to create scenarios for three years, relative to each bank's starting point. The stress test coefficients are multipliers for the following risk parameters: PD, LGD and LR-Loss. This step includes the calculation of the PD, which is conditioned by the EBA stress test coefficient, and the same is done for conditioning the LGD parameter, which uses the expected GDP rate for BiH.

As the European Banking Regulatory Agency (EBA) publishes the coefficients for the baseline and negative scenarios, the best-case scenario coefficients need to be estimated to include the “supplement” component in the lifetime PD, which is done using the normal standard distribution.

During 2021, in accordance with the forecasts published by the EBA, the Bank adjusted the future macroeconomic elements through the coefficients of the EBA stress resilience test.

(iv) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(w).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Bank’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank’s ability to collect interest and principal and the Bank’s previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(w)(6)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.4 Allowance for expected credit losses *(continued)*

(v) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ("PD"); a loss given default ("LGD"); and the exposure at default ("EAD").

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

Probability of default (PD) is the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. IFRS9 PD parameter is estimated starting from a set of matrices (at least three) that describe transitions between Stages of counterparties in the Bank's portfolio. These estimated matrices have 12 months' time horizon.

Loss given default (LGD) measures the expected loss suffered by the Bank in the event of counterparty's default. In ISP BiH, LGD is estimated for Non-performing exposures, while for Expected loss estimation of Performing exposures, LGD is calculated as LGD Proxy – average provisioning level (LGD) of new defaulted NPl exposures in that particular Risk segment.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities.

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Loans and advances to customers at amortized cost.

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	20,380	11,041	40,203	71,624	16,098	11,402	35,955	63,455
First time adoption of FBA Impairments	-	-	-	-	1,459	114	4,936	6,509
Transfers to Stage 1	6,074	-5,680	-394	0	110	-54	-56	0
Transfers to Stage 2	-1,167	4,499	-3,332	0	-7,762	8,279	-517	0
Transfers to Stage 3	-394	-3,332	3,726	0	-7,991	-2,318	10,309	0
Net remeasurementof loss allowance	8,428	2,191	2,479	13,098	17,683	226	1,945	19,854
New financial assets originated or purchased	-8,635	8,825	11,261	11,451	5,911	1,318	3,731	10,960
Financial assets that have been derecognized	-6,183	-4,280	-7,441	-17,904	-5,128	-7,926	-3,929	-16,983
Total effect through Profit and Loss (Note 23)	-6,390	6,736	6,299	6,645	18,466	-6,382	1,747	13,830
Write off-s	-	-	-2,255	-2,255	0	0	-11,843	-11,843
Unwinding the discount	-	-	-405	-405	-	-	-347	-347
Sale and other movements	-	-	0	0	0	0	19	19
Balance as at 31 December	**18,503**	**13,264**	**43,842**	**75,609**	**20,380**	**11,041**	**40,203**	**71,624**

All other financial assets are classified within Stage 1 and there have been no movements between stages.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.4 Allowance for expected credit losses *(continued)*
(v) Expected Credit Loss Measurement

The table below shows gross exposure per loans' segments and related ECL:

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross exposure				
Retail loans				
Consumer loans	379,531	21,627	36,805	437,963
Housing loans	215,140	6,198	8,297	229,635
Credit card loans and overdrafts	48,113	3,786	4,120	56,019
Total	642,784	31,611	49,222	723,617
Corporate loans				
Large	460,038	14,707	3,535	478,280
Other	419,702	33,146	14,238	467,086
Total	879,740	47,853	17,773	945,366
Total Gross exposure	**1,522,524**	**79,464**	**66,995**	**1,668,983**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment				
Retail loans				
Consumer loans	9,033	5,836	28,470	43,339
Housing loans	1,452	727	4,288	6,467
Credit card loans and overdrafts	996	621	3,124	4,741
Total	11,481	7,184	35,882	54,547
Corporate loans				
Large	3,556	1,684	539	5,779
Other	3,466	4,396	7,420	15,282
Total	7,022	6,080	7,959	21,061
Total Impairment	**18,503**	**13,264**	**43,841**	**75,608**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.4 Allowance for expected credit losses *(continued)*

(v) Expected Credit Loss Measurement

The table below shows gross exposure per loans' segments and related ECL:

31 December 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross exposure				
Retail loans				
Consumer loans	405,494	14,263	36,047	455,804
Housing loans	210,224	2,209	7,938	220,371
Credit card loans and overdrafts	53,672	3,017	4,148	60,837
Total	669,390	19,489	48,133	737,012
Corporate loans				
Large	447,795	21,627	0	469,422
Other	408,106	21,222	14,849	444,177
Total	855,901	42,849	14,849	913,599
Total Gross exposure	**1,525,291**	**62,338**	**62,982**	**1,650,611**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment				
Retail loans				
Consumer loans	10,747	4,741	27,245	42,733
Housing loans	1,426	218	3,673	5,317
Credit card loans and overdrafts	1,151	542	2,910	4,603
Total	13,324	5,501	33,828	52,653
Corporate loans				
Large	3,309	2,109	0	5,418
Other	3,746	3,432	6,375	13,553
Total	7,055	5,541	6,375	18,971
Total Impairment	**20,379**	**11,042**	**40,203**	**71,624**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.4 Allowance for expected credit losses *(continued)*
(v) Expected Credit Loss Measurement

Non-performing loans- Stage 3

The breakdown of the gross and net amount of the loans to customers that are impaired 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:

	Retail loans				**Corporate loans**		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2021							
Gross exposure	36,805	8,297	4,120	**49,222**	3,535	14,238	**17,773**
Impairment	(28,470)	(4,288)	(3,124)	**(35,882)**	(539)	(7,420)	**(7,959)**
Net	8,336	4,009	996	**13,341**	2,996	6,817	**9,813**
Rate of impairment	*77%*	*52%*	*76%*	*73%*	*15%*	*52%*	*45%*
Estimated value of collateral							
Mortgage	150	3,900	-	**4,050**	-	6,405	**6,405**
Total	150	3,900	-	**4,050**	-	6,405	**6,405**

	Retail loans				**Corporate loans**		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2020							
Gross exposure	36,047	7,938	4,148	**48,133**	-	14,849	**14,849**
Impairment	(27,245)	(3,673)	(2,910)	**(33,828)**	-	(6,375)	**(6,375)**
Net	8,802	4,265	1,238	**14,305**	-	8,474	**8,474**
Rate of impairment	*75%*	*46%*	*70%*	*70%*	-	*43%*	*43%*
Estimated value of collateral							
Mortgage	41	4,072	-	**4,113**	-	7,708	**7,708**
Total	41	4,072	-	**4,113**	-	7,708	**7,708**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.4 Allowance for expected credit losses *(continued)*

(z) Expected Credit Loss Measurement

The Bank accounts for counterparty risks arising from the loan portfolio by making allowances for impaired loans. At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.

Loans and receivables with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (rescheduling). Rescheduling is mainly performed in response to initial deterioration of the clients' financial position or for the prevention of further deterioration of the clients' financial position. The revised terms usually include extending the maturity, changing the timing of interest payments and when possible obtaining additional instruments of collateral. Following the restructuring the loans remain graded as restructured until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash-flows and there are no other indicators of impairment. Gross carrying amount of loans with renegotiated terms amount to BAM 19,920 thousand for corporate loans and BAM 14,677 thousand for retail loans as at 31 December 2021 (2020: BAM 8,950 thousand for corporate and BAM 13,871 for retail loans.)

The breakdown of the gross and net exposure of renegotiated loans are as follows:

	Retail loans				**Corporate loans**		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2021							
Gross exposure	13,269	1,408	-	**14,677**	-	19,920	**19,920**
Impairment	(8,973)	(283)	-	**(9,256)**	-	(2,950)	**(2,950)**
Net	4,296	1,125	-	**5,421**	-	16,970	**16,970**
Rate of impairment	*68%*	*20%*	-	*63%*	-	*15%*	*15%*

	Retail loans				**Corporate loans**		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2020							
Gross exposure	12,653	1,218	-	**13,871**	-	8,950	**8,950**
Impairment	(8,908)	(175)	-	**(9,083)**	-	(1,576)	**(1,576)**
Net	3,745	1,043	-	**4,788**	-	7,374	**7,374**
Rate of impairment	*70%*	*14%*	-	*65%*	-	*18%*	*18%*

For the purpose of credit monitoring and the management of credit risk, the Bank divides its credit portfolio into the following groups:

- Performing loans – loans that are neither past due nor impaired
- Past due but unimpaired loans
- Non-performing loans for which impairment has been recognised.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.5 Concentration of credit risk per geographic location

Geographic risk is highly concentrated on the state of Bosnia and Herzegovina. Geographic risk concentrations on net amounts of balance sheet exposure are as follows:

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
As at 31 December 2021				
Current accounts with the Central Bank and other banks	486,296	13,447	40,919	**540,662**
Reserves with the Central Bank	196,884	-	-	**196,884**
Placements with other banks	2	-	-	**2**
Financial assets at FVOCI	20,050	58,673	-	**78,723**
Financial assets at Amortized Cost	6,105	-	-	**6,105**
Loans and receivables from customers	1,593,375	-	-	**1,593,375**
Income tax prepayment	3,692	-	-	**3,692**
Other assets (without fixed assets)	4,565	2,794	-	**7,359**
	2,310,969	**74,914**	**40,919**	**2,426,802**
As at 31 December 2020				
Current accounts with the Central Bank and other banks	277,220	107,665	41,383	**426,268**
Obligatory reserves with the Central Bank	190,280	-	-	**190,280**
Placements with other banks	-	29	-	**29**
Financial assets at FVOCI	55,069	77	-	**55,146**
Financial assets at Amortized Cost	5,832	-	-	**5,832**
Loans and receivables from customers	1,578,987	-	-	**1,578,987**
Income tax prepayment	5,005	-	-	**5,005**
Other assets (without fixed assets)	3,488	2,417	-	**5,905**
	2,115,881	**110,188**	**41,383**	**2,267,452**

5.1.7. COVID 19 considerations

Loan production slowed due to a lack of demand and stricter risk criteria for non-purpose and mortgage loans, as well as due to the COVID impact, especially in IQ 2021.
During 2021, no impact of the COVID-19 viral disease on the deposit portfolio was recorded, as was the case last year.
Although the negative impact of the Covid-19 disease pandemic was still present throughout 2021, the Bank recorded a significant decline in the client's request for approval of measures to mitigate the negative economic consequences caused by the Covid-19 disease. In the segment of business with legal entities and SME bank, the volume of loans increased by 2% compared to 2020. The Bank additionally used the Business Cooperation Agreement with the Development Bank of the Federation of BiH to use the credit guarantee fund intended for legal entities and craftsmen to ensure access to finance to reduce the negative effects of the Covid 19 pandemic, help the economy, improve liquidity and support new business and financing. investment.

Fee income recorded a significant increase compared to 2020 as a result of economic recovery, the positive effects of the tourist season and economic recovery.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk (*continued*)

5.1.7. COVID 19 considerations *(continued)*

COVID 19 effects to Expected Credit Loss calculations

In application of International Financial Reporting Standard 9: Financial instruments, Bank uses macroeconomic forecasts of European Central Bank as well as stress test coefficients as multipliers for credit risk parameters.

After the outbreak of the economic crisis caused by the COVID-19 pandemic, in June 2020 ECB has issued new macroeconomic forecasts and stress test coefficients, and the Bank has, in accordance with the parent company Intesa Sanpaolo instructions, included these indicators in the calculation of the expected credit losses, and increased the provisions for expected credit losses based on forecasted impacts of the crisis on the global economy and the Bank's loan portfolio, which was partially corrected during 2021 through new macroeconomic projections of the ECB and multipliers of credit risk parameters due to the evident recovery of the economy.

In response to the COVID-19 pandemic, Bank has adopted a set of policy measures to mitigate the economic impact of the crisis. Related measures were available to all affected clients, both legal entities and individuals.
The Bank’s mitigation measures offered to clients, was mainly related to Moratorium on loan repayment, while the e Bank also offered to the clients long term solutions through specialized products for restructuring all obligations.
Loan repayment moratorium for short-term and long-term loans, revolving, overdraft and loans with bullet repayment was, according to Federal Banking Agency decisions, available to June 2022, while other measures are available until March 31 2022.
This COVID-19 related measure for moratorium was available to all the clients of the Bank affected by the economic impacts of the crises caused by pandemic of virus "COVID-19".
Out of total approved COVID 19 measures to clients:

- Legal entities - 23.4 million BAM or 30.8% of total exposure of expired moratoriums ended in stage 2, and 7.6 million BAM or 10.05% in stage 3
- Retail segment – 11.9 million BAM or 21.9% of total exposure ended in stage 2, and 7.5 million BAM or 13.9% in stage 3.

Bank’s Legal entities segment
Up to December 2021, the total number of approved moratoriums was 307 loans with an exposure as of 31.12.2021 of BAM 82.6 million in Bank’s Legal entities segment, out of which 301 loans with an exposure of BAM 75.8 million have expired. Number of active moratoriums as of December 31, 2021 was 6 loans with total exposure of BAM 6.8 million.

Bank’s Retail segment
Up to December 2021, the total number of approved moratoriums was 4.105 loans with an exposure as of 31.12.2021 of BAM 54.3 million, and all of them are expired.

Share of active moratoriums as of as of December 31, 2021 in total portfolio was 0,4% (2020: 2,2%).

5.2 Liquidity risk management

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Liquidity risk management *(continued)*

The table below summarizes the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December 2021 and 31 December 2020, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2021						
Financial assets						
Cash and cash equivalents	572,868	-	-	-	-	**572,868**
Reserves with the Central Bank	196,884	-	-	-	-	**196,884**
Placements with other banks	2	-	-	-	-	**2**
Financial assets at fair value through other comprehensive income	-	-	35,211	43,376	136	**78,723**
Financial assets at fair value through profit or loss	3	2	300	-	-	**305**
Financial assets at Amortized Cost	-	6,105	-	-	-	**6,105**
Loans and receivables from customers	85,133	129,758	425,295	675,156	278,033	**1,593,375**
Income tax prepayment and other assets	8,532	-	-	-	-	**8,532**
Total assets	**863,422**	**135,865**	**460,806**	**718,532**	**278,169**	**2,456,794**
Financial liabilities						
Due to banks and other financial institutions	25,021	124,277	61,807	120,578	61,833	**393,566**
Due to customers	1,236,940	37,155	144,925	277,438	9,780	**1,706,238**
Lease Liabilities	178	358	1,702	6,761	1,718	**10,717**
Financial liabilities at fair value through profit or loss	2	1	4	-	-	**7**
Other liabilities	33,308	-	-	-	-	**33,308**
Provision for liabilities and charges	-	-	-	6,325	-	**6,325**
Total liabilities and equity	**1,295,449**	**161,790**	**208,438**	**411,103**	**73,381**	**2,150,161**
Maturity gap	**(432,027)**	**(25,925)**	**252,368**	**307,429**	**204,788**	**306,633**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Liquidity risk management *(continued)*

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2020						
Financial Assets						
Cash and cash equivalents	458,909	-	-	-	-	**458,909**
Reserves with the Central Bank	190,280	-	-	-	-	**190,280**
Placements with other banks	29	-	-	-	-	**29**
Financial assets at fair value through other comprehensive income	-	-	55,016	-	130	**55,146**
Financial assets at fair value through profit or loss	107	-	360	-	-	**467**
Financial assets at Amortized Cost	-	-	-	5,832	-	**5,832**
Loans and receivables from customers	83,974	127,228	409,110	665,422	293,253	**1,578,987**
Other assets	9,276	-	-	-	-	**9,276**
Total assets	**742,575**	**127,228**	**464,486**	**671,254**	**293,383**	**2,298,926**
Financial liabilities						
Due to banks and other financial institutions	25,411	89,055	138,732	92,040	42,291	**387,529**
Due to customers	1.075.741	52,122	107,850	307,750	29,081	**1,572,713**
Lease Liabilities	169	340	1,624	5,924	3,842	**11,899**
Financial liabilities at fair value through P&L	98	-	8	-	-	**106**
Other liabilities	31,518	-	-	-	-	**31,518**
Provisions for liabilities and charges	-	-	-	5,589	-	**5,589**
Total liabilities and equity	**1,132,937**	**141,686**	**248,214**	**411,403**	**75,213**	**2,009,354**
Maturity gap	**(390,362)**	**(14,458)**	**216,272**	**259,950**	**218,170**	**289,572**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Liquidity risk management *(continued)*

Future cash flows for interest bearing liabilities

The estimated future cash flows for the Bank's interest-bearing liabilities, including expected interest as at 31 December 2021 and as at 31 December 2020 are shown in the following table:

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2021							
Liabilities							
Due to banks and other financial institutions	22,500	124,378	61,748	116,036	62,860	**387,522**	**393,566**
Due to customers	1,239,094	38,257	148,510	291,692	9,916	**1,727,469**	**1,706,238**
Lease Liabilities	178	383	1,772	6,977	1,718	**11,028**	**10,717**
Total expected outflow	**1,261,772**	**163,019**	**212,030**	**414,704**	**74,495**	**2,126020**	**2,110,521**

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2020							
Liabilities							
Due to banks and other financial institutions	25,499	89,184	139,680	94,634	42,889	**391,886**	**387,529**
Due to customers	1,075,602	53,712	110,500	318,359	29,639	**1,587,812**	**1,572,713**
Lease Liabilities	169	365	1,692	6,109	3,842	**12,177**	**11,899**
Total expected outflow	**1,101,270**	**143,261**	**251,872**	**419,103**	**76,370**	**1,991,876**	**1,972,141**

5.3 Market risk

The Bank is exposed to market risk which is the risk that the fair value of 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 market risks which is regularly monitored by the Risk Management Department.

5. FINANCIAL RISK MANAGEMENT (*continued*)

5.3.1 Foreign exchange 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.

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, and foreign currency risk.

Overall exposure to foreign exchange risks is monitored within Risk Management Department using techniques such as Value-at-Risk ("VaR") and stress testing.

FX Value-at-Risk is an individual, concise, statistical measurement of possible losses in the portfolio. VaR is a measurement of loss under normal movements of risk factors on the market. The likelihood of losses higher than VaR occurring is expected to be low.

The main model assumptions are:

- Being based on the historical methodology
- 99 percent as a confidence interval for Value-at-Risk computation
- One-day held period

The model covers foreign currency risk – valid for foreign currency transactions and positions denominated on foreign currencies; resulting from foreign currency rate volatility.

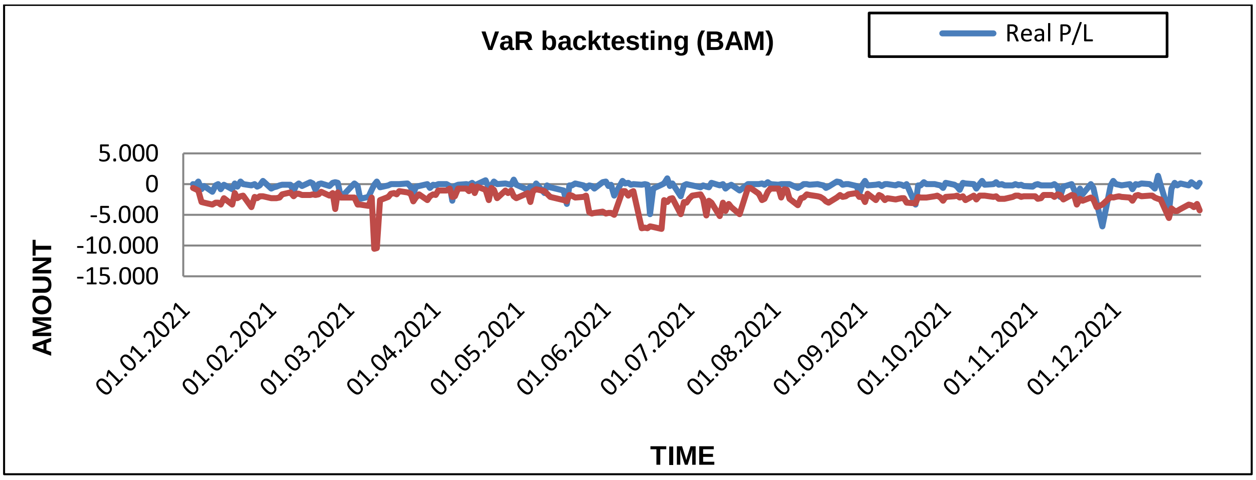
The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based on risk source (risk factors). These features of a more detailed risk monitoring system allow the determination of an efficient limit structure which can be compared through different organisational units.

The quality of the implemented risk measurement model is constantly assessed. The Bank performs back-testing of the computed VaR measures with the actual gain and losses for the same period.

5. FINANCIAL RISK MANAGEMENT (*continued*)

5.3 Market risk (*continued*)

5.3.1 Foreign exchange risk (*continued*)



During 2021, the Bank improved the model for calculation of VaR in accordance with best practices and as a result, the Bank recorded 6 (results for 2020: there was no exceptions) when actual losses exceeded the daily VAR amount.

The Bank is exposed to foreign currency risk when there is no matching between assets and liabilities and off-balance sheet positions due to cash flows denominated in foreign currencies. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate values. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The Bank considers that it is not currently exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = BAM 1.955830). Exposure is more prominent for USD and CHF. The Bank performs stress testing based on the assumption of a 10% increase or decrease in foreign currency rates against the relevant local currency. The sensitivity rate of 10% is used when reporting internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Stress testing is performed on an annual basis. The results of the most recent test performed are presented here below:

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Market risk (*continued*)

5.3.1 Foreign exchange risk (*continued*)

31 December 2021

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	8,475	(848)	848
GBP	2,126	(213)	213
USD	(58,390)	5,839	(5,839)
HRK	(9,237)	924	(924)
CAD	11,683	(1,168)	1,168
SEK	8,702	(870)	870
Other	17,760	(1,776)	1,776
EUR	(2,756,258)	-	-

31 December 2020

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(4,605)	461	(461)
GBP	(4,697)	470	(470)
USD	(75,900)	7.590	(7,590)
HRK	(25,191)	2,519	(2,519)
CAD	2,788	(279)	279
SEK	(3,091)	309	(309)
other	27,433	(2,744)	2,744
EUR	(5,592,561)	-	-

The analysis outlined above is based on the open foreign currency position of the Bank, which includes all asset and liability and off-balance-sheet positions.

If the currency position of a foreign currency is “long” (assets exceeding liabilities) and the exchange rate for this currency increases/(decreases) in relation to the BAM, the Bank will experience a foreign exchange gain/(loss).

If the currency position of a foreign currency is “short” (liabilities exceeding assets) and the exchange rate for this currency (increases)/decreases in relation to BAM, the Bank will experience a foreign exchange (loss)/gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Market risk (*continued*)

5.3.1 Foreign exchange risk (*continued*)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2021 and 31 December 2020. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency. The Bank has a number of agreements governed by a foreign currency clause. The BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table below in the column "EURO linked".

The Bank had the following significant currency positions:

31 December 2021	**EURO**	**EURO linked**	**EURO total**	**USD**	**Other FX**	**BAM**	**Total**
Assets							
Cash and cash equivalents	16,731	-	16,731	30,215	12,539	513,383	**572,868**
Reserves with the Central Bank	-	-	-	-	-	196,884	**196,884**
Placement with other banks	2	-	2	-	-	-	**2**
Financial assets at fair value through other comprehensive income	58,673	-	58,673	-	-	20,050	**78,723**
Financial assets at fair value through profit or loss	-	-	-	-	295	10	**305**
Financial assets at Amortized Cost	-	6,105	6,105	-	-	-	**6,105**
Loans and receivables from customers	14,611	790,033	804,644	-	-	788,731	**1,593,375**
Income tax prepayment and other assets	2,402	**-**	2,402	**-**	**-**	6,130	**8,532**
Total assets	**92,419**	**796,138**	**888,557**	**30,215**	**12,834**	**1,525,188**	**2,456,794**
Liabilities and equity							
Due to banks and other financial Institutions	377,322	3,000	380,322	-	172	13,072	**393,566**
Due to customers	417,643	65,490	493,850	30,130	13,986	1,178,989	**1,572,713**
Lease Liabilities	10,717	-	-	-	-	-	**10,717**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	7	**7**
Other liabilities	3,032	-	3,032	110	666	29,500	**33,308**
Provision for liabilities and charges	-	-	-	-	-	6,325	**6,325**
Total liabilities and equity	**808,714**	**68,490**	**877,204**	**30,240**	**14,824**	**1,227,893**	**2,150,161**
Net foreign exchange position	**(716,295)**	**727,648**	**11,353**	**(25)**	**(1,990)**	**297,295**	**306,663**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Market risk *(continued)*

5.3.1 Foreign exchange risk *(continued)*

31 December 2020	EURO	EURO linked	EURO total	USD	Other FX	BAM	Total
Assets							
Cash and cash equivalents	89,992	-	89,992	40,162	24,287	304,468	**458,909**
Obligatory reserves with the Central Bank	-	-	-	-	-	190,280	**190,280**
Placements with other banks	29	-	29	-	-	-	**29**
Financial assets at fair value through other comprehensive income	77	-	77	-	-	55,069	**55,146**
Financial assets at fair value through profit or loss	-	-	-	-	297	170	**467**
Financial assets at Amortized Cost	-	-	-	-	-	5,832	**5,832**
Loans and receivables from customers	-	893,454	893,454	-	-	685,533	**1,578,987**
Income tax prepayment and other assets	2,036	-	2,036	26	-	7,214	**9,276**
Total assets	**92,134**	**893,454**	**985,588**	**40,188**	**24,584**	**1,248,566**	**2,298,926**
Liabilities and equity							
Due to banks and other financial institutions	379,861	6,700	386,561	-	126	842	**387,529**
Due to customers	409,571	92,087	513,557	39,805	23,599	1,007,651	**1,572,713**
Lease Liabilities	11,899	-	-	-	-	-	**11,899**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	106	**106**
Other liabilities	11,296	-	11,296	427	806	18,921	**31,450**
Provision for liabilities and charges	-	-	-	-	-	5,589	**5,589**
Total liabilities and equity	**812,627**	**98,787**	**911,414**	**40,232**	**24,531**	**1,033,109**	**2,009,286**
Net foreign exchange position	**(720,493)**	**794,667**	**74,174**	**(44)**	**53**	**215,457**	**289,627**

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Market risk *(continued)*

5.3.2 Interest rate risk

Interest rate risk is defined as the exposure of a Bank's financial condition to adverse movements in interest rates, referring to the banking book, meaning the set of on- and off-balance-sheet financial assets and liabilities which are part of the core lending and deposit collecting activities performed by the Bank.

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

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonisation between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is floating and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and floating), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any mismatch among the abovementioned elements results in exposure of the Bank to interest rate risk.

The adopted system operates at an analytical level commensurate to the complexity and risk of the banking book, and ensures that the risk profile can be examined from two separate, but complementary, perspectives:

- The economic value perspective, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows;
- The earnings perspective, focused on analysing the impact that changes in interest rates and related volatilities generate on the net interest income and, therefore, on the related effects on interest margin.

The Bank uses the following methods to measure interest rate risks:

- Shift sensitivity of fair value;
- Shift sensitivity of the interest margin.

The shift sensitivity of fair value measures the changes in economic value of a financial portfolio resulting from a parallel shift in the discount curves. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis. The operating limit currently in force for shift sensitivity of fair value (by +100 bp parallel shift of yield curves) amounts is 0 thousand BAM / -19,558 thousand BAM (0 thousand EUR / 10,000 thousand EUR). The limit is set up by the Bank with the aim of keeping exposure within low levels.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Market risk (*continued*)

5.3.2 Interest rate risk (*continued*)

If changes in interest rates had been 100 basis points higher and all other variables were held constant at 31 December 2021, the effect, in terms of economic value of interest risk-sensitive balance-sheet portfolios, would have been BAM -12,556 thousand (31 December 2020: BAM -13,657 thousand).

In 2021 the Bank established the limit by time-buckets on the following way:

Shift Sensitivity Limit (+100 bp)

TOTAL	0-18 months	18 months - 5 years	above 5 years
BAM 0 thousand / BAM -19,558 thousand (0 mio EUR/ - 10 mio EUR)	BAM 3,912 thousand / BAM -5,867 thousand (2 mio EUR/ -3 mio EUR)	BAM 3,912 thousand / BAM -9,779 thousand (2 mio EUR / -5 mio EUR)	BAM 3,912 thousand / BAM -15,647 thousand (2 mio EUR / -8 mio EUR)

The results of the analysis of the shift sensitivity of fair value are below the current operating limit and are presented in the table below:

Shift Sensitivity (+100b.p)	31 December 2021				31 December 2020			
	TOTAL	**0-18 month**	**18 months - 5 years**	**over 5 years**	**TOTAL**	**0-18 month**	**18 months - 5 years**	**over 5 years**
EUR	(4,334)	(534)	369	(4,169)	(4,607)	(991)	1,362	(4,978)
USD	154	30	121	3	323	49	173	102
CHF	12	10	3	-	12	8	4	-
KM	(8,392)	(974)	(4,132)	(3,287)	(9,414)	(1,447)	(3,573)	(4,394)
Other currencies	4	1	3	-	30	2	28	-
Total	**(12,556)**	**(1,467)**	**(3,636)**	**(7,453)**	**(13,656)**	**(2,379)**	**(2,006)**	**(9,271)**

The sensitivity of the interest margin quantifies instead the short-term (twelve months) impact on the interest margin of a parallel, instantaneous and permanent shock in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin. The operating limit currently in force for shift sensitivity of interest margin (by -50 bp parallel shift of yield curves) amounts to BAM -5,867 thousand (EUR -3,000 thousand).

The result of shift sensitivity of the interest margin, if changes in interest rates market moving had been 100 basis points higher and all other variables were held constant at 31 December 2021 is an increase of BAM 5,434 thousand (31 December 2020: BAM 4,543 thousand), while if changes in interest rates market moving had been 100 basis points lower the result is decrease of BAM 3,831 thousand as of 31 December 2021 (31 December 2020: decrease of BAM 2,613 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-50 bps. Increase by 50 bps of interest rates would increase the result for the year by BAM 2,734 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by BAM 3,596 thousand as of 31 December 2021 (31 December 2020: BAM 2,419 thousand for +50 bps and decrease of BAM 2,478 thousand for -50 bps).

In order to measure the Bank's vulnerability under stressful market conditions the interest rate risk measurement system adopted by the Bank allows a meaningful evaluation of the effect of stressful market conditions on the Bank ("scenario analysis"), or rather abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e. basis risk), changes in the slope and the shape of the yield curve (i.e. yield curve risk), changes in the liquidity of key financial markets or changes in the volatility of market rates.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management

The Bank's objectives for capital management, which is a broader concept, in the opinion of the Management Board, than the 'equity' shown in the statement of financial position, are as follows:

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina for supervisory purposes. The required information is filed with the Agency on a quarterly basis.

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

- Tier 1 Capital or Core Capital: share capital (net of the carrying value of treasury shares and priority shares), share premium, retained earnings and reserves created by appropriations of retained earnings; amount of revaluation reserves arising from the effects of changes in the fair value of assets and audited profit for the current period, upon approval and retention by the General Shareholders Assembly;
- Tier 2 Capital or Supplementary Capital: priority shares, qualifying principal amounts of subordinated loan capital..
- Deductible items.

Risk-weighted assets are measured by means of a hierarchy of weightings in accordance with FBA regulation classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management (*continued*)

The table below summarises the computation of regulatory capital and the capital adequacy ratio of the Bank as of 31 December 2021 and 31 December 2020, taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2021	31 December 2020
Tier 1 capital		
Share capital	44,776	44,776
Share premium	57,415	57,415
Retained earnings and other reserves	200,866	198,753
Intangible assets	(2,489)	(3,667)
Total qualifying Tier 1 Capital	**300,568**	**297,277**
Tier 2 capital		
General provisions – FBA regulations	-	-
Priority shares	6	6
Adjustment for shortfall in regulatory reserve	-	-
Total qualifying Tier 2 Capital	**6**	**6**
Total regulatory capital	**300,574**	**297,283**
Capital requirements (*)		
Risk weighted assets	1,432,824	1,403,449
Operational risk	111,246	111,437
Total	**1,544,070**	**1,514,886**
Capital adequacy ratio (unaudited)	**19,47%**	**19,62%**

(*) Capital requirements stated above are calculated in accordance with FBA regulatory requirements.

Capital adequacy ratio will be audited during the audit for the regulatory requirements.

Leverage ratio reached 11.36% as of 31 December 2021 (regulatory limit: 6.0%), calculated in accordance with FBA Decision on the Bank's Capital Calculation as ration between Tier 1 Capital and Exposure in accordance with FBA Decision.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

The fair value of foreign currency forward derivatives is estimated using available market data for FX spot and cash curves of relevant currencies. Based on such inputs, forward points and forward rates are computed, which are then used for daily mark-to-market of outstanding deals.

The fair value of equity securities classified through other comprehensive income and at fair value through profit or loss traded on an active market is based on closing bid prices at the reporting date for these securities.

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

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

6.2 Financial instruments at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

31 December 2021	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through other comprehensive income	*22 a)*				
Treasury bills issued by the Federation of Bosnia and Herzegovina		-	19,996	-	**19,996**
Treasury bills issued by the Croatia		15,214	-	-	**15,214**
Bonds issued by the Croatia		43,376	-	-	**43,376**
Equity securities issued by non-resident legal entities		-	83	-	**83**
Equity securities issued by resident legal entities		-	54	-	**54**
Financial assets at fair value through profit and loss	*22 b)*				
Equity shares		-	295	-	**295**
Derivatives held for trading – OTC product		-	10	-	**10**
Total		**58,590**	**20,438**	-	**79,028**
Financial liabilities available at fair value through profit and loss	*22 c)*				
Derivatives held for trading – OTC product		-	7	-	**7**
Total		**-**	**7**	**-**	**7**

31 December 2020	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through other comprehensive income	*22 a)*				
Treasury bills issued by the Federation of Bosnia and Herzegovina		-	55,016	-	**55,016**
Equity securities issued by non-resident legal entities		-	76	-	**76**
Equity securities issued by resident legal entities		-	54	-	**54**
Financial assets at fair value through profit and loss	*22 b)*				
Equity shares		297	-	-	**297**
Derivatives held for trading – OTC product		-	170		**170**
Total		**297**	**55,316**	-	**55,613**
Financial liabilities available at fair value through profit and loss	*22 c)*				
Derivatives held for trading – OTC product		-	106	-	**106**
Total		**-**	**106**	**-**	**106**

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

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

6.3 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Cash and cash equivalents	-	32,206	540,662	572,868	572,868
Reserves with the Central Bank	-	-	196,884	196,884	196,884
Placements with other banks	-	2	-	2	2
Financial assets at amortized cost	-	6,105	-	6,105	6,105
Loans and receivables from customers	-	296,422	1,284,149	1,580,571	1,593,375
Total	-	334,735	2,021,695	2,356,430	2,369,234
Liabilities					
Due to banks and other financial institutions	-	140,228	246,111	386,339	393,566
Due to customers	-	1,256,589	452,079	1,708,668	1,706,238
Lease Liabilities	-	-	10,717	10,717	10,717
Total	-	1,396,817	708,907	2,105,724	2,110,521

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Cash and cash equivalents	-	32,640	426,269	458,909	458,909
Reserves with the Central Bank	-	-	190,280	190,280	190,280
Placements with other banks	-	29	-	29	29
Financial assets at amortized cost	-	5,832	-	5,832	5,832
Loans and receivables from customers	-	289,579	1,255,006	1,544,585	1,578,987
Total	-	**328,080**	**1,871,555**	**2,199,635**	**2,234,037**
Liabilities					
Due to banks and other financial institutions	-	199,584	175,510	375,094	387,529
Due to customers	-	1,074,832	500,226	1,575,058	1,572,713
Lease Liabilities	-	-	11,899	11,899	11,899
Total	-	**1,274,416**	**687,635**	**1,962,051**	**1,972,141**

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

6.3 Financial instruments not measured at fair value (*continued*)

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the methods, assumptions and limitations described below apply in accordance with the approach revised at Intesa Sanpaolo Group.

Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value. Obligatory reserve with the Central Bank is classified as Level 3, as well as, on demand balances versus financial institutions in consideration of the fact that the setting of their exit price could include subjective valuations of the counterparty's credit risk difficult to quantify.

Placements with other banks

Placements with banks mostly represent overnight and short-term deposits; hence there is no significant difference between the fair value of these deposits and their carrying value. Their classification to Level 2 of the fair value hierarchy depends on the absence, or low relevance, of non-observable parameters in setting their exit price.

Loans and receivables from customers, amounts due to customers, banks and other financial institutions

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, net of collective impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

For the purpose of division by fair value level, non performing/impaired assets are classified in Level 3, since the exit price is significantly influenced by the forecasts for losses determined by the credit officer based on future cash flow expectations and the related collection schedules. This entity specific assessment component outweighs other components (as, for example market interest rates), leading to attribution of Level 3 in the hierarchy.

Performing loans with original maturity equal or lower than 12 months, as well as short-term liabilities to customers and banks are classified into Level 2 of the fair value hierarchy, due to the absence or low relevance of non-observable parameters in setting their exit prices.

Medium-long term loans and liabilities with customers, banks and other financial institutions are classified into Level 3 of the fair value hierarchy, considering the relevance of entity specific assessment components in estimating the exit price.

7. OPERATING SEGMENTS

On a regular basis, the Bank's management analyses the overall results of the Bank with reference to the contributions by individually significant operating segments. Corporate, Retail and Treasury business lines have been identified as relevant operating segments, insofar as financial products managed by each of them and the respective counterparties with whom each segment enters into negotiation are specific for each segment and are not managed by / related to any of the others.

Even though lending and fund collection are actually performed by all operating segments, the financial characteristics of the loans, deposits and credit lines managed are specifically designed for each of them and are applicable only to counterparties related to each specific segment.

The financial results of each operating segment are recorded through a combined methodology of “direct” and “indirect” allocation of income and cost. Income is mainly directly allocated to the respective segment where it was generated, while costs are directly allocated whenever they are identified as immediately generated within the operating segment and are indirectly charged to the operating segments whenever they are sustained by central organisational units. Indirect cost allocation is performed according to pre-determined allocation keys with the aim of comprehensive cost allocation to identified business segments (legal entities, citizens, funds and financial markets). The most important keys of distribution are: amount of assets, number of employees, area of space, number of cards, etc. Indirect distribution of costs refers, among other things, to the operating costs of the central organizational unit, information technology, maintenance, rent and communication.

An internal transfer rate methodology is also applied for allocation of the cost of funding to the operating segments.

Profit or loss statement items in the tables presented below on segment information are in the format used for management reporting purposes.

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

7. OPERATING SEGMENTS *(continued)*

Segmental information for the year ending 31 December 2021

	Retail	Corporate	Treasury	Total
Interest income	48,268	24,308	739	73,315
Interest expense	(4,782)	(2,227)	(3,002)	(10,011)
Net interest income	**43,486**	**22,081**	**(2,263)**	**63,304**
Fee and commission income	24,427	9,636	467	34,530
Fee and commission expense	(6,571)	(881)	(500)	(7,952)
Net fee and commission income	**17,856**	**8,755**	**(33)**	**26,578**
Net profit of trading activities and foreign exchange	-	-	2,513	2,513
Other operating income/expense	(4,597)	(1,762)	(408)	(6,767)
Operating income/expense	**(4,597)**	**(1,762)**	**2,105**	**(4,254)**
Personnel expense	(16,695)	(5,637)	(563)	(22,895)
Other administrative expense	(12,713)	(3,385)	(899)	(16,997)
Depreciation expense	(4,868)	(737)	(94)	(5,699)
Operating expense	**(34,276)**	**(9,759)**	**(1,556)**	**(45,591)**
Profit before impairment losses, and other provisions and income tax	**22,469**	**19,315**	**(1,747)**	**40,037**
Reversal of Impairment / (Impairment losses) and provisions	(4,167)	(2,242)	683	(5,726)
PROFIT BEFORE INCOME TAX	**18,302**	**17,073**	**(1,064)**	**34,311**
Income tax				(3,619)
NET PROFIT FOR THE YEAR				**30,692**

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

7. OPERATING SEGMENTS *(continued)*

Segmental information as at 31 December 2021

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	32,206	-	540,662	572,868
Obligatory reserves with the Central Bank	-	-	196,884	196,884
Placements with other banks	-	-	2	2
Financial assets at fair value through other comprehensive income	-	-	78,723	78,723
Financial assets at fair value through profit or loss	-	-	305	305
Financial assets at amortized cost	-	-	6,105	6,105
Loans and receivables from customers	669,070	924,305	-	1,593,375
Other unallocated amounts	-	-	-	37,408
TOTAL ASSETS	**701,276**	**924,305**	**822,681**	**2,485,670**
Due to banks and other financial institutions	-	9,307	384,259	393,566
Due to customers	745,931	960,307	-	1,706,238
Lease Liabilities	3,597	7,120	-	10,717
Financial liabilities at fair value through profit or loss	-	-	7	7
Other unallocated amounts	-	-	-	39,687
TOTAL LIABILITIES	**749,528**	**976,734**	**384,266**	**2,150,215**

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

7. OPERATING SEGMENTS *(continued)*

Segment information for the year ending 31 December 2020

	Retail	Corporate	Treasury	Total
Interest income	49,300	24,483	256	74,039
Interest expense	(5,379)	(4,332)	(2,145)	(11,856)
Net interest income	**43,921**	**20,151**	**(1,889)**	**62,183**
Fee and commission income	21,932	8,159	475	30,566
Fee and commission expense	(5,291)	(694)	(217)	(6,202)
Net fee and commission income	**16,641**	**7,465**	**258**	**24,364**
Net profit of trading activities and foreign exchange	-	-	2,376	2,376
Other operating income/expense	(5,138)	(2,286)	(791)	(8,215)
Operating income/expense	**(5,138)**	**(2,286)**	**1,585**	**(5,839)**
Personnel expense	(15,503)	(5,353)	(482)	(21,338)
Other administrative expense	(12,475)	(2,781)	(737)	(15,993)
Depreciation expense	(4,908)	(718)	(47)	(5,673)
Operating expense	**(32,886)**	**(8,852)**	**(1,266)**	**(43,004)**
Profit before impairment losses, and other provisions and income tax	**22,538**	**16,478**	**(1,312)**	**37,704**
Impairment losses and provisions	(10,814)	(4,157)	(1,505)	(16,476)
PROFIT BEFORE INCOME TAX	**11,724**	**12,321**	**(2,817)**	**21,228**
Income tax				(2,983)
NET PROFIT FOR THE YEAR				**18,245**

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

7. OPERATING SEGMENTS *(continued)*

Segment information as at 31 December 2020

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	32,640	-	426,269	458,909
Obligatory reserves with the Central Bank	-	-	190,280	190,280
Placements with other banks	-	-	29	29
Financial assets available for sale	-	-	55,146	55,146
Financial assets at fair value through profit or loss	-	-	467	467
Financial assets at amortized cost	-	-	5,832	5,832
Loans and receivables from customers	684,359	894,628	-	1,578,987
Other unallocated amounts	-	-	-	40,600
TOTAL ASSETS	**716,999**	**894,628**	**678,023**	**2,330,250**
Due to banks and other financial institutions	-	13,367	374,162	387,529
Due to customers	703,195	869,518	-	1,572,713
Lease Liabilities	4,372	7,527	-	11,899
Financial liabilities at fair value through profit or loss	-	-	106	106
Other unallocated amounts	-	-	-	37,107
TOTAL LIABILITIES	**707,567**	**890,412**	**374,268**	**2,009,354**

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

8. INTEREST INCOME

	2021	2020
Retail clients	45,559	46,593
Corporate clients	26,930	27,011
Banks and other financial institutions	35	263
Interest on amortized cost assets	141	141
Interest on financial assets through other comprehensive income	650	31
	73,315	**74,039**

9. INTEREST EXPENSE

	2021	2020
Retail clients	4,168	4,514
Corporate clients	1,747	3,757
Banks and other financial institutions	1,611	1,716
Negative interest on interest bearing assets	2,373	1,761
Other	112	108
	10,011	**11,856**

10. FEE AND COMMISSION INCOME

	2021	2020
Credit card business	9,811	8,356
Domestic payment transactions	7,029	6,147
Account service fee	4,927	4,637
Foreign payment transactions	3,997	3,455
Guarantees	2,216	2,311
Loans to clients	2,272	1,811
FX transactions	1,610	1,294
Agency services	68	69
Other	2,594	2,486
	34,530	**30.566**

Other fee and commission income includes ATM and mobile banking fees from retail customers.

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

11. FEE AND COMMISSION EXPENSE

	2021	2020
Credit card operations	5,837	4,628
Banks services	891	827
Domestic payment transactions	338	235
Other	886	512
	7,952	**6,202**

12. NET TRADING INCOME

	2021	2020
Net gains from foreign exchange spot trading	2,560	2,594
Net gains on equity securities	15	(32)
Net gains/losses on financial instruments at fair value through profit or loss – Equity shares	(2)	(67)
Net gains/losses on financial instruments at fair value through profit or loss - Derivatives held for trading – OTC product	(60)	(119)
	2,513	**2,376**

13. OTHER OPERATING INCOME / (EXPENSE)

	2021	2020
Savings deposit insurance	(3,304)	(3,067)
Card intermediation expenses	(2,679)	(2,455)
Consultancy and the Federal Banking Agency expenses	(1,564)	(1,509)
Net charge to profit and loss statement, property (Note 24)	117	(796)
Revaluation effects of the property (Note 25)	-	(225)
Other income / (expense)	83	(429)
Income from claims settled by insurance companies and recharges from customers	581	266
	(6,767)	**(8,215)**

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

14. PERSONNEL EXPENSES

	2021	2020
Net salaries	14,510	13,928
Tax and contributions	7,758	7,179
Provisions for liabilities and charges (Note 30)	197	(126)
Other expenses	430	357
	22,895	**21,338**

Personnel expenses include BAM 3,674 thousand (31 December 2020: BAM 3,633 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid. The Bank had 562 employees as at 31 December 2021 (562 as at 31 December 2020).

15. ADMINISTRATIVE EXPENSES

	2021	2020
Maintenance expenses	4,927	4,633
Rent and other rent-related expense	1,611	1,456
Telecommunication and post expense	3,043	2,798
Security and transport costs	2,298	2,211
Consultancy expenses	677	704
Representation and marketing expense	693	600
Material expenses	467	988
Energy	714	718
Net of provisions for liabilities and charges (Note 30)	711	294
Other insurance charges	483	457
Other expenses	1,373	1,134
	16,997	**15,993**

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

16. NET IMPAIRMENT LOSSES AND OTHER PROVISIONS

The charge to profit or loss statement in respect of impairment losses and provisions is analysed as follows:

Net impairment losses and provisions	**2021**	**2020**
- for cash and cash equivalents (Note 19)	(81)	28
- for reserves with Central bank (Note 20)	(6)	1
-for Financial assets at Amortized cost (Note 22.c)	273	(302)
- for loans to customers (Note 23)	(6,645)	(13,830)
- for other assets (Note 24)	22	(586)
- for off-balance sheet items (Note 30)	(40)	(315)
- for financial assets at fair value through other comprehensive income	751	(1,472)
	(5,726)	**(16,476)**

17. INCOME TAXES

	2021	**2020**
Current tax	3,756	2,961
Deferred tax (Note 31)	(137)	22
Total Income tax	**3,619**	**2,983**

Income tax recognised in the profit or loss statement comprises current tax. Official corporate income tax rate is 10% (2020: 10%).

	2021	**2020**
Profit before income tax	34,311	21,228
Tax calculated at rate of 10%	3,431	2,123
Non-deductible expenses	325	838
Deferred tax – Note 32	(137)	(22)
Income tax expense	**3,619**	**2,983**
Average effective income tax rate	**10.55%**	**14.05%**

18. BASIC AND DILUTED EARNINGS PER SHARE

	2021	**2020**
Net profit (BAM'000)	30,692	18,425
Weighted average number of ordinary shares outstanding	447,760	447,760
Basic and diluted earnings per share (BAM)	**68,55**	**41,15**

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

19. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Current account with the Central Bank	485,599	275,233
Current accounts with other banks	55,609	151,501
Cash in hand in domestic currency	27,142	27,246
Cash in hand in foreign currency	5,064	5,394
	573,414	**459,374**
Less: impairment allowance	(546)	(465)
	572,868	**458,909**
Balance as at 1 January	**465**	**43**
Impact of the first-time adoption – FBA impairments	-	450
Net charge to profit or loss statement (Note 16)	81	(28)
Balance at the end of period	**546**	**465**

20. RESERVES WITH THE CENTRAL BANK

	31 December 2021	31 December 2020
Obligatory reserve	197,081	190,471
	197,081	**190,471**
Less: impairment allowance	(197)	(191)
	196,884	**191,510**
Balance as at 1 January	**191**	**-**
Impact of the first-time adoption – FBA impairments	-	192
Net charge to profit or loss statement (Note 16)	6	(1)
Balance at the end of period	**197**	**191**

The minimum obligatory reserve is calculated as a percentage of the average balance of total deposits and borrowed funds for each business day during the 10 calendar days, in arrears. The obligatory reserve rate is 10% at. deposits and borrowed funds regardless of the currency in which the funds are denominated.
The interest rate (negative) on minimum reserve requirements is 0.5% in 2021. for funds held in local currency, and 0.6% for funds held in foreign currencies (0.5% for all currencies in 2020). Cash held as an obligatory reserve in the account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

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

21. PLACEMENTS WITH OTHER BANKS

	31 December 2021	31 December 2020
Placements with banks	**2**	**29**

As at 31 December 2021, the Bank had placement as follows:

Placement with bank:	Original currency	Original currency	BAM	Maturity	Interest rate
Sparlasse Bank of BiH	EUR	0,6	1	01.01.2022	-
Raiffeisen Bank of BiH	KM	1	1	01.01.2022	-
			2		

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

22. FINANCIAL ASSETS AND LIABILITIES

(a) Financial assets at fair value through other comprehensive income

	31 December 2021	31 December 2020
Debt instruments		
Treasury bills issued by the Federation of Bosnia and Herzegovina	19,996	55,016
Treasury bills issued by the Croatia	15,214	-
Bonds issued by the Croatia	43,376	-
	78,586	55,016
Equity instruments		
Equity securities at fair value	137	130
	137	130
	78,723	**55,146**

Changes in Fair Value and corresponding allowance for ECL for Financial Assets at fair value through other comprehensive income (Stage 1) is as follows:

	31.12.2021	31.12.2020
Beginning balance 1 January	**1,551**	**40**
Fair valuation effects (Note Changes in Equity)	(906)	1,511
Allowance for expected credit losses (Note 16)	(751)	-
Balance as at 31 December	**(106)**	**1,551**

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

	31 December 2021	31 December 2020
Financial assets		
Equity shares designated at fair value through profit or loss	295	297
Derivatives held for trading	10	170
	305	**467**

Derivatives held for trading are represented by foreign currency swaps, details of which are presented in the table below:

Financial assets	31 December 2021 Notional amount	31 December 2021 Fair value	31 December 2020 Notional amount	31 December 2020 Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	**1,410**	**10**	**12,700**	**170**

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

22. FINANCIAL ASSETS AND LIABLITIES *(continued)*

(c) Financial assets at amortized cost

	31 December 2021	31 December 2020
Debt instrument		
Bonds issued by the Canton	6,203	6,203
Less: impairment allowance	(98)	(371)
	6,105	**5,832**
Balance as at 1 January	**371**	**-**
Net charge to profit or loss statement (Note 16)	(273)	371
Balance at the end of period	**98**	**371**

The interest rate on Canton bonds is 2.3%.

(d) Financial liabilities at fair value through profit or loss

	31 December 2021	31 December 2020
Financial liabilities		
Derivatives held for trading	7	106
	7	**106**

Derivatives held for trading are represented by foreign currency swaps, of which are presented in the table below:

Financial liabilities	**31 December 2021 Notional amount**	**31 December 2021 Fair value**	**31 December 2020 Notional amount**	**31 December 2020 Fair value**
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	**1,400**	**7**	**12,688**	**106**

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

23. LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2021	31 December 2020
Short-term loans		
Corporate		
- in BAM and BAM linked to foreign currency	313,164	312,231
- in foreign currency	14,920	236
Retail		
- in BAM and BAM linked to foreign currency	68,244	73,570
	396,328	**386,037**
Long-term loans		
Corporate		
-in BAM and BAM linked to foreign currency	617,282	601,132
Retail		
-in BAM and BAM linked to foreign currency	655,373	663,442
-in foreign currency	-	-
	1,272,655	**1,264,574**
Total loans	1,668,983	1,650,611
Less: impairment allowance	(75,608)	(71,624)
	1,593,375	**1,578,987**

Loans and receivables from customers are presented including accrued interest in the amount of BAM 5,964 thousand (2020: BAM 6,085 thousand), and net of up-front fees in the amount of BAM 11,146 thousand (2020: BAM 11,849 thousand).

As of 31 December 2021, the net amount of short-term and long-term loans in domestic currency includes loans disbursed and repayable in domestic currency index-linked to the BAM:EUR exchange rate in the amount of BAM 38,010 thousand and BAM 779,893 thousand, respectively (31 December 2020: BAM 131,977 thousand and BAM 789,974 thousand, respectively).

Movements in the provision for impairment of loans and receivables are summarised as follows:

	2021	2020
Balance as at 1 January	**71,624**	**63,455**
The first time adoption – FBA Impairments	-	6,509
Net charge to profit or loss statement (Note 16)	6,645	13,830
Unwinding of discount	(405)	(347)
Write-offs	(2,253)	(11,843)
Sales and other transfers	(3)	20
Balance as at 31 December	**75,608**	**71,624**

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

23. LOANS AND RECEIVABLES FROM CUSTOMERS *(continued)*

Concentration of credit risk by industry:

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

	31 December 2021	31 December 2020
Trade	304,563	308,047
Manufacturing, agriculture, forestry, mining and energy	294,852	300,587
Services, finance, sport, tourism	99,578	86,005
Construction industry	67,078	52,773
Administrative and other public institutions	59,773	70,572
Transport and telecommunications	59,253	47,628
Other	60,269	47,987
Citizens	723,617	737,012
	1,668,983	**1,650,611**

24. OTHER ASSETS

	31 December 2021	31 December 2020
Receivables from card operations	2,583	2,200
Prepaid expenses	2,511	1,616
Fees receivable	1,242	1,144
Assets held for sale	1,030	1,031
Assets acquired upon foreclosure of loans	29	273
Other assets	1,812	2,029
Total other assets	**9,207**	**8,293**
Less: impairment allowance	(1,848)	(2,388)
	7,359	**5,905**

The movement in the impairment allowance for other assets are summarised as follows:

Balance as at 1 January	**2,388**	**1,588**
Impact of first-time adoption – FBA Impairments	-	314
Net charge to profit or loss statement (Note 16)	(22)	586
Net charge to profit or loss statement - Assets acquired upon foreclosure of loans and Assets Held for Sale (Note 13)	(117)	796
Transfers – other	(126)	-
Write-offs and sale of property	(275)	(896)
Balance as at 31 December	**1,848**	**2,388**

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

25. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

	Land and buildings	Computers and other equipment	Assets in the course of construction	Leasehold improvements	Buildings Right of Use	Equipment Right of Use	Total
Cost							
At 1 January 2020	**11,665**	**19,118**	**176**	**8,774**	**15,445**	**453**	**55,631**
Additions	-	-	1,967	-	1,117	95	3,179
Revaluation effect	983	-	-	-	-	-	983
Disposals	(72)	(325)	-	(468)	(952)	(209)	(2,026)
Transfers	-	1,220	(1,223)	3	-	-	-
At 31 December 2020	**12,576**	**20,013**	**920**	**8,309**	**15,610**	**339**	**57,767**
Additions	-	-	893	-	2,146	158	3,197
Disposals	-	(895)	-	-	(1,868)	(104)	(2,867)
Transfers	27	1,151	(1,692)	514	-	-	-
At 31 December 2021	**12,603**	**20,269**	**121**	**8,823**	**15,888**	**393**	**58,097**
Accumulated depreciation							
At 1 January 2020	**3,480**	**15,689**	**-**	**8,116**	**1,760**	**78**	**29,123**
Charge for the year	321	1,159	-	252	2,251	106	4,089
Disposals	(29)	(303)	-	(445)	(286)	(76)	(1,139)
At 31 December 2020	**3,772**	**16,545**	**-**	**7,923**	**3,725**	**108**	**32,073**
Charge for the year	376	1,161	-	278	2,307	109	4,231
Disposals	-	(840)	-	-	(683)	(101)	(1,624)
At 31 December	**4,148**	**16,866**	**-**	**8,201**	**5,349**	**116**	**34,680**
Net carrying value							
At 31 December 2021	**8,455**	**3,403**	**121**	**622**	**10,539**	**277**	**23,417**
At 31 December 2020	**8,804**	**3,468**	**920**	**386**	**11,885**	**231**	**25,694**

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

25. PROPERTY, EQUIPMENT and RIGT OF USE ASSETS (continued)

Gross value of Property and Equipment that is in use and 100% depreciated at the end of 2021 amount to BAM 18,960 thousand (2020: BAM 18,020 thousand).

Lease Liabilities		
Liabilities based on Asset with Right of Use – IFRS 16		
- Obligation for renting office space	10,467	11,680
- Obligation for renting other equipment	250	219
Total Liabilities – IFRS 16	**10,717**	**11,899**

Maturity analysis - Contractual undiscounted cash flows, of Lease Liabilities are presented as follows:

	Buildings	**Equipment**	**Total**
Less than one year	2,029	104	2,133
Between one and five years	5,809	115	5,924
More than five years	3,842	-	3,842
At 31 December 2020	**11,680**	**219**	**11,899**
Less than one year	2,137	100	2,237
Between one and five years	6,612	150	6,762
More than five years	1,718	-	1,718
At 31 December 2021	**10,467**	**250**	**10,717**

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

26. INTANGIBLE ASSETS

	Software and licence	Assets under development	Total
Cost			
At 1 January 2020	**15,695**	**805**	**16,500**
Additions	-	472	472
Transfers	707	(707)	-
At 31 December 2020	**16,402**	**570**	**16,972**
Additions	-	290	290
Transfers	860	(860)	-
At 31 December 2021	**17,262**	**-**	**17,262**
Amortisation			
At 1 January 2020	**11,721**	**-**	**11,721**
Charge for the year	1,584	-	1,584
At 31 December 2020	**13,305**	**-**	**13,305**
Charge for the year	1,468	-	1,468
At 31 December 2021	**14,773**	**-**	**14,773**
Net carrying value			
At 31 December 2021	**2,489**	**-**	**2,489**
At 31 December 2020	**3,098**	**570**	**3,667**

Value of Intangible Assets that is in use and 100% depreciated at the end of 2021 is in the amount of BAM 10,305 thousand (2020: BAM 8,523 thousand).

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

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Due to banks		
Current accounts and term deposits		
Demand deposits		
-in BAM	3,573	842
-in foreign currencies	17,629	12,923
Term deposits		
-in BAM	12,500	6,700
-in foreign currencies	109,526	185,819
	143,228	**206,284**
Borrowings		
Long-term borrowings		
-foreign banks	243,667	167,881
	243,667	**167,881**
Total Due to Banks	**386,895**	**374,165**
Due to other financial institutions		
Long-term borrowings		
-in foreign currencies	6,671	13,364
Total borrowings from other financial institutions	**6,671**	**13,364**
Total Due to Banks and other financial institutions	**393,566**	**387,529**

As at 31 December 2021, the Bank had borrowings from below institutions:	31 December 2021	average interest rate	31 December 2020	average interest rate
Borrowings to banks				
European Investment bank_EIB	151,178	0.73%	124,706	0.73%
European bank for Reconstruction and Development_EBRD	92,330	0.75%	43,028	0.73%
	243,508		**167,734**	
Borrowings to Other financial institutions				
European Fund for SouthEast Europe_EFSE	**6,671**	2.45%	**13,364**	2.45%

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

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS *(continued)*

Unused funds from financial institutions are as follows:

	31 December 2021	31 December 2020
Borrowings to banks		
European Investment bank_EIB	12,910	11,964
European bank for Reconstruction and Development_EBRD	3,912	39,117
	16,822	**51,081**

Current accounts, deposits and borrowings from banks presented above include accrued interest in the amount of BAM 159 thousand (2020: BAM 147 thousand).
Borrowings from other financial institutions are presented including accrued interest in the amount of BAM 43 thousand (2020: BAM 108 thousand).

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

28. DUE TO CUSTOMERS

	31 December 2021	31 December 2020
Demand deposits:		
Retail clients:		
-in BAM	291,540	234,782
-in foreign currencies	102,909	84,210
Corporate clients:		
-in BAM	706,526	609,763
-in foreign currencies	118,197	126,962
Total demand deposits	**1,219,172**	**1,055,717**
Term deposits:		
Retail clients:		
-in BAM	120,093	134,419
-in foreign currencies	231,389	249,785
Corporate clients:		
-in BAM	115,602	108,875
-in foreign currencies	19,982	23,917
Total term deposits	**487,066**	**516,996**
Total Due to customers	**1,706,238**	**1,572,713**

28. DUE TO CUSTOMERS (continued)

Amounts due to customers are presented including accrued interest in the amount of BAM 4,708 thousand (2020: BAM 5,525 thousand).
In Retail banking, interest rates on demand deposits are 0.05% (2020: 0.05%). The interest rates on time deposits are in the range of 0.01% to 0.30% (2020: 0.01% to 1.50%) and for other time deposits (kids saving CRISPY, Step saving, saving with premium) up to 1%.
For Small Corporate clients, interest rates on demand deposits range from 0.00% to 0.25% (2020: from 0.00% to 1.00%). The interest rates on time deposits are in the range of 0.00% to 2.30% (2020: 0.00% to 2.30%).
In Corporate banking, interest rates on demand deposits are from 0.00% to 0.35% (2020: from 0.00% to 0.35%). The interest rates on time deposits are in the range of 0.00% to 2.58% (2020: 0.00% to 2.58%).

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

29. OTHER LIABILITIES

	31 December 2021	31 December 2020
Loan repayments before due dates	10,533	8,062
Liabilities to shareholders	8,194	8,194
Credit card liabilities	3,072	2,724
Liabilities for employees' bonuses	2,718	2,083
Liabilities to vendors	1,943	2,222
Liabilities in respect of managed funds (Note 36)	23	26
Other liabilities	6,825	8,139
	33,308	**31,450**

30. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2021	31 December 2020
Provisions for off-balance-sheet credit risk	2,304	2,264
Provisions for legal proceedings	3,185	2,655
Provisions for retirement employee benefits	836	670
	6,325	**5,589**

Movement in provisions for liabilities and charges for the year ended 31 December 2021 and 31 December 2020 are summarized as follows:

	Provisions for legal proceedings (Note 15)	Provisions for retirement employee benefits (Note 14)	Provisions for off-balance-sheet credit risk (Note 16)	Total
Balance at 1 January 2020	**2,504**	**825**	**1,664**	**4,993**
Impact of first-time adoption–FBA Impairments	-	-	309	309
Net charge to profit or loss statement	294	(126)	315	483
Reductions arising from payments	(143)	(29)	(24)	(196)
Balance at 31 December 2020	**2,655**	**670**	**2,264**	**5,589**
Balance at 1 January 2021	**2,655**	**670**	**2,264**	**5,589**
Net charge to profit or loss statement	711	197	40	948
Reductions arising from payments	(181)	(31)	-	(212)
Balance at 31 December 2021	**3,185**	**836**	**2,304**	**6,325**

The calculation of provisions for retirement benefits of BAM 614 thousand as of 31 December 2021 (2020: BAM 580 thousand) is performed by an independent actuary, applying a discount rate of 5% over the working life and average salary of each employee.

Provisions for unused days of vacation of BAM 222 thousand as of 31 December 2021 (2020: BAM 90 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

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

31. DEFERRED TAX BALANCES

The movement of deferred tax balances is presented in the table below:

	Deferred tax liabilities	Deferred tax assets
As at 1 January 2020	**51**	**332**
Recognised in profit or loss		
Decrease in deferred tax assets for provisions for litigations	-	13
Decrease in deferred tax assets for other provisions	-	(18)
Increase in deferred tax assets for other provisions	17	-
As at 31 December 2020	**68**	**327**
As at 1 January 2021	**68**	**327**
Recognised in other comprehensive income		
Decrease in deferred tax liabilities	-	-
Recognised in profit or loss		
Increase in deferred tax assets for provisions for litigations	-	46
Decrease in deferred tax assets for other provisions	-	78
Increase in deferred tax liabilities for other provisions	(14)	-
As at 31 December 2021	**54**	**450**

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

32. SHARE CAPITAL

	31 December 2021 and 31 December 2020		
	Class ES Ordinary shares	**Class EP Preference shares**	**Total**
Number of shares	447,760	60	447,820
Pair value (BAM)	100	100	100
Total	**44,776**	**6**	**44,782**

Each registered ordinary share carries the right of one vote per share, while preference shares are non-voting.

Preference shareholders are entitled to receive dividends when declared, non-cumulatively, with priority rights over the ordinary shareholders in receipt of dividends.

The shareholding structure of the Bank as at 31 December 2021 is as follows:
- Privredna banka Zagreb d.d. 99.99%
- Other 0.01%

The shareholding structure of the Bank as at 31 December 2020 was as follows:
- Privredna banka Zagreb d.d. 99.99%
- Other 0.01%

33. SHARE-BASED PAYMENTS

In 2020 the Bank purchased 2.137 equity shares of Privredna banka d.d. Zagreb. During 2020, part of the shares has been transferred to the beneficiary (774). As at 31 December Bank has 1.363 equity shares of Privredna banka d.d. Zagreb in its portfolio of financial assets at Fair Value through Profit and Loss (with fair value measured based on equity shares quotation on the Zagreb Stock Exchange). During 2021 there were no transfer of shares. The residual shares will be assigned to beneficiaries when vesting conditions are met.

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

34. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2021	31 December 2020
Contingent liabilities		
Performance guarantees	91,199	90,472
Payment guarantees	49,606	45,037
Letters of credit	4,928	6,882
Total contingent liabilities	**145,733**	**142,391**
Commitments		
Undrawn lending commitments	383,002	408,019
Total commitments	**383,002**	**408,019**
Total contingent liabilities and commitments	**528,735**	**550,410**

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Contingents and Commitments.

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	1,482	437	345	2,264	1,026	279	359	1,664
First time adoption of FBA Impairments	-	-	-	-	261	30	18	309
Transfers to Stage 1	209	-199	-10	0	7	-6	-1	0
Transfers to Stage 2	-38	111	-73	0	-190	191	-1	0
Transfers to Stage 3	-10	-73	83	0	-134	-54	188	0
Net remeasurementof loss allowance	1,534	548	413	2,495	300	-55	-36	209
New financial assets originated or purchased	-538	217	211	-110	565	192	55	812
Financial assets that have been derecognized	-1,300	-647	-398	-2,345	-353	-140	-213	-706
Total effect through Profit and Loss (Note 30)	-304	118	226	40	512	-3	-194	315
Other movements	-	-	0	0	-	-	-24	-24
Balance as at 31 December	**1,339**	**394**	**571**	**2,304**	**1,482**	**437**	**345**	**2,264**

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

35. RELATED-PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo S.p.A Group ("Intesa Sanpaolo Group"). The key shareholder of the Bank is Privredna banka Zagreb d.d. 99.99% (2020: Privredna banka Zagreb d.d. 99.99%) of the Bank's shares and the ultimate parent company is Intesa Sanpaolo S.p.A. The Bank considers that it has an immediate related-party relationship with its key shareholders and their subsidiaries; its associates; Supervisory Board members and Management Board members and other executive management ("key management personnel"); and close family members of key management personnel.

Related party transactions are part of the Bank's regular operations.

The overview of related party transactions as at 31 December 2021 and 31 December 2020 is presented below:

	31 December 2021	31 December 2020
Assets		
Receivables from key management personnel and their close family members	215	302
Bank accounts and loans – Intesa Sanpaolo Group	20,594	50,533
Loans and receivables from customers	14,684	-
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	2	61
Other receivables – Intesa Sanpaolo Group	832	767
	36,327	**51,663**
Liabilities		
Deposits – key management personnel and their close family members	1,089	2,660
Borrowings and term deposits – Intesa Sanpaolo Group	108,088	186,790
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	7	106
Other liabilities – Intesa Sanpaolo Group	477	430
	109,661	**189,986**
Financial commitments and contingencies		
Financial Guarantees	1,700	4,515
Undrawn lending commitments – key management personnel and close family members	116	167
	1,816	**4,682**

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

35. RELATED-PARTY TRANSACTIONS *(continued)*

	2021	**2020**
Income		
Interest income – key management personnel and close family members	10	18
Interest income – Intesa Sanpaolo Group	87	184
Other Income – Intesa Sanpaolo Group	220	207
	317	**409**
Expenses		
Interest expense – key management personnel and close family members	3	5
Interest expense – Intesa Sanpaolo Group	207	214
Other expenses – Intesa Sanpaolo Group	3,200	2,428
	3,410	**2,647**

The remuneration of key management personnel was as follows:

	2021	**2020**
Net salaries for key management personnel	1,109	1,214
Taxes and contributions on net salaries	866	947
Payments based on shares	419	279
Bonuses to management and employees	228	626
Other management benefits	306	244
	2,928	**3,310**

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

36. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets.

	31 December 2021	31 December 2020
Liabilities		
Banks and insurance companies	24,195	28,566
Government organisations	7,715	7,812
Associations and Agencies	797	800
Other	-	60
Total	**32,707**	**37,238**
Assets		
Loans to companies	32,510	36,940
Loans to citizens	174	272
Total	**32,684**	**37,212**
Amounts due to original creditors – managed funds (Note 29)	**23**	**26**

37. EVENTS AFTER THE REPORTING DATE

As of 31 December 2021, until date of the financial statements, there were no events that could significantly influence the financial statement for 2021 or were of significant importance for the Bank's operations to require disclosure within the financial statements' notes for 2021.