Financial statements for the Year ended 31 December 2020 prepared in accordance with IFRS and Independent Auditor's Report

MF Banka a.d. Banja Luka

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Independent Auditor's Report

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To the Supervisory Board and Shareholders of MF banka a.d. Banja Luka

Opinion

We have audited the accompanying financial statements of the joint stock company "MF banka a.d." Banja Luka (hereinafter: "the Bank"), which comprise of the statement of financial position as at 31 December 2020, and the statement of profit or loss and other 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code as well as in accordance with the ethical requirements relevant to our audit of the Bank's financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

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

Key audit matter Impairment of loans and trade receivables - expected loan losses	**Audit approach**
As stated in Note 17, the value of loans to customers is stated in the gross amount of BAM 385.868 thousand, that is, the net value in the amount of BAM 347.924 thousand and the impairment for expected credit losses in the amount of BAM 37.944 thousand (Note 11). As of 1 January 2020, the Bank applies the Methodology for calculating allowance for expected credit losses in accordance with the requirements of IFRS 9 and the Decision on credit risk management and determination of expected credit losses (hereinafter "the Methodology") as described in Note 4. Given that the calculation of impairment for expected credit losses per loans and receivables requires the use of complex models and assessment of the Bank's Management Board, the process of determining expected credit losses may be exposed to subjective assessment of the Bank's Management Board. Due to the complexity of the calculation of expected credit losses and exposure to the subjective assessment of the Bank's Management Board, the calculation of impairment of loans and receivables was selected as a key audit matter in the audit of financial statements for the year ended 31 December 2020.	Based on the risk assessment, we tested the calculation of expected credit losses and the application of the Methodology, as well as the assumptions used to develop the methodology. The audit team included an expert to assess the Methodology used by the Bank and to verify its compliance with the requirements of IFRS 9 and the Decision on credit risk management and determination of expected credit losses. We evaluated and tested the design, implementation and operational efficiency of key controls for identifying the exposures with significant increase of the credit risk. We assessed and tested the criteria for Stages which include exposures with increased credit risk, from the moment of approval to the moment of reporting . Based on samples, we tested the calculation the Bank made for expected credit losses for loans which have been impaired on a group-level basis. Based on samples, we tested individually significant credit exposures in order to estimate the provision for expected credit losses where an individual allowance was made . We verified the criteria which were the basis for determining whether the impairment incurred and whether conditions existed for the calculation on an individual basis. For the tested sample, we confirmed that the criteria used as basis for the individual allowance have been adequately assessed, that is, we confirmed that the changes occurred with the debtor have been adequately assessed. Based on samples, we verified the criteria for increasing credit risk in relation to the impact of Covid -19. We considered the assumptions of the management, including the estimation of future cash flows, the valuation of belonging collateral and the estimation of their recoverability . We evaluated the models used, the reasonableness of assumptions, as well as the completeness and accuracy of data used by the Bank in order to estimate the allowance for loan values which have similar characteristics in terms of credit risk. Based on conducted audit procedures and based on samples, we consider that the Bank has adequately calculated expected credit losses.

Responsibilities of Management and Supervisory Board for the Financial Statements

The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard and for such internal control as the Bank's 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.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

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

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

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

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

From the matters communicated with the Supervisory Board, 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 preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter that has not otherwise been publicly disclosed should not be communicated in our report in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nevena Milnković, certified auditor.

Grant Thornton d.o.o. Banja Luka
Banja Luka, 15 April 2021

Grant Thornton d.o.o. Banja Luka

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

Nevena Milinković
Certified Auditor
Grant Thornton d.o.o. Banja Luka

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020
(In BAM thousand)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	5	34.063	31.066
Interest expenses	6	(8.191)	(7.986)
Net interest income		25.872	23.080
Fee and commission income	7	6.846	6.229
Fee and commission expenses	8	(1.569)	(1.558)
Net fee and commission income		5.277	4.671
Other operating income	9	2.629	1.658
Other operating expenses	10	(16.741)	(15.685)
Exchange rate differences, net		(13)	30
Impairment and provisions	11	(11.816)	(6.597)
Profit from operations before taxes		5.208	7.157
Income tax	12	(892)	(1.202)
Net profit of the current year		4.316	5.955
Other comprehensive income		102	502
Changes in the fair value of debt instruments that are measured at fair value through OSD		102	502
Total comprehensive income for the accounting period		4.418	6.457
Earnings per share:			
- Basic earnings per share (in BAM)	25	8,44	12,60

Notes in the following pages form an integral part of these financial statements.

The accompanying financial statements were adopted by the Bank's Management Board on 17 February 2021.

Signed on behalf of MF banka a.d. Banja Luka:

Bojan Luburić
President of the Management Board

Nikolina Vujkovac Pađen
Head of the Accounting and Finance Sector

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(In BAM thousand)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash funds held with the Central Bank	13	99.823	101.442
Funds with other banks	14	14.276	5.105
Investments to other banks	15	-	2.992
Securities	16	35.939	30.733
Loans to customers	17	347.924	312.760
Property and equipment	18	2.475	2.303
Intangible assets	18	270	278
Investment property	18.1	4.546	4.609
Leased business premises	18.2	7.721	7.650
Other assets	19	5.325	5.887
Total assets		**518.299**	**473.759**
LIABILITIES AND EQUITY			
Liabilities			
Deposits to banks	20	7.540	7.033
Deposits to customers	20	384.583	362.011
Liabilities per loan	21	37.512	17.836
Subordinated debt	22	6.964	6.956
Other liabilities and equity	23	11.816	12.006
Provisions for employee benefits and other contingent liabilities	11 a), b)	797	330
Total liabilities		**449.212**	**406.172**
Equity			
Share capital	24	51.141	51.141
Share premium		1.307	1.307
Equity reserves	24	1.402	1.002
Accumulated profit/(loss)		10.921	8.182
Profit of the current period		4.316	5.955
Total equity		**69.087**	**67.587**
Total liabilities and equity		**518.299**	**473.759**
Contingent liabilities and commitments	26	66.866	54.490

Notes in the following pages form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020
(In BAM thousand)

	Share Capital	Share Premium	Equity Reserves	Accumulated profit/(loss)	Total
Balance, 1 January 2019	**46.841**	**83**	**238**	**8.444**	**55.606**
New issue of shares	4.300	1.224	-	-	5.524
Allocation of reserves debited to accumulated profit	-	-	262	(262)	-
Total transactions with owners	***4.300***	***1.224***	***262***	***(262)***	***5.524***
Net profit of the current period	-	-	-	5.955	5.955
Revaluation reserves based on securities	-	-	502	-	502
Comprehensive income for the accounting period	*-*	*-*	*502*	*5.955*	*6.457*
Balance 31 December 2019	**51.141**	**1.307**	**1.002**	**14.137**	**67.587**
Balance, 1 January 2020					
Effects of the transition to the Methodology in accordance with IFRS 9 and the Decision on determining credit losses	-	-	(2.918)	-	(2.918)
Re-stated balance 1 January 2020	**51.141**	**1.307**	**(1.916)**	**14.137**	**64.669**
Allocation of reserves debited to accumulated profit	-	-	298	(298)	-
Capital reserves for credit losses	-	-	2.918	(2.918)	-
Total transactions with owners	***-***	***-***	***3.216***	***(3.216)***	***-***
Net profit of the current period	-	-	-	4.316	4.316
Revaluation reserves based on securities			102		102
Comprehensive income for the accounting period	*-*	*-*	*102*	*4.316*	*4.418*
Balance 31 December 2020	**51.141**	**1.307**	**1.402**	**15.237**	**69.087**

Notes in the following pages form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(In BAM thousand)

	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities:		
Interest receipts	30.832	29.643
Fee and commission receipts	6.645	6.828
Interest paid	(6.412)	(5.196)
Fee and commission paid	(1.569)	(1.558)
Collection of written-off receivables	1.098	779
Payments to employees and suppliers	(16.074)	(13.712)
Net cash from operating activities	14.520	16.784
Changes in operating assets and liabilities:		
Net increase in loans due from customers	(44.213)	(47.284)
Investments in banks	3.000	(2.869)
Income tax paid	(1.436)	(1.160)
Net increase in bank deposits	507	21
Net increase in deposits due to customers	21.181	47.540
Net cash from/(used in) operating activities	(6.441)	13.032
Cash flows from investing activities:		
Interest receipts	798	15
Purchase of intangible assets	(113)	(110)
Purchase of fixed assets	(332)	(687)
Purchase of other investments	(5.192)	(30.006)
Net cash (used in) investing activities	(4.839)	(30.788)
Cash flows from financing activities:		
Receipts from recapitalization	-	5.525
Commitments per loans	22.097	3.131
Repayments per loans	(3.252)	(2.701)
Net cash from/(used in) financing activities	18.845	5.955
Net increase in cash funds	7.565	(11.801)
Effects of exchange rate changes	(13)	29
Effects of value adjustment change	-	50
Cash funds, beginning of the year	106.547	118.269
Cash funds, end of the year	114.099	106.547
Cash funds comprise of the following items:		
- Cash and cash funds held with the Central Bank	99.823	101.442
- Cash funds held with other banks	14.276	5.105
	114.099	**106.547**

Notes in the following pages form an integral part of these financial statements.

1. ESTABLISHMENT AND BUSINESS POLICY OF THE BANK

MF banka a.d. Banja Luka (hereinafter: the “Bank”) was established on 12 June 2007 under the name IEFK banka a.d. Banja Luka.

In the process of the Bank’s registration with respect to the principal banking activities, all requirements defined by the regulatory authorities were fulfilled. In accordance with its Decision no. 03-231-11/2007 dated 11 May 2007, the Banking Agency of the Republic of Srpska (hereinafter: “BARS” or the “Agency”) issued an operating license to the Bank, and pursuant to Decision no. 03-657-4/2007 dated 12 July 2007, the Agency issued to the Bank a license to conduct interbanking payment transactions.

At the Shareholders Assembly meeting held on 6 April 2010, the previous shareholders of the Bank enacted a decision to sell 100% of the Bank’s equity (note 24) so an Agreement on the Purchase and Sale of Equity was signed on 8 July 2010 making MKD Mikrofin d.o.o. Banja Luka the Bank’s major shareholder, taking over the management and control over the Bank as of that date. MKD Mikrofin d.o.o., Banja Luka is the parent company of the Bank.

Based on the decision enacted by the new shareholders of the Bank, and the decision of the competent court in Banja Luka as of 26 November 2010, the Bank changed its name to MF banka a.d., Banja Luka.

In the Republic of Srpska, the Bank is licensed to perform payment transactions, crediting and depositary operations in the country and abroad, and as in accordance with regulations in the Republic of Srpska, the Bank is obligated to operate on the principles of liquidity, solvency and profitability.

The Bank's headquarters is in Banja Luka, Aleja Svetog Save street 61. As at 31 December 2020, the Bank operates in its headquarters in Banja Luka, Aleja Svetog Save street 61 and in affiliates in Banja Luka, Prijedor, Bijeljina, Derventa, Doboj, Istočno Sarajevo, Tuzla, Cazin, Gradačac, Ilidža, Zenica as well as in branch offices in Prnjavor, Teslić, Novi Grad, Zvornik, Pale, Laktaši, Gračanica, Živinice, Banja Luka, Novi Grad Sarajevo, Bugojno, Brčko, Bihać, Srebrenik, Gradiška and via counter in Nova Topola.

As at 31 December 2020, the Bank had 247 employees (31 December 2019: 228 employees).

The Management and Supervisory Boards of the Bank are: Assembly, Supervisory Board and Management Board. The members of the Supervisory Board are appointed by the Assembly of the Bank. The Bank is represented by the chairman of the Management Board. The Bank formed Credit Boards and the Board for the Management of Assets and Liabilities as well as various Commissions.

As at 31 December 2020, the Management bodies of the Bank consist of:

Supervisory Board:
- Aleksandar Kremenović, chairman
- Mladen Bosnić, member
- Dželila Huremović, member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

Management Board:
- Bojan Luburić, chairman
- Sandra Lonco, member
- Dragan Đurić, member

Audit Board (all members of the Audit Bord are independent members)**:**
- Đurđica Dragojević, chairman
- Željko Pena, member
- Radmila Bjeljac, member
- Sanja Brkić, member
- Mira Cvijan, member

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD

2.1. Statement of compliance

The accompanying financial statements represent the Bank's separate financial statements prepared in accordance with International Financial Reporting Standards („IFRS") in terms of the Law on Accounting and Auditing and the regulations of the Banking Agency of the Republic of Srpska which regulate the financial reporting of banks.

The Law on Accounting and Auditing of the Republic of Srpska prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

2.2. Measurement basis and preparation of financial statements

The financial statements of the Bank have been prepared at cost (historical cost) principle, as further described in the accounting policies.

Historical cost is generally based on the fair value of compensation paid in exchange for goods and services.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using other valuation techniques. Upon estimating the fair value of assets or liabilities, the Bank considers those characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.
Upon preparation of the cash flow statements, the Bank used direct method of reporting on cash flows.

2.3. Functional and presentation currency

The amounts in the accompanying financial statements have been stated in Convertible Marks (BAM), which represents the official functional and reporting currency in Republic of Srpska and Bosnia and Herzegovina.

2.4. Going concern principle

The financial statements have been prepared in accordance with the going concern basis, which implies that the Bank will continue to operate indefinitely for the foreseeable future.

2.5. Impact and application of new and revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS")

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

- Amendments to IFRS 3: „Business Combinations" – Definition of a business (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1: „Presentation of Financial Statements" and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors " - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9: „Financial Instruments", IAS 39: „Financial instruments: Recognition and Measurement" and IFRS 7: „Financial Instruments: Disclosure" - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- Amendments to references to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16: „Leases" – Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020).

Applying these standards, amendments and interpretations has no significant impact on the Bank's financial statements in the current period.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (continued)

2.5. Impact and application of new and revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (continued)

The following Standards, amendments to existing Standards and interpretations have been issued by the Board, but are not yet effective and have not been previously adopted by the Bank:

- Amendments to IFRS 9: „Financial Instruments", IAS 39: „Financial instruments: Recognition and Measurement ", IFRS 7: „Financial Instruments: Disclosure", IFRS 4: „Insurance Contracts", IFRS 16: „Leases" - Interest Rate Benchmark Reform Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 17: „Insurance Contracts" and IFRS 4: „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to references to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022),
- Annual Improvements to IFRS Standards - 2018 – 2020 cycle (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 16: "Property, Plant and Equipment" – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37: " Provisions, Contingent Liabilities and Contingent Assets " – Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- IFRS 17: „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1: „Presentation of Financial Statements" – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023).

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

2.6. Impact of the Covid-19 pandemic

The first half of 2020 was significantly marked by events related to the COVID-19 viral disease, which, among other things, reflected on the economy and thus on the financial and banking system in the Republic of Srpska and Bosnia and Herzegovina, and beyond.

The Banking Agency of the Republic of Srpska has passed a Decision on temporary measures for banks to mitigate the negative economic consequences caused by the COVID-19 viral disease. Based on this decision, the Bank adopted a Program of special measures for clients affected by the crisis situation with a set of measures, which include a temporary moratorium and special (appropriate) modalities (moratorium, grace period, extension, additional exposure and other measures in order to facilitate regular payment of client obligations. and business maintenance).

The overview below provides data on the number of measures and the amount of balance exposures:

(In BAM thousand)

„Covid measures" 31.12.2020	**Active measures/ gross credit**		**Expired measures/ gross credit**		**Total**	
	Number of measures	**Amount**	**Number of measures**	**Amount**	**Number of measures**	**Amount**
Legal entities	352	57.877	264	27.340	616	85.217
Retail	430	16.316	1.093	27.246	1.523	43.562
Total	**782**	**74.193**	**1.357**	**54.586**	**2.139**	**128.779**

(In BAM thousand)

„Covid measures" 31.12.2020	**Stage 1 as at approval of „Covid measures" Gross loan**	**Stage 2 as at approval of „Covid measures" Gross loan**	**Stage 3 as at approval of „Covid measures" Gross loan**	**Total**
Legal entities	65.364	19.393	460	85.217
Retail	35.185	7.621	756	43.562
Total	**100.549**	**27.014**	**1.216**	**128.779**

By approving these measures, the Bank sought to grant relief to clients directly or indirectly affected by the negative effects of the pandemic, through which it will be able to establish a sustainable business model in the coming period and properly settle credit obligations to the Bank.

At the same time, the Bank continues to actively, intensively and with special care identify risks, especially credit, liquidity risk and funding sources from the aspect of the pandemic impact.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

3.1. Income and expenses from interest and fees

Interest income and expenses for all financial instruments, except for financial instruments classified as available for sale or carried at fair value through profit or loss, are stated at fair value of assets received or paid, and are presented as interest income or expenses, and fee and commission income or expenses in the statement of profit or loss.

Interest income is deferred and recognized using the effective interest method, which represents the rate that exactly discounts (reduces) the estimated future cash inflows over the expected life of financial instruments to the net carrying amount of such assets upon initial recognition.

Loan approval fees are deferred and amortized over the loan repayment period by applying the effective interest rate method and are presented within interest income.

Interest income is recognized exclusively based on performing loans and other investments where there are no problems in collection, i.e., based on loans and investments that do not represent bad (impaired) assets. Calculations of interest receivables from non-performing loans and other investments, i.e. loans and investments that represent bad (impaired) assets as there are problems in collection thereof, are recorded within off-balance sheet items and recognized as income only if collected.

3.2. Foreign exchange translation

Transactions denominated in foreign currencies are translated into Convertible Marks at the official exchange rates prevailing at the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into Convertible Marks at the statement of financial position date by applying the official rates of exchange in effect on that date. Contingent liabilities denominated in foreign currencies are translated into Convertible Marks at the official exchange rates prevailing at the statement of financial position date. Foreign exchange gains or losses arising upon translation are credited or debited to expenses.

3.3. Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost net of any accumulated depreciation and amortization, and any accumulated impairment losses. Cost represents the prices billed by suppliers, increased by all acquisition related costs and all costs incurred in bringing the assets to the location and condition necessary for their intended use.

Depreciation and amortization are calculated on a straight-line basis at the following prescribed annual rates in order to write off the assets over their estimated useful lives:

	Rate (%)	Useful Life (years)
Buildings	1,3%	77
Automobiles	15,5%	6,5
Computer equipment	25%	4
Telephone switchboards	7%-10%	10-14,3
Furniture	10%-12,5%	8-10
Intangible assets	20%	5

The Bank's management believes that the amortization and depreciation rates applied realistically reflect the expected patterns of future consumption of economic benefits from equipment and intangible assets.

The depreciation and amortization of assets commence when the assets are available for use and placed at the location and in condition necessary for them to operate in a manner intended by the Bank's management.

If the useful life of an item of equipment is under a year, it is treated as tools or fixtures and is fully written-off once placed into use.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES (continued)

3.4. Investment property

Investment property is property the Bank as the owner or as user of financial lease holds for the purpose of profit earning from renting the property and/or for the purpose of capital increase, but not for the purpose of use for service provisions or for administrative purposes.

The initial recognition of the investment property is made at cost increased for related costs. The subsequent measurement of the investment property is made in the amount of the purchase value minus the total amount of calculated depreciation and amortization and accumulated impairment losses.

Depreciation is calculated equally at cost, using the following annual rates in order to completely write the assets off within their useful life:

	Rate (%)	Useful life (years)
Buildings	1,3%	77

3.5. Leased business premises

The Bank has opted to apply IFRS 16 “Leases” from the effective date of its lease, that is from 1 January 2019 by using a cumulative catch-up approach.
At the beginning of the use of contract, the lessee should assess whether the contract, or part of the contract, represents a lease. The contract or part of the contract represents a lease if the contract regulates the assignment of the right to control the use of the identified asset in a given period in exchange for compensation. The control is assigned when the lessee is entitled to manage the use of the identified asset and to effect economic benefits by using this asset.
The Bank, as the lessee, uses the lease exemption in the case of short-term and leases for low value assets.
In accordance with IFRS 16, the Bank, as the lessee, recognizes the asset with usage right and the lease liability at the effective date of the lease. The start date of the lease is the date on which the lessor makes the underlying asset (that is, the lease asset) available to the lessee.
The Bank, as the lessee, recognizes the depreciation of the asset with usage right, the interest on the lease obligations and the tax liability as an expense of the period.
In calculating depreciation of an asset with usage right, the Bank uses the proportional method of calculation over the lease term.
As the interest rate on the lease obligations, the Bank applies an incremental borrowing rate, which is defined as the interest rate that the Bank, as the lessee, would have to borrow over a similar period and with similar guarantees to acquire funds needed to acquire an asset of similar value as an eligible asset in similar economic environment.

3.6. Impairment of non-current assets

At each date of the statement of financial position, the Bank reviews the carrying amounts of its non-current assets in order to determine whether there are indications that there has been a loss due to the impairment of the said asset. If such indications exist, the recoverable amount of the asset is estimated to determine any impairment loss.

If it is not possible to estimate the recoverable amount of an asset, the Bank assesses the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the net selling price or value in use, whichever is higher. For the purposes of estimating value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset. If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than the carrying amount, then the carrying amount of that asset (or cash-generating unit) is reduced to the recoverable amount. Impairment losses are recognized immediately as an expense.

In the event of a subsequent reversal of the impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of that asset, where the higher carrying amount does not exceed the carrying amount that would have been established if in previous years there were no recognized losses on that asset (cash-generating unit) due to impairment. Reversal of impairment losses is recognized immediately as income, unless the asset is stated at the estimated value, in which case the reversal of impairment loss is recognized as an increase due to revaluation.

As at 31 December 2020, based on the estimation of the management of the Bank, there are no indication of impairment of equipment, intangible assets and investment property.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES (continued)

3.7. Financial instruments

A financial instrument is considered to be any contract that creates a financial asset or a financial liability of the Bank, while creating a financial liability or a financial asset of third parties.

The classification of financial assets is as follows, respectively:

- it is measured at amortized cost if the following two conditions are met:

  a) financial assets are held within a business model aimed at holding financial assets in order to collect contractual cash flows.

  b) if the contractual terms of the financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.

- it is measured at fair value through other comprehensive income if both of the following conditions are met:

  a) financial assets are held within a business model aimed at collecting contractual cash flows and selling the financial asset.
  b) contractual terms of financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.
- it is measured at fair value through profit or loss unless measured at amortized cost or at fair value through other comprehensive income.

Financial liabilities are classified as liabilities at fair value through profit or loss or amortized cost. If they are held for trading, they are classified as liabilities at fair value through profit or loss.

Financial assets

Loans and receivables

Loans and receivables comprise investments with banks and investments with customers, with no intention of continuing to trade.
The Bank measures loans and receivables as financial assets at amortized cost if both of the following conditions are met:

a) financial assets are held within a business model aimed at holding financial assets in order to collect contractual cash flows.

b) if the contractual terms of the financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.

Initial measurement of loans and receivables is carried at fair value. Subsequent valuation of loans and receivables is carried out using the amortized cost method using the effective interest rate.
The effective interest rate includes fees that are directly attributable to the loan and the investment.
At each balance sheet date, the Bank assesses the imparity, that is whether there is evidence that a loan / investment or group of loans / investments is impaired.
The criteria that the Bank uses to determine whether there is objective evidence of impairment include the following:

- delay in payment of contractual repayment of principal and interest,
- cash flow difficulties (decline in net profit ratios, sales revenue, capital adequacy),
- Not fulfilling contractual obligations,
- initiating bankruptcy proceedings,
- decrease in the value of collateral.

If any of the above evidence exists, the recoverable amount of the asset (value that can be recovered) must be estimated, and if it is less than the carrying amount of the asset, the impairment loss should be recognized in the statement of profit or loss and the carrying amount of the asset should be written off to the lower recoverable amount in the statement of financial position.
In the case of loans and receivables, impairment arises if there is objective evidence that the total amount of payment determined by the contract in respect of the principal of the debt and interest will not be realized.
Impairment loss is the difference between the carrying amount of a loan and its estimated recoverable amount.
The recoverable amount is equal to the present value of expected future cash inflows per loan discounted at the effective interest rate.
Impairment is assessed individually, primarily for loans that are individually significant or on a group-level basis.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES (continued)

3.7. Financial instruments (continued)

Interest calculations of the current period for non-performing assets are treated with suspended interest, which means that further interest calculation is recorded in off-balance sheet records.
Impairment loss is debited to the statement of profit or loss. Amounts for which the loan / investment value is reduced by the loss are accounted for through the allowance account.
If the amount of the loss is reduced due to events occurring after its initial recognition, the reversal of the loss is credited to the statement of profit or loss as a gain, but the reversal of the loss, that is the gain cannot be in excess of the amortized cost that would have been at the date of derecognition had the loss not been recognized.

The provisioning policy based on loan loss is explained in detail in the "Methodology for allowance estimate and provision calculation in accordance with IFRS 9 and the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska" (Note 4).

Debt instruments at fair value through other comprehensive income

As financial assets measured at fair value through other comprehensive income, the Bank defines the category of debt instruments that are measured at fair value through other comprehensive income if the following conditions are met:

a) financial assets are held within a business model aimed at collecting contractual cash flows and selling the financial asset.
b) contractual terms of financial assets generate at a specific date cash flows that are only principal and interest payments outstanding.

Debt instruments at fair value through other comprehensive income are measured at fair value with recognition of gains and losses resulting from changes in fair value in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in the statement of profit or loss in the same way as financial assets carried at amortized cost. Upon derecognition, cumulative gains or losses recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.
Initial measurement is carried at fair value plus transaction costs directly attributable to their purchase / acquisition / issue.
Subsequent measurement is carried out at fair value. Fair value is determined in an active market (stock exchange) and represents the quoted price of the stock exchange on the day of the financial asset valuation or, in the absence of an active market, based on the Bank's best estimate of the fair value of those investments, using cash flow discounting methods or relying on the opinion of an independent expert.
Short - term changes in fair value are included in equity (increase and decrease).
If the Bank determines a long-term decline in the fair value of these assets, all cumulative losses recognized directly in equity are transferred from equity to profit or loss, even though the asset is not written-off.
The Bank accepts trading dates as a method of calculating debt instruments that are measured at fair value through other comprehensive income.
Expected credit losses on debt instruments carried at fair value through other comprehensive income do not reduce the carrying amount of financial assets in the statement of financial position. An amount equal to the provision that would arise if the assets were measured at amortized cost is recognized in other comprehensive income as the accumulated impairment loss with related recognition in the statement of profit or loss. The accumulated amount recognized in other comprehensive income is reclassified to profit or loss after derecognition.

Financial liabilities

Financial liabilities comprise long-term and short-term trade payables and other liabilities, that is, they represent financing instruments as a financial liability or as equity depending on the contractual terms.
Financial liabilities are initially recognized at the amounts received. Subsequent to the initial recognition, financial liabilities are measured at the initially recognized amounts net of principal repayment and increased by capitalized interest less any write-off granted by the creditor. Financial liabilities are stated at amortized cost using the effective interest rate. Interest payable, dividends, gains and losses on financial liabilities are recorded at the expense of financial expenses in the period to which they relate and are presented within other current liabilities.
Financial liabilities are derecognized when the Bank's obligations are discharged, cancelled or they have expired.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES (continued)

3.7. Financial instruments (continued)

Impairment measurement and allowance

For impairment measurement, the Bank applies the concept of expected credit loss. At the end of each month, the Bank calculates and records allowance for credit losses in an amount equal to the expected credit losses, applying the following methodology: “Methodology for allowance estimate and provision calculation in accordance with IFRS 9 and the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska“.

3.8. Taxes and contributions

Current income tax

Current income tax relates to the amount payable in accordance with the Law on Income Tax. Current income tax is payable at the rate of 10% applied to the tax base determined in the taxa balance and reported in the annual corporate income tax return, being the amount of profit before taxation net of income and expense adjustment effects pursuant to the tax regulations of the Republic of Srpska.

Tax regulations in the Republic of Srpska allow for the reduction of the tax base for the amounts used in investments in property, plant and equipment for performing registered activities and for the amounts of the payroll taxes and contributions for over 30 newly employed workers with permanent employment contracts at the end of the business year.

Tax regulations in the Republic of Srpska do not envisage that any tax losses of the current period be used to refund taxes paid in previous period. However, current period tax losses stated in the tax balance may be used to reduce the tax base of future accounting periods, but no longer than five years.

Deferred income tax

Deferred income tax is calculated using the method of determining liabilities according to the statement of financial position for temporary differences arising between the tax base of receivables and liabilities in the statement of financial position and their carrying values. The currently enacted tax rates at or the substantively enacted rates after the statement of financial position date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of tax losses and tax loans, which are available for carryforward to subsequent fiscal periods, to the extent that it is likely to be taxable profit from which the tax loss and loans carried forward can be reduced.

Indirect taxes and contributions

Indirect taxes and contributions include payroll contributions charged to the employer, property taxes, and various other taxes and contributions, included in other operating expenses.

3.9. Employee benefits

In accordance with domestic regulations, the Bank is obligated to pay contributions to government social security funds and pension funds that are calculated by applying specific, legally prescribed rates. These obligations involve the payment of taxes and contributions on behalf of employees, by the employer, in an amount calculated in accordance with the statutory regulations. The Bank is also obliged to withhold part of the taxes and contributions from the gross salaries of employees, and to pay it on behalf of employees to the account of public funds. These contributions are debited to expenses in the period to which they relate.

In accordance with the requirements of IAS 19 “Employee Benefits,” the Bank performs the actuarial valuation of provisions in order to determine the present value of accumulated employee retirement benefits. Upon retirement, the Bank’s employees become entitled to retirement benefits in an amount equal to three monthly salaries earned by the employee.

Expenses of retirement benefits are determined using the projected unit credit method for actuarial valuation as of the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES (continued)

3.10. Leases

The Bank as a Lessor

A lease is classified as a finance lease in all cases where the Bank is the lessor and when the lease, to the lessee, is transferred to the fullest extent all the risks and rewards of ownership of the assets. Every other lease is classified as an operating lease.

Operating lease income (rental income) is recognized using the straight-line method over the lease term. The indirect costs incurred in negotiating and contracting an operating lease are added to the carrying amount of the leased asset and are recognized on a pro rata basis over the lease term.

The Bank as a Lessee

The Bank, as a lessee, calculates the lease in accordance with IFRS 16, except in the case of short-term and leases of low value assets.
The Bank recognizes depreciation of the asset with usage right, interest on lease obligations, tax liability as an expense of the period, and in the case of short-term leases and leases with low value assets, the Bank recognizes the expense on a straight-line basis over the term of the lease.

3.11. Provisions

In accordance with IAS 37, a provision arises and is recognized when:

- the obligation arose as a result of a past event (legal, legal or derivative),
- it is probable that an outflow of resources will be required to settle the obligation,
- the amount of the liability can be estimated reliably.

The Bank makes provisions to cover liabilities (legal, actual and derivative). Provisions for expenses are monitored by type, and their reduction or reversal is credited to income.

The provision is reviewed as at each reporting date and adjusted in order to reflect the best current estimate. If it is no longer probable that an outflow of resources representing economic benefits will be required to settle the obligation, the provision is reversed.
The Bank estimates the amounts of provisions that need to be recognized in the event of litigation and all other cases where there is a current liability at the reporting date as a result of a past event.
In accordance with IAS 19, the Bank establishes provisions for employee severance pay based on an actuarial calculation.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the financial statements requires the management to use best possible estimates and reasonable assumptions, which have an effect on the presented values of assets and liabilities and disclosure of contingent receivables and liabilities at the date of preparation of the financial statements, as well as income and expenses during the reporting period. These estimates and assumptions are based on information available at the date of preparation of the financial statements. Actual future results may differ from these estimates.

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

The basic assumptions regarding future events and other key sources of uncertainty in making an estimate at the statement of financial position date, which carry a risk with a possible outcome in material adjustments to the present value of assets and liabilities in the next financial year are presented below:

Estimated useful life of equipment, intangible assets and investment property

Determining the useful life of equipment, intangible assets and investment property is based on historical experiences with similar assets, as well as anticipated technological improvements and adjustments of economic and industrial factors. The adequacy of estimated remaining useful life of property, equipment and intangible assets is analyzed annually or wherever there are indications of significant adjustments of certain assumptions.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Impairment of assets

At each statement of financial position date, the Bank's management analyzes the value of stated in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

Allowance for receivables

The methodology for calculating allowance for expected losses according to the requirements of International Accounting Standard 9 and the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska (hereinafter: Methodology) defines the methods and techniques used in MF Banka a.d. Banja Luka (hereinafter: the Bank) in order to calculate individual and group-level allowance of balance sheet and off-balance sheet items of the Bank, that is all financial assets within the scope of the Standard.
The Methodology defines the criteria for determining the type of financial assets, the criteria for identifying the receivables that need to be individually assessed, as well as the criteria for assessing the receivables that are the subject to a group-level assessment, and the same are applied on the Bank´s level in a systematic manner and consistently throughout the time, and its consistent application allows the timely determination of expected losses that arise from failure to meet contractual obligations by clients or a significant increase in credit risk, all in order of protecting the capital of the Bank in the period when the loss is identified and realized. The Methodology is based on the requests defined by the International Financial Reporting Standard (IFRS) 9 the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska.
Historic data used in the calculations are available for the last three years. Taking this into account, where applicable, the Methodology is based on rules and historic data, includes objective criteria of business in local market (use of real discount rate upon making estimates on the expected cash flows, collateral marketability and the time needed for realization, effective legal regulations and court practice in their implementation, current economic conditions and other relevant factors that influence the debtor's financial performance) and establishes the obligation of the Bank to estimate the current economic conditions in surroundings in which it is operating and to adjust the allowance related to the expectation on future information.

The methodology defines the following:

1) Type of financial assets, that is, is the asset purchased or credit impaired;
2) The stage of the financial assets;
3) Material significance limit for individual exposures;
4) Identification of exposures to be estimated/classified on an individual and group-level basis;
5) Individual allowance;
6) Group-level allowance.

The Methodology also includes the following:

1) Identification of receivables that are classified on an individual or group-level basis, and criteria for classifying receivables into homogeneous groups with similar characteristics (type of client / segmentation, type of loan product, debt security instrument, regularity in settlement of liabilities, sectoral and geographical structure, etc.);
2) established methods and techniques for classification on an individual or group-level basis, including the method of estimating the expected collection time and percentage of the value of the insurance instrument of receivables from which the collection will be made (taking into account all activation and collection costs) and the factors used in determining time intervals for estimation of losses based on data from previous periods;
3) analyzes, assessments and other procedures used in calculating the allowance for impairment or provisions should be precisely explained and adequately documented in written form;
4) providing accurate and up-to-date information that are taken into account when assessing the collectability of receivables;
5) clearly defined organizational units in charge for the mentioned assessment and conditions under which an assessment based on prior experiences can be made.

First, the Bank estimates whether there is an objective proof of impairment individually for financial assets considered individually significant, and individually or collectively for financial assets not considered as financially significant. If the Bank determines there are no objective evidence of individual impairment for the financial asset, whether significant or not, that asset is included in a group of assets with similar credit risk characteristics and the impairment is assessed in groups.
Individually significant exposure is an exposure that is considered significant for risk management or financial reporting based on its value or characteristics. The Bank defines that individually significant exposures are those that exceed a certain threshold or are below the threshold, but have a specific risk profile (in terms of potential credit loss).

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Allowance for receivables (continued)

The method of calculating allowance depends on whether the exposure is treated as individually significant or not.

The Bank is obliged to determine on an individual basis the expected credit losses for individually significant exposures allocated to the level of credit risk 3, that is which are greater than:

- BAM 30.000, if its net assets amount to BAM 500 million,
- BAM 50.000, if its net assets amount from BAM 500 million up to BAM one billion,
- 100.000 BAM, if its net assets amount over BAM one billion.

The Bank's exposures representing other receivables are subject to individual assessment due to the specificity of each individual receivable. The impairment assessment procedure is performed for all receivables that are defined as material by the Internal Methodology. Materially significant amount means amounts greater than:

- for individuals greater than BAM 200 and 1% of the debtor's total balance exposures,
- for legal entities greater than BAM 1000 BAM and 1% of the debtor's total balance exposures.

The Bank determines the default status when one or both of the following conditions are met:

- the debtor is late with the repayment to the bank for more than 90 days in a materially significant amount,
- The Bank considers it certain that the debtor will not fully settle its obligations to the bank, not taking into account the possibility of collection from collateral.

The Bank determines the default status of legal entities at the level of total receivables from that entity.
In the case of individuals, the bank determines the default status at the level of individual exposure. If the gross book value of the exposure to an individual in the default status exceeds 20% of the total gross book value of the exposure to that individual, it is considered that the default status of all exposures to that individual has occurred.
The calculation of allowance and provisions for losses on individual material exposures for which an objective impairment event has been identified is performed through individual allowance.
Individual allowance involves estimating expected credit losses, analyzing expected future cash flows in several different collection scenarios with specific probabilities of each scenario, and calculating their present value.
Individual allowance is calculated as the difference between the client's total balance exposure per loan (due principal, undue principal, interest) and the sum of the net present value of estimated future cash flows (from regular repayment and from activated collateral) of that loan. For each transaction individually, future cash flows will be determined individually, separately for principal and separately for interest.
Group-level allowance involves the calculation of allowance through portfolio. Allowance is performed for the following types of exposures:

- For exposures that are not materially significant in stage 3;
- For all exposures in stage 1 and stage 2;
- Portfolio segmentation into homogeneous groups;
- All customer investments that are classified according to the criteria for group-level impairment are further grouped into appropriate homogeneous groups (HG).

The methodology defines the types of collateral and parameters related to collateral that are used when calculating value adjustments on an individual and portfolio basis.

The difference between the carrying amount of the exposure and the recognized amount of collateral represents the uncovered amount that forms the basis for the portfolio adjustment.
By applying the defined parameters by individual types of collateral for the purpose of calculating individual allowance on individually materially significant exposures provided by these types of collateral, the expected cash flow is reduced by discounting to present value. Procedures and methods that describe in more detail the activities related to collateral (classification of collateral, relevant valuation methods, certified appraisers, etc.) are prescribed by the Policy of eligible collateral.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Fair value

It is the business policy of the Bank to disclose information on fair values of those asset and liability components for which published market information is available, and for which their fair value is materially different from the carrying amounts. In the Republic of Srpska, there are no sufficient market experiences, nor stability and liquidity for the acquisition and sale of receivables and other financial assets or liabilities, since official market information are not available at all times. Therefore, the fair value cannot be reliably determined in the absence of an active market.
The Bank’s management assesses its risk exposure and, in cases in which it is estimated that the value of assets stated in the books will not be realized, an allowance is made. As per the Bank’s management, amounts expressed in these financial statements reflect the fair value which is most reliable and useful under the current circumstances.

Employee benefits

The Bank engages a certified actuary to calculate the present value of employees' accumulated severance pay rights on behalf of the Bank. When calculating the stated present value of the accumulated rights of employees to severance pay, the certified actuary uses the following assumptions: projected salary growth, length of service for retirement, projected employee turnover based on data on the historical movement of employees in the previous period, officially published mortality rates from the environment, as well as other conditions necessary for exercising the right to severance pay. In the opinion of the Bank's management, the amounts in the financial statements reflect the fair value that is the most reliable and useful for reporting purposes in the circumstances.

5. INTEREST INCOME

(In BAM thousand)

	Period ended 31 December 2020	2019
Interest income from:		
Enterprises	19.173	16.947
Retail	14.180	13.794
Public sector	687	290
Non-profit organizations	10	7
Other	13	28
Total:	**34.063**	**31.066**

6. INTEREST EXPENSES

(In BAM thousand)

	Period ended 31 December 2020	2019
Interest expenses from:		
Retail	6.593	6.252
Public sector	84	111
Non-banking financial institutions	398	636
Interest on subordinated debt	439	427
Interest on loans	402	278
Enterprises	181	148
Non-profit organizations	38	100
Banks and bank institutions	40	21
Other	16	13
Total:	**8.191**	**7.986**

7. FEE AND COMMISSION INCOME

(In BAM thousand)

	Period ended 31 December 2020	2019
Fee and commission income from domestic and international payment transactions	4.025	3.606
Income from foreign change transactions	1.117	1.105
Fees and commissions per loans	750	825
Fees and commissions per off-balance transactions	954	693
Total:	**6.846**	**6.229**

8. FEE AND COMMISSION EXPENSES

(In BAM thousand)

	Period ended 31 December 2020	2019
Central Bank fees based on domestic payment transaction services	677	657
Fees based on card transactions	607	553
Fees based on sale and purchase of foreign exchanges	120	180
Fees for international payment transaction services	83	79
Fees based on loan processing	30	12
Other fees and commissions	52	77
Total:	**1.569**	**1.558**

9. OTHER OPERATING INCOME

(In BAM thousand)

	Period ended 31 December 2020	2019
Collection of written-off suspended interest	1.657	788
Other income	972	870
Total:	**2.629**	**1.658**

10. OTHER OPERATING EXPENSES

(In BAM thousand)

	Period ended 31 December 2020	2019
Gross personal income	7.645	7.014
Remunerations to members of the Supervisory Board, Audit Committee, employees help	117	144
Professional education of employees	15	32
Materials and services	530	491
Business trips	22	56
Telecommunication and postage services	553	539
Equipment/software maintenance	528	532
Marketing and advertising	303	222
Leases	411	373
Membership fees	119	131
Representation	124	241
Assets' security services	810	789
Depreciation/Amortization	2.265	2.132
Taxes and contributions	247	240
Fees to the Banking Agency of the Republic of Srpska	380	346
Write-off of uncollectable receivables	324	370
Fees for third party engagements	102	56
Other	2.246	1.977
Total:	**16.741**	**15.685**

Gross personal income	**Period ended 31 December 2020**	**2019**
Net salaries	4.717	4.162
Taxes and contributions on salaries	2.928	2.852
Total gross personal income:	**7.645**	**7.014**

11. Impairment and provisions

a) Debited to expenses

(In BAM thousand)

	Period ended 31 December 2020	2019
Cash funds and cash with other banks	(157)	(146)
Loans due from customers	(39.406)	(32.143)
Other assets	(2.494)	(734)
Employee benefits	(12)	(5)
Contingent liabilities and commitments	(1.521)	(955)
Total:	**(43.590)**	**(33.983)**

11. UMANJENJE VRIJEDNOSTI I REZERVISANJA (continued)

b) Reversal of provisions credited to income

(In BAM thousand)

	Period ended 31 December 2020	2019
Cash funds and cash with other banks	112	196
Loans due from customers	29.472	25.531
Other assets	1.042	791
Contingent liabilities and commitments	1.148	868
Total:	**31.774**	**27.386**
Net provisions	**(11.816)**	**(6.597)**

c) Movements during the period for long-term provisions for potential losses and commitments

(In BAM thousand)

	Cash funds and cash held at other banks	Loans due to customers	Other assets	Securities	Employee benefits	Contingent liabilities and commitments	Contingent liabilities and commitments – litigation	Total
Balance, 1 January 2019	**212**	**29.031**	**1.028**	**-**	**30**	**197**	**10**	**30.508**
Provisions during the year	146	32.143	649		5	881	74	33.898
Provisions during the year based on securities through other comprehensive income	-	-	-	85	-	-	-	85
Reversal of provisions	(196)	(25.531)	(791)	-	-	(868)	-	(27.386)
Accounting written-off receivables	-	(8.399)	-	-	-	-	-	(8.399)
Balance as at 31 December 2019 /1 January2020	**162**	**27.244**	**886**	**85**	**35**	**210**	**84**	**28.706**
Effects of the transition to the BARS Methodology	**(45)**	**2.613**	**322**	**(55)**	**-**	**83**	**-**	**2.918**
Balance after application of the Methodology as at 1 January 2020	**117**	**29.857**	**1.208**	**30**	**35**	**293**	**84**	**31.624**
Provisions during the year	157	39.406	2.478	-	12	1.469	52	43.574
Reversal of provisions	(112)	(29.472)	(1.032)	-	-	(1.080)	(68)	(31.764)
Provisions during the year based on securities through other comprehensive income	-	-	-	16	-	-	-	16
Reversals during the year based on securities through other comprehensive income	-	-	-	(10)	-	-	-	(10)
Accounting written-off receivables	-	(1.847)	-		-	-	-	(1.847)
Balance as at 31 December 2020	**162**	**37.944**	**2.654**	**36**	**47**	**682**	**68**	**41.593**

12. INCOME TAX

The income tax expense can be reconciled with the profit stated in statement of profit or loss as follows:

(In BAM thousand)	Period ended 31 December 2020	2019
Profit before taxes	5.208	7.157
Income tax calculated at the rate of 10%	521	715
Tax reduction for tax exempt income	(951)	(1.477)
Expenses not recognized for tax purposes – impairment of loans and other assets	1.167	1.797
Other expenses not recognized for tax purposes	75	82
Not recognized tax credit	80	85
Total income tax	892	1.202
Income tax RS	432	778
Income tax realized in the branch office in Brčko District	69	50
Income tax realized in the branch offices in FBiH	391	374
Total income tax	892	1.202
Effective income tax rate	17,13%	16,79%

For the business year 2020, the Bank paid monthly income tax advances for the Republic of Srpska, Brčko District and the Federation of Bosnia and Herzegovina in the amount of 1/12 of the calculated income tax for 2019.

Tax liabilities are stated in the Bank's tax returns and accepted as such but may be subject to control by the tax authorities for a period of five years after their acceptance. The Bank's management is not aware of any circumstances that could give rise to potential material liability in this regard or challenge the income tax returns.

13. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

(In BAM thousand)

	31 December 2020	31 December 2019
Cash funds:		
- in BAM	6.420	6.312
- in foreign currencies	3.695	3.995
	10.115	**10.307**
Funds at the Central Bank of BiH in BAM:		
- Gyro account	46.352	51.826
- Foreign cash funds	1.296	1.010
	47.648	**52.836**
Gross value	**57.763**	**63.143**
Allowance for cash funds	(89)	(148)
Total:	**57.674**	**62.995**
Obligatory reserve	42.149	38.447
Total:	**99.823**	**101.442**

In accordance with the Decision of the Central Bank of Bosnia and Herzegovina on the determination and maintenance of obligatory reserves, the Bank is obliged to maintain and calculate the obligatory reserve for deposits (which form the basis for the calculation of required reserves) according to the balances at the end of each business day within ten calendar days which precede the maintenance period. The obligatory reserve rate applied by the Central Bank to the principal for the calculation of the obligatory reserves represents 10% of the sum of total deposits. The principal for calculating the obligatory reserves includes accrued interest, fees and commissions that are due.

14. FUNDS WITH OTHER BANKS

(In BAM thousand)

	31 December 2020	31 December 2019
Funds with other banks:		
- domestic banks	7.226	4.174
- foreign banks	7.123	945
	14.349	**5.119**
Allowance for cash funds	(73)	(14)
Total:	**14.276**	**5.105**

15. INVESTMENTS TO OTHER BANKS

(In BAM thousand)

	31 December 2020	31 December 2019
Investments to other banks:		
- short-term deposits in BAM	-	3.000
- long-term deposits in a foreign currency	-	-
	-	**3.000**
Allowance for investments to other banks	-	(8)
Total:	**-**	**2.992**

16. SECURITIES

(In BAM thousand)

	31 December 2020	31 December 2019
Securities - war damage stated at fair value through other comprehensive income	1.759	1.790
Securities – Republic of Srpska government bonds, stated at fair value through other comprehensive income	33.709	28.580
Accrued interest	471	363
Total:	**35.939**	**30.733**

Debt securities as at 31 December 2020 in the amount of BAM 35.939 thousand are classified in accordance with the business model holding for collection or sale and are measured through other comprehensive income (note 3.7).

The following table provides an overview of debt securities classified at fair value through other comprehensive income by internal rating and impairment:

(In BAM thousand)

				31 December 2020
Securities	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities stated at fair value through other comprehensive income	35.939	-	-	35.939
Total:	35.939	-	-	35.939

16. SECURITIES (continued)

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2019	49	-	-	49
Purchased principle instruments	30.006	-	-	30.006
Purchased interest instruments	14	-	-	14
Repaid principle instruments	(27)	-	-	(27)
Repaid interest instruments	(15)	-	-	(15)
Accrued interest	289	-	-	289
Change in fair value of principle	342	-	-	342
Change in fair value based on discount / premium depreciation	75	-	-	75
Fair value as at 31 December 2019	30.733	-	-	30.733

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2020	30.733	-	-	30.733
Purchased principle instruments	15.227	-	-	15.227
Purchased interest instruments	-	-	-	-
Repaid principle instruments	(10.035)	-	-	(10.035)
Repaid interest instruments	(822)	-	-	(822)
Accrued interest	687	-	-	687
Change in fair value of principle	(96)	-	-	(96)
Change in fair value based on discount / premium depreciation	245	-	-	245
Fair value as at 31 December 2020	35.939	-	-	35.939

Movements in provisions for debt securities per expected loss level:

	Level 1	Level 2	Level 3	Total
Allowance as at 1 January 2019	-	-	-	-
Provision during the year	86	-	-	86
Reversal during the year	(1)	-	-	(1)
Allowance as at 31 December 2019	85	-	-	85
Effect of application of the Decision on credit risk management and determination of expected credit losses	(55)	-	-	(55)
Allowance as at 1 January 2020	30	-	-	30
Provision during the year	16	-	-	16
Reversal during the year	(10)	-	-	(10)
Allowance as at 31 December 2020	36	-	-	36

17. LOANS TO CUSTOMERS

(In BAM thousand)

	31 December 2020	**31 December 2019**
Short-term loans in BAM	67.266	62.825
Short-term loans in foreign currencies	-	1
Long-term loans in BAM	237.903	194.190
Long-term loans in foreign currencies	-	116
Guarantees paid	329	446
Current portion of long-term loans	80.370	82.426
	385.868	**340.004**
Less: Allowance for loans due from customers	(37.944)	(27.244)
Total:	**347.924**	**312.760**

During 2020, an accounting write-off of loans in the amount of BAM 1.847 thousand was carried out, that is, the transfer of their balance exposures after the Bank had recorded the expected credit losses in the amount of 100% of gross book value, and declared them fully due on off-balance sheet records, in accordance with the Decision on credit risk management and determination of expected credit losses of the Banking Agency of the Republic of Srpska.

Until 31 December 2020, the Bank issued mostly long-term loans, an in smaller amount short-term loans, at annual interest rates ranging from 1,65 % to 15,90%. Loans with annual interest rate ranging from 1,65% to 6,99% are loans approved from the Investment and Development Bank of the Republic of Srpska, or are loans ensured/covered partially or fully with purpose-specific term deposits. As an insurance for approved loans, the Bank took deposits, pledge over movable and unmovable property, securities, administrative injunctions, bills of exchange and transfer orders. The organizational risk department of the Bank is continuously monitoring the market value of insurance instruments.

Most of the loans with a period of over one-year in local currency as at 31 December 2020 were issued to enterprises and population with an annual interest rate ranging from 6,99% do 15,90%, plus 6-month EURIBOR, for periods of 5 years up to the maximum of 10 years. The interest rate of 1,65% was approved to clients who had a 100% attributive term deposit held at the Bank as collateral, while the interest rates higher than 15,50 % relate to long-term loans assumed from MKD Mikrofin d.o.o. Banja Luka.

The largest portion of long-term investments approved to population included general consumer loans, housing loans, construction and adaptation loans, investments of individuals, while the loans given to legal entities include long-term loans intended for financing non-current assets, investments and permanent current assets.

As at 31 December 2020, the geographic concentration of loans approved to customers as included in the Bank’s loan portfolio mostly comprises customers from the regions of the City of Banja Luka (ca. 15,36 %) of the total portfolio, City of Bijeljina (ca. 7,07%) Pale (6,07%), City of Prijedor (ca. 5,6%), East Sarajevo (ca. 5,47%).

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(In BAM thousand)

	Leasehold improvements	Buildings	Equipment	Equipment in the course of construction	Total property and equipment	Intangible assets
Balance,1 January 2019	**887**	**-**	**4.013**	**77**	**4.977**	**1.221**
Acquisitions in the period	172	-	515	-	687	110
Transfers from/to	-	-	77	(77)	-	-
Sale	-	-	(26)	-	(26)	-
Disposals	(54)	-	(108)	-	(162)	-
Balance, 31 December 2019	**1.005**	**-**	**4.471**	**-**	**5.476**	**1.331**
Acquisitions in the period	93	-	608	136	837	76
Sale	-	-	(115)	-	(115)	-
Disposals	(8)	-	(49)	-	(57)	-
Balance, 31 December 2020	**1.090**	**-**	**4.915**	**136**	**6.141**	**1.407**
Accumulated depreciation/amortization						
Balance,1 January 2019	**351**	**-**	**2.377**	**-**	**2.728**	**985**
Depreciation/amortization	151	-	468	-	619	68
Sale	-	-	(26)	-	(26)	-
Disposals	(52)	-	(96)	-	(148)	-
Balance, 31 December 2019	**450**	**-**	**2.723**	**-**	**3.173**	**1.053**
Depreciation/amortization	158	-	485	-	643	84
Sale	-	-	(100)	-	(100)	-
Disposals	(7)	-	(43)	-	(50)	-
Balance, 31 December 2020	**601**	**-**	**3.065**	**-**	**3.666**	**1.137**
31 December 2019	**555**	**-**	**1.748**	**-**	**2.303**	**278**
31 December 2020	**489**	**-**	**1.850**	**136**	**2.475**	**270**

As at 31 December 2020 equipment and property are secured from general risks and the Bank is not charged and has no pledge on property, equipment and intangible investments.

18.1. INVESTMENT PROPERTY

(In BAM thousand)

Investment property	
Cost	
Balance, 1 January 2019	**-**
Acquisitions in the period	-
Transfer	4.834
Balance, 31 December 2019	**4.834**
Acquisitions in the period	-
Transfer	-
Balance, 31.decembra 2020	**4.834**
Accumulated depreciation	
Balance, 1 January 2019	**162**
Depreciation	63
Balance, 31 December 2019	**225**
Depreciation	63
Balance, 31 December 2020	**288**
31 December 2019	**4.609**
31 December 2020	**4.546**

The property in Vase Pelagića street no. 22 is classified in investment property in the stated amount of BAM 4.834 thousand in accordance with IAS 40. Investment property shall be measured at cost method. As at 31 December 2020, the court expert for constructions assessed the property and the estimated value amounts to BAM 4.618 thousand (31. December 2019: BAM 4.655 thousand).

18.2. LEASED BUSINESS PREMISES

	(In BAM thousand)
Balance as at 1 January 2019	**7.970**
New acquisitions	1.062
Depreciation	(1.382)
Balance as at 31 December 2019	**7.650**
New acquisitions	1.583
Contract termination	(163)
Allowance	(1.475)
Allowance contract termination	126
Balance as at 31 December 2020	**7.721**

The following table shows the maturity analysis of the contractual undiscounted lease obligation:

	31 December 2020	**(In BAM thousand) 31 December 2019**
Less than a year	1.273	1.547
From one to five years	5.092	4.450
More than five years	1.641	3.294
Total contractual lease obligations	**8.006**	**9.291**
Lease obligations included in note 23 as at 31 December 2020	**8.006**	**7.808**

Amounts recognized in the Bank's statement of profit or loss and other comprehensive income:

	Period ended 31 December 2020	**(In BAM thousand) Period ended 31 December 2019**
Interest on lease obligations IFRS 16	367	373
Depreciation	1.475	1.382
Total lease expenses	**1.842**	**1.755**

19. OTHER ASSETS

	31 December 2020	**(In BAM thousand) 31 December 2019**
In BAM:		
- Funds acquired through collection of receivables	5.283	3.744
- Repurchased receivables	639	1.635
- Accrued other expenses	302	239
- Fee and commission receivables	191	105
- Material inventories	53	88
- Given advances	60	47
- Other receivables	1.112	779
In foreign currencies:		
- Accrued receivables for calculated expenses	139	32
- Advances in foreign currencies	2	33
- Other foreign currency receivables	198	61
	7.979	**6.763**
Minus: Allowance for accrued interest and other assets	(2.654)	(876)
Total:	**5.325**	**5.887**

20. DEPOSITS TO CUSTOMERS

(In BAM thousand)

	31 December 2020	**31 December 2019**
Demand deposits in BAM:		
- Government and state institutions	3.292	3.388
- Enterprises	18.339	13.028
- Banks and banking institutions	40	33
- Non-profit organizations	1.151	1.167
- Non-banking financial institutions	6.921	6.964
- Residents/non-residents	29.494	25.331
- Other	352	270
	59.589	**50.181**
Demand deposits in foreign currencies:		
- Enterprises	7.945	5.279
- Non-profit organizations	1.277	1.942
- Non-banking financial institutions	5.364	1.574
- Residents/non-residents	8.053	6.719
	22.639	**15.514**
Short-term deposits in BAM:		
- Banks and banking institutions	2.500	7.000
- Government and state institutions	500	500
- Enterprises	100	-
- Non-banking financial institutions	800	18.077
- Residents	51	620
- Other	1.174	82
	5.125	**26.279**
Short-term deposits in foreign currencies:		
- Residents	41	777
	41	**777**
Long-term deposits in BAM:		
- Banks and banking institutions	5.000	-
- Government and state institutions	10.950	950
- Enterprises	10.638	8.214
- Non-profit organizations	1.267	1.259
- Non-banking financial institutions	15.898	17.584
- Residents	98.644	92.881
- Other	500	500
	142.897	**121.388**
Long-term deposits in foreign currencies:		
- Enterprises	2.444	2.097
- Non-banking financial institutions	2.065	2.065
- Residents/non-residents	156.150	149.570
- Non-profit organizations	1.173	1.173
	161.832	**154.905**
Total:	**392.123**	**369.044**

20. DEPOSITS TO CUSTOMERS (continued)

Current maturity of long-term deposits

(In BAM thousand)

	31 December 2020	31 December 2019
Long-term portion of long-term deposits, in BAM		
- Banks and banking institutions	5.000	-
- Government and state institutions	-	150
- Enterprises	6.453	3.784
- Non-profit organizations	833	2
- Non-banking financial institutions	9.494	7.354
- Residents	44.404	54.832
- Other	-	500
	66.184	**66.622**
Long-term portion of long-term deposits, in foreign currencies		
- Enterprises	1.582	2.097
- Non-banking financial institutions	2.065	1.565
- Residents/non-residents	76.192	87.406
- Non-profit organizations	1.173	1.173
	81.012	**92.241**
Current maturity of long-term deposits, in BAM		
- Government and state institutions	10.950	800
- Enterprises	4.185	4.430
- Non-profit organizations	434	1.257
- Non-banking financial institutions	6.404	10.230
- Residents	54.240	38.049
- Other	500	-
	76.713	**54.766**
Current maturity of long-term deposits, in foreign currencies		
- Enterprises	862	-
- Non-banking financial institutions	-	500
- Residents/non-residents	79.958	62.164
	80.820	**62.664**
Total long-term deposits in BAM:	**142.897**	**121.388**
Total long-term deposits in foreign currencies:	**161.832**	**154.905**

21. LIABILITIES PER LOANS

(In BAM thousand)

	31 December 2020	**31 December 2019**
In BAM:		
- „Fond za razvoj i zapošljavanje RS“	10.805	4.433
- „Fond stanovanja RS“	9.247	9.236
- „Fond za razvoj istočnog dijela RS“	3.725	4.144
Total in BAM:	**23.777**	**17.813**
In foreign currency:		
- EFSE	13.691	-
Total in foreign currency:	**13.691**	**-**
Deferred interest liabilities in domestic currency per long-term loans of residents	24	23
Deferred interest liabilities in foreign currencies per short-term loans of non-residents	20	-
Total long-term portion of liabilities in BAM:	23.801	17.836
Total liabilities per loans	**37.512**	**17.836**
Current maturity:		
- IRB	3.182	2.320
- EFSE	13.711	-
Total current maturity of long-term liabilities:	**16.893**	**2.320**

As at 31 December 2020, the total liabilities balance based on loans from the funds managed by the Investment and Development Bank of the Republic of Srpska amounted to BAM 23.777 thousand (31 December 2019: BAM 17.813 thousand).

On 9 July 2020, the Bank concluded a loan agreement with EFSE Luxembourg in the amount of BAM 13.691 thousand, for a period of 3 years, with a semi-annual repayment and an interest rate of 3,1%. Inflows from the loan agreement were realized in three tranches. As at 31 December 2020, a total inflow in the amount of BAM 13.691 thousand was realized.

The funds received are intended for lending to the bank's clients for the purchase of fixed assets, working capital, investments, initial business activities of small and medium enterprises and entrepreneurs.

According to the loan agreement signed with the creditor, the Bank is obliged under the Agreement XX BA S MFBL 004, dated 9 July 2020, to adhere to certain procedures and accounting records that adequately reflect the Bank's operations in accordance with International Accounting Standards, that International Standards for Financial Reporting and certain financial conditions.

As at 31 December 2020, the Bank did not meet all the required financial indicators from this Agreement with creditor EFSE, Luxembourg. The Bank addressed the creditor with a request and received the approval of "Waiver" until 31 December 2020. In accordance with the requirements of IAS 1, the Bank classified loan liabilities to short-term loans as at 31 December 2020, due to non-compliance with the above conditions.

22. SUBORDINATED DEBT

(In BAM thousand)

	31 December 2020	**31 December 2019**
EFSE, Luxembourg	6.845	6.845
Deferred interest liabilities in foreign currency per long-term subordinated loans	119	111
Total:	**6.964**	**6.956**

In its Decision no. 03-1515-3/16 dated 7 October 2016, BARS approved of inclusion of subordinated debt into the Bank's supplementary capital in the amount of BAM 6.845 thousand.

On 13 October 2016, the Bank and EFSE, Luxembourg signed an agreement on subordinated debt amounting to BAM 6.845 thousand, for the period of 6 years, with a one-off repayment at an interest rate of 6,2 % annually. It is intended for strengthening the Bank's total capital.

As at 31 December 2020 , the Bank did not meet all the required financial indicators from this Agreement with creditor EFSE, Luxembourg. The Bank addressed the creditor with a request and received the approval of "Waiver" until 31 December 2020.

23. OTHER LIABILITIES

(In BAM thousand)

	31 December 2020	**31 December 2019**
In BAM:		
- deferred income	2.388	2.519
- trade payables	213	211
- deferred expenses	176 21	52-
- lease liabilities – IFRS 16 (note 18.2)	8.006	7.808
- other liabilities	935	1.349
In foreign currency:		
- trade payables	17	42
- other liabilities	81	25
Total:	**11.816**	**12.006**

24. KAPITAL

Share capital

The share capital of the Bank was formed from the initial investments of shareholders and the subsequent capital increase. The Bank's share capital as at 31 December 2020 amounts to BAM 51.141 thousand (as at 31 December 2019: BAM 51.141 thousand), and was comprised of 511.410 common shares with nominal value of BAM 100 per share.
According to the statement of the Central Registry of Securities of the Republic of Srpska, the equity structure as at 31 December 2020 was as follows:

	Number of shares	**In thousands of BAM**	**%**
MKD Mikrofin d.o.o., Banja Luka	404.981	40.498	79,19
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57
KfW, Germany	47.259	4.726	9,24
	511.410	51.141	100,00

24. EQUITY (continued)

As at 31 December 2019, the structure of the Bank's share capital was as follows:

	Number of shares	In BAM thousand	%
MKD Mikrofin d.o.o., Banja Luka	404.981	40.498	79,19
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57
KfW, Germany	47.259	4.726	9,24
	511.410	51.141	100,00

Equity reserves

	31 December 2020	31 December 2019
Statutory reserves	798	500
Revaluation reserves based on value changes in securities	568	417
Revaluation reserves based on provisions / expected credit losses based on securities – IFRS 9	36	85
	1.402	**1.002**

As at 31 December 20202, equity reserves in the amount of BAM 298 thousand (31 December 2019: BAM 262 thousand) incurred from the issuing funds from profit to legal reserves pursuant to the Supervisory Board's Decision no. NO-80/2020 dated 28 April 2020 and the Decision of the Bank's Assembly no. SK - 7/2020 dated 16 June 2020.

25. EARNINGS PER SHARE

(In BAM thousand)

	31 December 2020	31 December 2019
Net profit of the period	4.316	5.955
Weighted average number of shares	511.410	472.533
Basic earnings per share (in BAM)	8,44	12,60

Given the fact that the Bank has no potentially diluting ordinary shares such as convertible debt and share options, diluted and basic earnings per share are identical.

26. CONTINGENT LIABILITIES AND COMMITMENTS

a) Payment guarantees, contract execution guarantees, and other irrevocable commitments

	31 December 2020	31 December 2019
Payment guarantees	15.759	11.473
Contract execution guarantees	28.674	21.320
Irrevocable commitments for undrawn loans	14.588	14.741
Unused overdrafts on accounts and credit cards	7.845	6.956
Total	**66.866**	**54.490**
Allowance	(682)	(210)
Total	**66.184**	**54.280**

b) Litigation

As at 31 December 2020, the Bank has initiated 1.432 litigation. The total amount of the portfolio received in the Legal Affairs and Restructuring Sector as at 31 December 2020 is BAM 21.219 thousand (31 December 2019: BAM 18.949 thousand).

As at 31 December 2020, , there were 14 litigations initiated against the Bank. Considering the nature of litigation, the Committee for assessing the risk of loss in litigation against the Bank determines that the Bank's estimated success in all these disputes is over 50%, and in accordance with the Procedure for assessing the Bank's performance and determining provisions in proceedings against MF Banka a.d. Banja Luka proposed to reserve litigation provisions in the amount of BAM 68 thousand, which was confirmed by the Decision of the Management (provisions for litigation as at 31 December 2019 amount to BAM 84 thousand).

c) Compliance with legal regulations

The Bank is obligated to reconcile the scope of its business operations with the legally prescribed ratios, that is to maintain the scope and structure of its investments in compliance with the accounting standards and regulations of the Republic of Srpska, established by the Banking Agency of the Republic of Srpska.

As at 31 December 2020, the Bank, regarding all indicators, was in compliance with the accounting standards and regulations of the Republic of Srpska established by the Banking Agency of the Republic of Srpska.

27. TRANSACTIONS WITH RELATED PARTIES

(In BAM thousand)

Statement of financial position	**31 December 2020**	**31 December 2019**
Assets:		
Receivables based on placed loans:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	2.000	-
- Drvex d.o.o., Laktaši	396	245
- Management, Management Board and Supervisory Board	544	530
- Other related parties	872	252
Other prepaid expenses		
- Mikrofin osiguranje a.d., Banja Luka	104	86
- MF Software d.o.o., Banja Luka	148	106
Receivables for accrued interest	-	-
- Drvex d.o.o., Laktaši	1	-
- Other related parties	6	3
Assets, total	**4.071**	**1.222**
Liabilities based on deposits:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	9.659	3.528
- MF Software d.o.o., Banja Luka	116	115
- Mikrofin osiguranje a.d., Banja Luka	4.573	5.938
- Citizens' Association Mikrofin	536	615
- Drvex d.o.o., Laktaši	200	268
- Management, Management Board and Supervisory Board	1.004	1.000
- Other related parties	2.318	1.388
	18.406	12.852
Other liabilities:		
- MF Software d.o.o., Banja Luka	8	-
- Drvex d.o.o., Laktaši	2	-
- MKD Mikrofin d.o.o., Banja Luka (parent company)	1	-
- Other related parties	-	4
	11	4
Interest liabilities:		
- Mikrofin osiguranje a.d., Banja Luka	6	-
- Citizens' Association Mikrofin	1	-
- Other related parties	90	48
	97	48
Liabilities, total	**18.514**	**12.904**
Liabilities, net	**(14.443)**	**(11.685)**
Off-balance	**2.092**	**1.081**

27. TRANSACTIONS WITH RELATED PARTIES (continued)

	(In BAM thousand)	
Statement of profit or loss	**31 December 2020**	**31 December 2019**
Income		
Fee income from related parties:		
- MKD Mikrofin d.o.o., Banja Luka	613	575
- Mikrofin osiguranje a.d., Banja Luka	14	14
- MF SOFTWARE d.o.o., Banja Luka	1	1
- Drvex d.o.o., Laktaši	6	5
- Management, Management Board and Supervisory Board	4	6
- Other related parties	51	5
Rental income		
- MKD Mikrofin d.o.o., Banja Luka	523	523
- MF SOFTWARE d.o.o., Banja Luka	79	79
Interest income		
- Drvex d.o.o., Laktaši	12	14
- MKD Mikrofin d.o.o., Banja Luka	2	14
- Management, Management Board and Supervisory Board	25	25
- Other related parties	72	80
Income, total	**1.402**	**1.341**
Expenses		
Lease expenses		
- MKD Mikrofin d.o.o., Banja Luka	(27)	(29)
- Drvex d.o.o. Laktaši	(39)	(39)
- Mikrofin osiguranje a.d., Banja Luka	(51)	(51)
- MF SOFTWARE d.o.o., Banja Luka	(239)	(239)
Other expenses		
- MF SOFTWARE d.o.o., Banja Luka - license	(117)	(117)
- MF SOFTWARE d.o.o., Banja Luka - OS	(194)	(146)
- Mikrofin osiguranje a.d., Banja Luka - osiguranje	(245)	(249)
- Mikrofin osiguranje a.d., Banja Luka - Other	(5)	(2)
- Other related parties	-	(14)
Interest expenses:		
- Mikrofin osiguranje a.d., Banja Luka	(68)	(76)
- Citizens' Association Mikrofin, Banja Luka	(7)	(11)
- Management, Management Board and Supervisory Board	(18)	(11)
- Other related parties	(51)	(29)
- Expenses based on remuneration of Management, Management Board and Supervisory Board	(1.323)	(1.183)
Expenses, total	**(2.384)**	**(2.196)**
Expenses, net	**(982)**	**(855)**

28. TAX RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several laws regulating various taxes as imposed by authorized bodies. The applicable taxes include value added tax, income tax and wage (social) taxes, among others. Additionally, the laws regulating these taxes were not enforced for a substantial period of time, in contrast to similar legislation in more developed market economies, while the regulations defining the implementation of these laws are often unclear on non-existent. Consequently, with regards to tax issues, there is a limited number of cases that can be used as examples. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, which can lead to uncertainties and conflicts of interest. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by several authorities that are legally enabled to impose extremely severe fines and default interest.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be determined with additional tax amounts, penalties and interest. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. These facts cause the tax risk in the Republic of Srpska and Bosnia and Herzegovina to be substantially more significant than those typically existing in countries with more developed tax systems.

29. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE BANK'S OPERATIONS

During 2020, the Bank was under a certain influence of the global economic and financial crisis caused by the COVID 19 as well as a significant decline in economic activity in BiH.

With the World Health Organization declaring the COVID-19 pandemic in March 2020, which affected the whole world, not only a great health crisis arose, but there were huge changes in the global economy and the economies of individual countries. The ordered measures of isolation and social distancing resulted in reducing the scope and, in certain cases, the complete cessation of economic activity of certain activities.

During 2020, the Government of the Republic of Srpska and the entity banking agencies undertook comprehensive fiscal and monetary policy measures with the aim of reducing negative effects. In order to support the financial and real sector of the Republic of Srpska, the Banking Agency of the Republic of Srpska has contributed to the preservation of credit activities and the reduction of negative effects caused by the pandemic.

The reduction of negative effects of the crisis was significantly contributed by the moratorium on repayment of obligations for all debtors who required this, first until the announcement of the termination of the emergency situation, and then for a maximum of 6 months.

The Bank has introduced preventive measures to deal with the pandemic right from the beginning, including tightening risk monitoring, and it continues to proactively manage the development of the situation. Non-financial risk arising from restrictions on the movement and remote operation of staff, other contracting parties, customers and suppliers is monitored and adequately managed.

The Bank considered the impact of COVID-19 when preparing the financial statements as at 31 December 2020. The impact of COVID-19 resulted in the application of further judgments and the inclusion of estimates specific to the impact of COVID-19.

Despite significant credit activities during 2020, the Bank had no liquidity problems.

So far, the current financial crisis has had a limited impact on the Bank's financial position and performance, primarily due to its internal risk management policies and regulatory constraints. The Bank has taken several timely measures to prevent deterioration of risks, such as:

- revision of credit approval policies and procedures, credit risk assessment, and risk management.
- adjusting the offer of products and services to the needs of clients and the structure of available sources.
- approving loan restructuring in order to adjust payments to the client's real sources.
- revaluation of collateral during loan re-approval and restructuring.

The Bank carefully and on a regular basis monitors credit risk, liquidity risk, interest rate and foreign exchange risk. It is expected that the Bank's liquidity in the future will be at a satisfactory level.

The domestic economic situation and worldwide is likely to affect the position of certain industries, as well as the ability of some clients to service their credit obligations, which may affect the Bank's provisions for impairment losses after 31 December 2020 and then other areas in which the Bank's management is expected to make estimates, including the valuation of collateral and securities. The financial statements of the Bank contain significant accounting estimates relating to impairment losses, an estimate of the value of assets. After 31 December 2020, the Bank will concentrate on managing its financial portfolio in line with changes in the business environment.

30. FINANCIAL INSTRUMENTS

30.1. Financial risk management

The Bank is exposed to various types of financial risks based on its activities which include, among others, analyzing, assessing, assuming a certain level of risk or combination of risks, as well as managing these risks. Assumption of risks is inherent in financial business, while operational risks accompany any business. The Bank aims to strike a balance between risks assumed and return on its investments, and to minimize potential adverse effects of these risks on the Bank's financial result.

The Bank's risk management policies are used to identify and analyze these risks, to establish adequate limitations and controls, to review risks and to observe the limitations set by the reliable and updated information systems. The Bank regularly reexamines its risk management policies and systems, making sure that these respond to the changes on the market, changes of products and new best practices.

The Bank has established the risk management system in order to be able to identify, estimate and monitor risks it is exposed to in its operations in a timely manner.
The organizational structure of risk management in the Bank is set up in accordance with the Law on Banks of the Republic of Srpska and effective decisions by BARS.

Supervisory Board

The Bank's Supervisory Board is responsible for defining the Bank's overall risk management strategy and capital management strategy as well as risk management policy as well as supervision of risks assumed by the Bank in its activities.
The Supervisory Board adopts the program, policies and procedures for risk identification, measurement assessment and management. The Supervisory Board is to ensure full compliance of the Bank's activities with the defined strategy and adopted policies and procedures.

The Supervisory Board is also in charge of high exposure risks (whether it is an individual client or a group of related parties), and decides on approving all requests for risky products of the Bank (on the recommendation of the Bank's credit committee) of all exposures (at the client or group of related parties level) for amounts over BAM 3.500 thousand, unless the applicant is a person in a special relationship with the Bank, and the Bank's exposure to that person does not exceed BAM 100 thousand for a natural person, or BAM 250 thousand for a legal entity, or these limits are for certain persons in a special relationship, by decision of the Supervisory Board of the Bank and higher, then these exposures are approved by the Bank's Credit Committee, and in case the total exposure of the group of related parties is greater than 3.500.000, up to the limit of large exposure of the Bank.

Management Board

The Management Board of the Bank is responsible to create, develop and timely submit to the Supervisory Board proposals for the adoption of programs, policies and procedures for the identification, measurement and assessment of risks, as well as risk management.

The Management Board is also responsible for implementation of the defined risk management strategy and capital management strategy as well as the Bank's risk management policies.

The Management Board oversees the work of all lower management levels within the Bank and controls the implementation of the adopted policies and procedures. The Management Board monitors the trends and analyzes risk management at least quarterly and regularly informs the Supervisory Board on these matters. In instances where certain activities are not defined by the strategy or policy, the Bank's Management Board is obligated to notify the Supervisory Board.
The Bank's Management Board appoints and dismisses the members of the Bank's Credit Committee.

Credit Committee of the Bank

Within the established credit policy of the Bank, the obligation of the Bank's Credit Committee is to make decisions on investments over BAM 750 thousand up to BAM 3.500 BAM of the total exposure of the client / group of related parties to the Bank, and for claims of parties in a special relationship with the bank, if this exposure of the Bank to that party does not exceed BAM 100 thousand for a natural person, or BAM 250 thousand for a legal entity, or these limits for certain parties are in a special relationship, by decision of the Bank's Supervisory Board and higher, then these exposures are approved by the Bank's Credit Committee, and in case that the total exposure of the group of related parties exceeds BAM 3.500 thousand, up to the maximum of the limit which represents a high exposure of the bank.
The decision on investments below the amounts that are within the competence of the Bank's Credit Committee is the responsibility of the Market Sector Credit Committee, the Credit Committee of the region or the Branch Credit Committee.

30. FINANCIAL INSTRUMENTS (continued)

30.1. Financial risk management (continued)

Risk Management Department

The role of the Risk Management Division is to identify, measure, assess and manage the risks that the Bank has undertaken in its regular operations. The obligation of the Risk Management Sector is to provide a written opinion for total exposures for individuals greater than BAM 20 thousand or over BAM 30 thousand of total exposures for legal entities. The opinion of the Risk Management Department is an integral part of the loan proposal, precisely the case that is considered by the Credit Committee.

As a member of the Bank's Credit Committee, the Manager of the Risk Management Department can exercise its veto power upon deciding on loans discussed by the Bank's Credit Committee. The Risk Management Department expresses an opinion on each new risk-generating credit product as well as other risk-generating areas.

In addition to regular reports, the Risk Management Department prepares in-depth analyzes of the quality of exposures and collateral coverage that will allow for a better understanding, acceptance and mitigation of credit risk.

Treasury and Transaction Department

The Treasury and Transaction Department accomplishes its liquidity management role through the following activities:

- planning the inflow and outflow of cash on a daily basis,
- monitoring of business changes and balance of funds in the reserve account with the CBBH, in the accounts with correspondent banks abroad and in the country, as well as in cash in local and foreign currency in the treasury and in the cashiers of the Bank,
- obtaining missing funds or placing excess liquid assets in the financial markets,
- monitors large individual outflows / inflows of depositors' funds, monitors loan disbursements, all with the aim of maintaining foreign currency position, maturity structure and fulfillment of all due obligations on time,
- analysis of the structure and maturity of deposits by undertaking the activities of re-arranging the maturity of the matured deposits,
  maintains and allocates statutory reserve requirements as a minimum amount of funds allocated to the reserve account with the CBBH,
- prepares daily, monthly and six-month liquidity plans as a method of estimating future liquidity,
- internal and external reporting on liquidity developments.

Asset and Liability Management Committee (ALCO)

The principal function of the Bank's Asset and Liability Management Committee (ALCO) is to identify, measure, and manage risks inherent in the Bank's balance and off-balance sheet items, primarily liquidity and interest rate risks by setting adequate risk limits and measures for elimination of adverse risk impact on profitability.

Loan Management Committee

The principal role of the Loan Management Committee is to oversee the quality of the Bank's assets, credit risk monitoring process and its efficiency, monitor collection processes within the Legal Affairs and Restructuring Sector, and monitor the realization of these processes in conformity with the business goals of the Bank. The Committee's task is monitoring the credit process in all its phases, and in the event that a bottleneck is identified, prepare a proposal to the Management Board of the Bank for definition of measures, actions and responsibilities to eliminate such situations. In addition, its role is to coordinate and strategically direct the processes and activities among all the business functions of the Bank involved in the credit process in order to optimize the process in all its phases and achieve the targeted goals and amounts, along with the regular control related to such processes. This Committee is also competent to approve of the departures from the defined collection procedures and of the proposals for improvement of the loan portfolio quality.

30. FINANCIAL INSTRUMENTS (continued)

30.1. Financial risk management (continued)

Liquidity Committee

The Bank's Liquidity Committee, comprised of three members appointed by the Bank's Supervisory Board – a member of the Management Board, the Manager of the Treasury and Transactions Department and Manager of the Risk Management Department, has meetings at least once on a monthly basis. The Committee monitors and assesses daily liquidity based on the liquidity plan as of the certain date, submitted by the Treasury and Transactions Department on a daily basis to the members of the Committee and Management Board.
The Committee analyzes the liquidity plan and its realization on a monthly basis, proposes measures and defines tasks for liquidity maintenance so that the Bank can avoid the risk of adverse effects on its financial performance due to its inability to settle its current liabilities.

Risk Management Committee

The Risk Management Committee is composed of the Chairman of the Bank's Management Board, members of the Bank's Management Board, the Head of the Risk Management Sector and the Risk Management Control Function. The Committee meets once a month. The Commission continuously and systematically monitors all risks to which the Bank is or may be exposed in its operations by monitoring compliance of the Bank with the Bank's Risk Management and Risk Management Strategy, the Bank's Risk Management Policy and the Bank's Risk Tendency Statement.

30.2. Risk management system and mitigation techniques

The most significant risks to which the Bank is exposed are credit risk, market risk, liquidity risk and operational risk.
In its business, the Bank inevitably encounters various risk types which can produce adverse effects to the Bank's business. Bank's risk management system is comprised with the risk management strategy and policy, internal organizational structure of the bank, effective and efficient process of managing all the risk to which Bank is exposed or could be exposed in its business, adequate internal control system and the appropriate information system as well as adequate internal control estimate on capital adequacy.

In order to ensure an effective risk management and considering the need of minimizing conflicts of interests between risk transfer, limitation of risk levels and controls, as well as audit of the risk management system, a comprehensive risk management system of the Bank is established, according to the principle „3 lines of defense". „First line of defense" has the aim to: identify, estimate, mitigate, monitor and control risk in accordance with the risk limits determined in the second line of defense. „Second line of defense" is aimed to compliance with the determined limitations and is not dependent on the first line of defense. "Third line of defense" has the aim to independently estimate the compliance of the risk management system with internal and external requests.
In its business, the Bank's uses mitigation techniques in order to reduce credit risk related to the exposure or exposures the Bank has, and which includes material and immaterial credit security.

Material credit security is a credit risk mitigation technique according to which the decrease of credit risk by Bank's exposure comes from the Bank's right to, in instances of the counterparty's inability for liabilities settlement, or other credit events related to the counterparty, capitalize or transfer to its entity or appropriate or keep certain assets or amounts, or to decrease the amount of exposure to the amount representing the difference between the exposure amount and credit security amount.
Immaterial credit security is a credit risk mitigation technique according to which the decrease of credit risk by Bank's exposure results from the third party's obligation for payment of a certain amount in instances of counterparty's inability for liabilities settlement or certain other credit events.

In its regular course of business, the Bank is specifically exposed to the following risks:

- Credit risk, including residual risk, risk of impairment of receivables, settlement/delivery risk, and the counterparty risk;
- Concentration risk, which specifically includes exposure risk to a single entity or group of related entities;
- Liquidity risk;
- Market risks (interest rate risk, foreign exchange risk and other);
- Operational risk;
- Bank's investment risk;
- Strategic risk;
- Bank's business compliance risk;
- Risk of money laundering and terrorism financing

30. FINANCIAL INSTRUMENTS (continued)

30.3. Allowance for receivables (IFRS 9 application – Financial instruments)

The application of IFRS 9 began on 1 January 2018 and since then the Bank has defined strategies, policies and procedures related to the Bank's business models, which are evidence for formally documenting existing business models, defining new ones and adapting them to IFRS 9.

The Supervisory Board of the Bank has adopted the Methodology for calculation of allowance for expected losses according to the request of IFRS 9 and BARS Decision on credit risk management and determination of expected credit losses (hereinafter: „the Methodology") which defines the methods and techniques used in MF Banka a.d. Banja Luka (hereinafter: the „Bank") aimed to calculate individual and group-level allowance for the Bank's balance sheet and off-balance sheet items, that is, all financial assets defined by the Standard. The Methodology defines the criteria for determining the type of financial assets, the criteria for identifying the receivables that need to be individually assessed, as well as the criteria for assessing the receivables that are the subject to a group-level assessment, and the same are applied on the Bank´s level in a systematic manner and consistently throughout the time, and its consistent application allows the timely determination of expected losses that arise from failure to meet contractual obligations by clients or a significant increase in credit risk, all in order of protecting the capital of the Bank in the period when the loss is identified and realized. The Methodology is based on the requests defined by the International Financial Reporting Standard (IFRS) 9 and the BARS Decision on credit risk management and determination of expected credit losses.
The Methodology is based on rules and historic data and includes objective criteria of business in local market (use of real discount rate upon making estimates on the expected cash flows, collateral marketability and the time needed for realization, effective legal regulations and court practice in their implementation, current economic conditions and other relevant factors that influence the debtor's financial performance) and establishes the obligation of the Bank to estimate the current economic conditions in surroundings in which it is operating and to adjust the allowance for impairment related to the expectation on future information.

The methodology defines the following:

1) Type of financial assets, that is, is the asset purchased or credit impaired;
2) The stage of the financial assets;
3) Material significance limit for individual exposures;
4) Identification of exposures to be estimated/classified on an individual and group-level basis;
5) Individual allowance;
6) Group-level allowance.

The Methodology also includes the following:

1) Identification of receivables that are classified on an individual or group-level basis, and criteria for classifying receivables into homogeneous groups with similar characteristics (type of client / segmentation, type of loan product, debt security instrument, regularity in settlement of liabilities, sectoral and geographical structure, etc.);
2) established methods and techniques for classification on an individual or group-level basis, including the method of estimating the expected collection time and percentage of the value of the insurance instrument of receivables from which the collection will be made (taking into account all activation and collection costs) and the factors used in determining time intervals for estimation of losses based on data from previous periods;
3) analyzes, assessments and other procedures used in calculating the allowance for impairment or provisions should be precisely explained and adequately documented in written form;
4) providing accurate and up-to-date information that are taken into account when assessing the collectability of receivables;
5) clearly defined organizational units in charge for the mentioned assessment and conditions under which an assessment based on prior experiences can be made.

Considering the fact that the regulation does not repeal the previous regulatory provisions related to the classification of exposures and the calculation of provisions in accordance with the classification of exposures, they remain in force. The Bank is required to simultaneously calculate provisions in accordance with the exposure classification and allowance according to the internal impairment methodology. The methodological framework for calculating the allowance is subject to further development and further improvements in the coming periods, due to the current harmonization of BARS with IFRS, improvements in the Bank's processes as well as changes in IFRS itself.
The Methodology is based on the final version of International Financial Reporting Standards 9: "FINANCIAL INSTRUMENTS" adopted by the International Accounting Standards Board (IASB). Financial institutions are obliged to comply with the requirements of this standard from 1 January 2018 and the BARS Decision on credit risk management and determination of expected credit losses.

30. FINANCIAL INSTRUMENTS (continued)

30.3. Allowance for receivables (IFRS 9 application – Financial instruments) (continued)

The Methodology in accordance with IFRS 9 and the BARS Decision on credit risk management and determination of expected credit losses implies the following:

- Concept of measurement of expected losses - measurement of expected loss under IFRS 9 implies a transition from recognition of incurred losses to an area of expected losses, whereby different scenarios must be considered for the expected loss.
- Probably weighted scenarios for calculating the expected loss - means that in the stages of an individual estimate of the expected loss, it must be incorporated by the probability weighted scenario, which is calculated in two scenarios with the appropriate probability. For each exposure there is some (even marginally small) likelihood of loss.
- Necessary adequate parameter risk modeling (EAD – exposure at default, PD - probability of default, LGD - loss given default, CCF - credit conversion factor) - IFRS 9 additionally requires more precise parameters for calculating expected losses considering PIT (point-in time) parameters, in contrast to currently defined IAS 39 (TTC – through the cycle).
- Necessary modeling of macroeconomic expectations - when determining the risk of parameters, it is necessary to consider how macroeconomic variables influence the movement of the parameters of the Bank.
- Criteria for transition to phases - IFRS 9 considers that in the part of the incoming portfolio there is also a phase 2, that is, the phase in which exposures with increased credit risk are classified from the moment of approval to the moment of reporting, it is necessary for the Bank to define the criteria on the basis of which it will be recognized exposure with increased credit risk in all segments of the depreciated value of financial instruments.
- Calculation of interest income on non-quality assets - the only source of interest income on non-quality assets is the so-called unwinding.
- POCI financial assets (purchased or originated credit-impaired financial assets) - a new category of assets is defined for which there is a specific set of rules, that is, assets that are in the process of approval or purchase already bearing the mark of impairment, for which there is already an individual expectation of impairment.

Allowance according to IFRS 9 is created for financial assets within the scope of the standard that is classified in the respective business models and areas 1 of the standard.

According to the requests of the IFRS 9 and the BARS Decision on credit risk management and determination of expected credit losses, the Bank, according to the reasonable expense and effort, estimates at which point of economic cycle it is currently in, regarding its exposure, and how macroeconomic changes, that is, future information may impact the expected loss. Macroeconomic indicators may affect differently the risk parameters upon calculation of 12 months lifecycle losses but considering that the formula for allowance for impairment is a product of risk factors/parameters, with adjusting one risk parameter (PD) allowance for impairment will be adjusted for any expected future information.
Materially significant threshold is used in Methodology for the purpose of calculation of days delay in payment, which refers to the amount higher than:

- for individuals greater than BAM 200 and 1% of the debtor's total balance exposures,
- for legal entities greater than BAM 1000 BAM and 1% of the debtor's total balance exposures.

Comparing to the IAS 39, the definition of the default status remains unchanged. A financial asset or a group of financial assets is considered impaired and impairment losses incurred, only if there is an objective proof of the impairment resulting in one or more previous events occurred after the initial recognition of the asset (a „loss event") and the loss event (or events) have an impact on the future estimated cash flows of the financial asset or group of financial assets, which can be reliably estimated.

30. FINANCIAL INSTRUMENTS (continued)

30.3. Allowance for receivables (IFRS 9 application – Financial instruments) (continued)

First, the Bank estimates whether there is an objective proof of impairment individually for financial assets considered individually significant, and individually or collectively for financial assets not considered as financially significant. Non-significant individual exposures would be estimated individually when a specific risk related to the client/transaction (industry concentration, default status, rating category, credit type, customers risk bearing ability etc.) is defined. Objective evidence of an impairment of financial asset or group of assets includes evident information brought to Bank's attention relating to the loss events described below:

- Debtor's delay is more than 90 days and it is a materially significant amount. Materially significant amount refers to the Bank's receivables as defined by the Methodology;
- The Bank considers unlikely that the debtor will settle its liability towards the Bank in full, with no regards to the collection possibility by activating the security instrument especially in respect of the following elements:
- Partial and total write-off receivables;
- Receivables restructuring due to deterioration of the debtor's financial capacity, with decrease in principal and interest amount, or fee or postponement of the maturity and
- Liquidation or bankruptcy of the debtor.

The Bank determines the default status of legal entities at the level of total receivables from that entity. In the case of individuals, the bank determines the default status at the level of individual exposure. If the gross book value of the exposure to an individual in the default status exceeds 20% of the total gross book value of the exposure to that individual, it is considered that the default status of all exposures to that individual has occurred.

Based on the default status, and individual exposure significance, the Bank distinguishes different approaches to the impairment measurement (individual or collective estimate). For all materially significant clients for which the Bank determines there is objective proof of impairment, that is, that they are in the default status, they have specific provisions or are classified as POCI assets, the Bank will conduct an individual estimate on impairment.

Accordingly, in determining the allowance in accordance with IFRS 9, the Bank distinguishes between two approaches:

- Individual (separate) allowance– This type of allowance is calculated on an already stated exposures which are simultaneously individually materially significant (their exposure exceeds the individually defined significant limit) and which have objective proof of impairment, and
- Portfolio (group-level) allowance– This type of allowance is calculated on all of the Bank's exposures for which there is no evidence of impaired receivables.

For each last day of the month, the Bank will determine both types of allowance. The Methodology defines the criteria for allocation per stages for legal entities and individuals.

Calculation of allowance and provisions for losses, per individual materially significant exposures which have an identified objective proof of impairment, is conducted through the individual allowance. Individual allowance implies an estimate of expected credit losses and analysis of the expected future cash flows in several different scenarios of collections with certain probabilities for those scenarios and calculation of their present value. Individual allowance is calculated as a difference between the total client's balance exposure per loan (matured principal, non-matured principal, interest) and sum of net present value of estimated future cash flows (from regular repayment and activated security instruments) of the loan. For each individual transaction future cash flows are to be individually determined, separately for the principal and separately for the interest.

The allowance through the portfolio is calculated for the following types of exposures: for exposures that are not materially significant in Phase 3 and for all exposures in Stages 1 and 2.

30. FINANCIAL INSTRUMENTS (continued)

30.3. Allowance for receivables (IFRS 9 application – Financial instruments) (continued)

All investments to clients categorized by defined criteria for group-level allowance for impairment are further categorized into appropriate homogenous groups (HG). Basic criteria for grouping are the segments, whereby the largest, MSME segment, is divided in credit product groups: MSME-Loans for current assets, MSME-Loans for non-current assets and investments, MSME-Loans for entrepreneurs for all purposes, MSME-Transferred loans and MSME-Others. Due to specific characteristics of the Overdraft, exposures related to this product are separated into specific homogenous group at the Bank's portfolio level (regardless of the segment). Allowance for defined homogenous group will be formed through application. Every homogenous group will be monitored in regards of its movement, that is, migration of exposures from creditworthiness groups into a certain status according to the number of days delay in payment

Migrations from rating groups to a certain status, that is the second rating group will be monitored by taking the middle (weighted) cross-section value at the end of the individual quarters, going back through the data history for the defined period (minimum three years). Therefore, individual migrations will be determined first on defined cut-off dates (quarters), in a way that will monitor the movements of exposures / parties (by rating groups) that were active for one year until the cut-off date. Then, for each rating group, the resulting amounts that migrated across all cross-section dates will be summed by the sum of total exposures at all cross-section dates.

Impairment measurement on group-level basis requests an estimate of the parameters on statistic basis with adjustments for future information. Risk parameters PD and LGD will be calculated for each homogenous group for the whole lifecycle, that is, with the highest maturity for the certain homogenous groups with the use of historic data and adjustments for expected future losses.

The methodology defines the types of collateral and parameters related to collateral that are used when calculating value adjustments on an individual and portfolio basis. By applying the defined parameters by individual types of collateral for the purpose of calculating individual allowance on individually materially significant exposures provided by these types of collateral, the expected cash flow is reduced by discounting to present value. Procedures and methods that describe in more detail the activities related to collateral (classification of collateral, relevant valuation methods, certified appraisers, etc.) are prescribed by the Policy of eligible collateral.

30.4. Financial risks

In its regular course of business, the Bank is specifically exposed to the following risks:

- Credit risk, including residual risk, risk of impairment of receivables, settlement/delivery risk, and the counterparty risk;
- Concentration risk, which specifically includes exposure risk to a single entity or group of related entities;
- Liquidity risk;
- Market risks (interest rate risk, foreign exchange risk and other);
- Operational risk;
- Bank's investment risk;
- Strategic risk;
- Bank's business compliance risk;
- Risk of money laundering and terrorism financing

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk

The Bank assumes credit risk which relates to potential negative effects on the financial result of the Bank contingent on the failure of debtors to meet their liabilities towards the Bank. Credit risk is the most significant risk for the Bank's business operations, and the Bank manages its risk exposure being aware of its importance. The credit risk exposure occurs primarily based on crediting activities, that is in loan origination activity. Credit risk is also present in off-balance sheet financial instruments such as guarantees and undrawn credit lines.

Credit risk implies the risk of negative effects on the Bank's financial result and capital as a result of the debtor's inability to settle its matured liabilities to the Bank. Credit risk comprises of the following:

- Default risk - the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- Downgrade risk - the risk of loss of the Bank that may arise if a risk level of a debtor is downgraded (deterioration of the customer's credit rating) on the line items of assets that are recorded in the credit portfolio;
- Risk of change in the value of assets - the risk of loss of the Bank that may arise on items of assets that are recorded in the credit portfolio in the event of a decline in their market value compared to the price at which assets were acquired;
- Exposure risks - risks that can arise from the Bank's exposure toward a single entity, a group of related entities or Bank's related parties.

The Bank manages credit risk by implementing the crediting strategy focused on entrepreneurs and micro, small and medium enterprises (MSME) and risk dispersion.

The Bank manages credit risk by approving standardized credit products in accordance with its crediting policy. Those products and their basic characteristics in terms of amount, maturity, interest rate, fee and obligatory collateral are defined in the bank's Credit Product Catalogue. The Risk Management Department is involved in definition of credit products and their evaluation from the aspect of risk. Decision-making levels defined by the Rules of Procedure for Credit Committees, are competent for decision making in instances of standard loan approval under standard terms, whereas any departure from the defined standards requires higher level decision making.

The Bank's Credit Manual, Rulebook on Documenting Credit Activities and Credit Documentation Safekeeping, as well as Instruction Guide for Credit Analysis, clearly define the manner of processing risky products, documentation required for individual market segments, steps of the crediting process and organizational units and individual operators responsible for their implementation. The documentation prescribes all the forms used in loan processing and monitoring and the manner and forms for credit analyses for assessment of credit worthiness depending on the market sub-segment they belong to (Retail, MSME, COR and PUB). The Bank approves loans in accordance with the defined procedure for loan approval based on the assessed credit worthiness of the borrowers and collaterals. The analysis of the borrower creditworthiness must be presented in the document named "Assessment", which includes the loan proposal as the basis for making a decision on loan approval. Such decisions are made based on the defined limits for individual exposures and total exposures per single entity or a group of related entities. There are five levels of authority within the Bank for loan approval, the highest of which is the Bank's Supervisory Board and the lowest personal responsibility of the Branch credit committees. Processing of loan requests for MSME and Retail segments is decentralized and performed by the Bank's branches. Processing of loan requests from the receipt of up to the loan disbursement is performed through the application module adjusted to the requirements of the Front Office.

The Instructions for Collection and Management of Non-Performing Loans define the manner of monitoring the existing loans and competences and responsibilities for performing collection activities. With the aforesaid Instructions Bank defines the daily and monthly monitoring of collection within certain steps of Non-Performing Loans management are performed.

In order to ensure quality, systematic and orderly management of loan portfolio in default, the Bank's internal procedures prescribe the following two documents: "Irregular Repayment File" and "Collection Strategies." The "Irregular Repayment File" represents a report providing a summary of activities already undertaken and performed in respect of loans with repayment over 30 days past due and is maintained until the loan repayment is settled in full. Loan Officers are obligated to maintain the irregular repayment files and chronologically record all activities undertaken in order to collect the receivables. The maintenance of this form is supported by the software within the credit module used by the Front Office. "Collection Strategies„ is a report presenting a dynamic overview of activities that will be undertaken in order to collect receivables, that is, the agreed upon collection strategy.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Impairment losses and provision policy

The Bank estimates the risk of potential losses due to deterioration of the debtor's credit rating. Credit risk implies the risk that debtors won't be able to settle their liabilities when due, whether there be little probability borrowers settling the liabilities from their primary sources or the repayment be over 90 days past due.

Impaired loans are those loans where objective evidence of impairment has been determined. Objective evidence of impairment includes events causing measurable decrease in the estimated future cash flows.

Individually impaired assets are those assets which were assessed for impairment on an individual level and for which the assessed impairment losses have been recognized. The amount of impairment loss is determined as the difference between the carrying value and the present value of the future cash flows.

The calculated amount of the impairment of balance sheet assets is charged to expenses and credited to the impairment allowance of those assets, while the calculated amount of the probable loss per off-balance sheet assets is charged to expenses and credited to the provisions for potential losses per off-balance sheet items.

Group-level assessment for impairment is performed for loans that are not individually significant.

For the purpose of group-level assessment, loans are classified into homogenous groups in aspect of credit risk in accordance with the Bank's internal methodology for calculation of allowance.

Expected future cash flows for homogenous loan groups are determined based on the available historical data, mostly data on default in liability settlement, and cash flows that will certainly result from collateral foreclosure are also considered.

Collateral

In accordance with standard principles of loan business, the Bank requires collateral in terms of investment security which should cover the risk of the client not being capable to settle contractual obligations.
The Bank most commonly uses the following collaterals as security:

- Bills of exchange,
- Orders,
- Statement of confiscation (administrative interdiction),
- Solidary debtor,
- Solidary guarantor/guarantor rewarder,
- Pledge on real estate-mortgage,
- Pledge on movables
- Pledge on securities,
- cash pledge (deposit / savings deposit),
- Insurance policy,
- Guarantees of the Guarantee Fond RS.

The Bank reserves the right to demand any other type of collateral it deems necessary.

Non-performing exposures

Non-performing exposures include exposures in default status, that is, exposures that are allocated to the credit risk level and exposures that are measured at fair value through the statement of profit or loss, and that meet the condition for assignment to the credit risk level 3.

The Bank classifies clients in accordance with the Internal Methodology for calculating allowance according to days of delay and data on migration of investments by credit rating groups. The Bank also classifies clients according to the BARS Decision on credit risk management and determination of expected credit losses. According to the BARS Decision, all clients are classified into three credit risk.

The management of non-performing loans is centralized and organized through the work of the specific Legal Affairs and Restructuring Sector.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

This Sector is competent for reprogramming and restructuring of all loans. When this Division has attempted and failed at all possibilities of collection, it proposes making a decision on initiation of legal proceedings to the Bank's Loan Management Committee/Credit Committee.

With the Instructions for collection and management of non-performing loans, the Bank explicitly prescribes the activities of assumption, monitoring and collection of non-performing loans for all market segments. The Legal Affairs Division has the authority over the loan when the following conditions are met:

1. Loans that are 90 and over 90 days past due with liability matured in excess of the amount of 1 annuity;
2. Clients that failed to settle their liabilities to the Bank within 30 days from the maturity of the entire account overdraft or revolving loan amount;
3. Credit cards with repayment of 90 and over 90 days past due;
4. All types of guarantees where the Bank made the required payments and liabilities matured were not settled within 30 days from the Bank's payment date.

Clients meeting the above listed criteria are transferred to the Legal Affairs and Restructuring Sector assuming that it is possible through the restructuring and reprogramming program to structure the client's debts in such a way that the client can service them regularly. If there are no possibilities for servicing, court proceedings are initiated.

Transfer to the Legal Affairs and Restructuring Sector is realized by generating a list of loans at the beginning of each month where, on the last day of the previous month, conditions were met for a transfer to the Legal Affairs and Restructuring Sector. The list needs to include all the loan facilities of each borrower, and those of its related parties, even if they are not in the delay categories defining the transfer (based on ownership and family relations), yet they affect the creditworthiness and possibility of loan repayment. The market sector may propose delay in transferring a client to the Legal Affairs and Restructuring Sector, maximum 30 days, if there is an agreement with the client to make payment or rescheduling/reprogramming of obligations. If, within 30 days, the client fails to make the payment or his obligations are not rescheduled, the client falls under the jurisdiction of the Legal Affairs and Restructuring Sector. The decision to postpone the transfer to the Legal Affairs and Restructuring Sector is made by the Loan Management Committee after considering the proposals from the Market Sector.

Based on the client list, the cases are transferred from the affiliates / branches to the Legal Affairs and Restructuring Sector, as well as the duties of the employee in the Legal Affairs and Restructuring Sector for the mentioned cases in the system. This borrowing activity in the system implies that in support, by the end of the seventh working day of the month, all back-up referents from the Legal Affairs and Restructuring Sector (in the banking application) are assigned.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

30.5.1. Overview of credit exposure as at 31.12.2020

(In BAM thousand)

LOAN BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	-	-	-	-	-	-	-	-	-
Stage 1	267.517	280.188	271.772	284.445	290.808	285.927	287.779	318.059	321.377	318.539	319.907	328.201
Stage 2	50.226	39.072	47.253	35.244	33.187	51.277	57.656	29.973	32.917	40.189	35.723	32.397
Stage 3	21.772	22.499	24.246	24.541	21.673	22.621	22.253	21.062	20.990	21.583	23.963	23.888
Total	**339.516**	**341.758**	**343.271**	**344.230**	**345.669**	**359.825**	**367.688**	**369.094**	**375.284**	**380.311**	**379.593**	**384.486**

INTEREST BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	-	-	-	-	-	-	-	-	-
Stage 1	1.627	1.628	1.795	2.121	2.018	1.905	2.107	2.684	2.618	2.338	2.306	2.255
Stage 2	398	318	500	458	377	435	643	342	370	610	455	308
Stage 3	732	696	693	707	637	682	679	677	669	695	757	750
Total	**2.757**	**2.641**	**2.988**	**3.286**	**3.032**	**3.021**	**3.429**	**3.703**	**3.657**	**3.643**	**3.518**	**3.313**

TOTAL EXPOSURE WITHOUT SUSPENDED INTEREST

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	-	-	-	-	-	-	-	-	-
Stage 1	318.370	342.176	334.208	347.388	357.980	347.681	348.115	382.491	387.115	384.206	389.589	393.287
Stage 2	53.694	41.516	50.368	37.911	35.271	55.212	62.436	34.409	37.431	45.524	40.412	36.483
Stage 3	23.684	23.948	25.700	25.937	22.876	23.894	23.593	22.337	22.385	23.018	25.553	25.529
Total	**395.748**	**407.640**	**410.277**	**411.236**	**416.127**	**426.787**	**434.145**	**439.237**	**446.930**	**452.748**	**455.553**	**455.299**

TOTAL ALLOWANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	-	-	-	-	-	-	-	-	-
Stage 1	6.898	7.434	7.120	8.210	8.825	6.712	6.747	8.316	7.557	7.807	8.967	10.672
Stage 2	6.607	5.946	6.339	5.307	5.753	7.717	7.833	6.548	7.561	7.735	7.252	7.066
Stage 3	16.638	16.491	17.362	17.891	16.884	17.570	17.797	18.057	18.730	19.456	21.047	21.291
Total	**30.143**	**29.870**	**30.820**	**31.408**	**31.462**	**31.999**	**32.376**	**32.921**	**33.848**	**34.998**	**37.265**	**39.029**

In 2019, "Other" implied "Purchases of receivables", and now, in 2020, they are included in "Credit balances" because they are recorded on credit parties. As at 31 December 2020, they amounted to BAM 639 thousand and they are all Stage 1.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

30.5.1. Overview of credit exposure as at 31.12.2019

LOAN BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	29	183	-	-	1	-	-	-	-
Individual correction	105.103	108.994	113.781	113.380	118.943	125.876	131.821	124.038	130.485	135.825	140.006	-
Stage 1	177.898	177.665	181.213	179.477	175.906	178.183	175.797	172.735	175.068	177.268	172.849	296.920
Stage 2	9.391	10.237	8.999	10.195	12.015	16.405	12.403	15.772	15.156	9.073	8.890	27.199
Stage 3	7.245	7.317	7.456	7.558	7.602	7.679	8.074	8.051	7.976	7.220	7.126	16.409
Total	**299.637**	**304.213**	**311.449**	**310.610**	**314.466**	**328.143**	**328.095**	**320.596**	**328.685**	**329.386**	**328.871**	**340.528**

INTEREST BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	-	-	-	-	-	-	-	-	-	-	-	-
Individual correction	1.355	1.304	1.371	1.414	1.499	1.483	1.457	1.068	1.517	1.571	1.317	-
Stage 1	1.139	1.052	1.176	1.147	1.129	1.174	1.153	187	1.125	1.160	1.100	1.803
Stage 2	101	105	92	119	123	98	121	59	138	96	90	219
Stage 3	338	345	346	352	357	357	367	409	370	377	314	634
Total	**2.933**	**2.806**	**2.985**	**3.032**	**3.108**	**3.112**	**3.098**	**1.723**	**3.150**	**3.204**	**2.821**	**2.656**

TOTAL EXPOSURE WITHOUT SUSPENDED INTEREST

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	9.455	8.518	9.108	9.665	10.476	10.227	10.453	10.647	11.594	13.295	12.488	11.124
Individual correction	107.152	112.592	115.865	117.679	121.032	128.221	134.757	126.977	132.726	138.370	141.970	-
Stage 1	209.453	210.988	215.304	210.863	213.242	210.067	207.905	206.580	206.675	215.089	212.891	340.583
Stage 2	10.497	11.271	9.778	11.022	16.183	18.069	16.523	21.668	20.949	10.365	10.323	28.720
Stage 3	7.895	7.979	8.234	8.349	8.405	8.479	8.889	8.869	8.971	8.094	7.995	17.698
Total	**344.452**	**351.348**	**358.289**	**357.578**	**369.338**	**375.063**	**378.527**	**374.741**	**380.915**	**385.213**	**385.667**	**398.125**

TOTAL ALLOWANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	76	83	83	83	83	83	83	83	83	83	83	49
Individual correction	22.521	22.681	23.809	24.381	24.711	24.608	25.036	25.324	25.657	24.376	22.535	-
Stage 1	890	906	841	698	722	765	734	707	679	670	626	9.401
Stage 2	991	1.145	1.006	791	969	1.020	1.046	1.305	1.226	661	615	5.532
Stage 3	5.613	5.686	5.647	5.061	5.285	5.371	5.492	5.568	5.531	4.517	4.522	12.782
Total	**30.091**	**30.501**	**31.386**	**31.014**	**31.770**	**31.847**	**32.391**	**32.987**	**33.176**	**30.307**	**28.381**	**27.764**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

30.5.2. Total exposure without suspended interest as at 31.12.2020 and 31.12.2019

(In BAM thousand)

				Share in total exposure as at 31.12.2020						
	Total exposure	**Loans due**	**%**	**Non-performing loans**	**%**	**Reprogrammed/ restructured loans**	**%**	**Interest**	**%**	**Advances**
Public sector	751	-	0,00%	-	0,00%	-	0,00%	-	0,00%	-
Corporate	50.153	979	1,95%	1.754	3,50%	778	1,55%	45	0,09%	-
MSME	331.486	14.015	4,23%	20.988	6,33%	14.840	4,48%	951	0,29%	841
Retail	72.909	2.369	3,25%	3.543	4,86%	2.958	4,06%	277	0,38%	430
Total	**455.299**	**17.363**	**3,81%**	**26.285**	**5,77%**	**18.576**	**4,08%**	**1.273**	0,28%	**1.271**

				Share in total exposure as at 31.12.2019						
	Total exposure	**Loans due**	**%**	**Non-performing loans**	**%**	**Reprogrammed/ restructured loans**	**%**	**Interest**	**%**	**Advances**
Public sector	1.417	-	0,00	-	0,00	-	0,00	-	0,00	-
Corporate	38.819	1.400	3,61	1.622	4,18	45	0,12	1	0,00	26
MSME	273.904	13.124	4,79	12.918	4,72	3.140	1,15	127	0,05	693
Retail	83.985	2.430	2,89	3.158	3,76	1.195	1,42	50	0,06	485
Total	**398.125**	**16.954**	**4,26**	**17.698**	**4,45**	**4.380**	**1,10**	**178**	**0,04**	**1.204**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

30.5.2. Total exposure without suspended interest as at 31.12.2020 and 31.12.2019 (continued)

The following table shows the changes in the gross carrying amount of loans to customers as at 31.12.2020:

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01 January 2020	**85.555**	**2.582**	**4.997**	**93.134**	**213.169**	**24.834**	**12.047**	**250.050**
Transfer to Stage 1 (from 2 or 3)	579	(463)	(116)	-	8.241	(7.978)	(263)	**-**
Transfer to Stage 2 (from 1 or 3)	(2.611)	2.730	(119)	-	(8.055)	8.131	(76)	**-**
Transfer to Stage 3 (from 1 or 2)	(1.438)	(800)	2.238	-	(1.331)	(4.329)	5.659	**-**
New financial assets acquired or purchased	38.619	915	656	40.190	155.914	10.044	1.453	167.411
Total as at 31.12.2020	**91.289**	**6.519**	**6.688**	**104.496**	**239.169**	**26.178**	**17.951**	**283.298**

Gross book values include principal and interest. Unamortized deferred compensation is not included.

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01 January 2019	**82.835**	**2.134**	**6.906**	**91.875**	**189.304**	**10.434**	**14.290**	**214.027**
Transfer to Stage 1 (from 2 or 3)	1.561	(1.479)	(82)	-	2.852	(2.704)	(148)	**-**
Transfer to Stage 2 (from 1 or 3)	(540)	884	(344)	-	(5.220)	7.205	(1.985)	**-**
Transfer to Stage 3 (from 1 or 2)	(880)	(274)	1.154	-	(3.094)	(2.162)	5.256	**-**
New financial assets acquired or purchased	37.637	878	218	38.733	148.996	12.095	1.768	162.859
Total as at 31.12.2019	**85.555**	**2.582**	**4.997**	**93.134**	**213.169**	**24.834**	**12.047**	**250.050**

Gross book values include principal and interest. Unamortized deferred compensation is not included.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Maximum credit risk exposure
The following table shows changes in impairment of loans to customers:

Impairment of loans to customers

	Retail loans				Corporate loans			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01 January 2020	**1.249**	**586**	**3.294**	**5.129**	**8.112**	**4.926**	**9.147**	**22.185**
Transfer to Stage 1 (from 2 or 3)	15	(14)	(1)	-	357	(342)	(15)	-
Transfer to Stage 2 (from 1 or 3)	(244)	276	(32)	-	(1.410)	1.414	(4)	-
Transfer to Stage 3 (from 1 or 2)	(888)	(674)	1.562	-	(929)	(3.419)	4.348	-
New financial assets acquired or purchased	483	83	326	892	5.575	1.973	907	8.455
Total as at 31.12.2020	**1.402**	**1.067**	**5.431**	**7.900**	**8.916**	**5.815**	**15.356**	**30.087**

The gross carrying amount of the financial assets below represents the Bank's maximum exposure to credit risk.

Maximum exposure to credit risk before collateral and other credit collateral as at 31 December 2020 and 2019

FINANCIAL INSTRUMENTS

	31 December 2020			31 December 2019		
	Exposure before impairment	Impairment	Net credit risk exposure	Exposure before impairment	Impairment	Net credit risk exposure
A. Credit risk exposure related to balance sheet items						
Cash funds and funds with the Central bank	99.912	89	99.823	101.590	148	101.442
Funds with other banks	14.349	73	14.276	5.119	14	5.105
Investments to other banks	-	-	-	3.000	8	2.992
Loans to customers	385.868	37.944	347.924	340.004	27.244	312.760
Purchased receivables	639	3	636	1.635	47	1.588
Other assets	7.340	2.651	4.689	5.128	829	4.299
Securities available-for-sale	35.939	36	35.903	30.733	86	30.647
Total assets	**544.047**	**40.796**	**503.251**	**487.209**	**28.376**	**458.833**
Off-balance						
Unused credit obligations	22.433	292	22.141	21.697	185	21.512
Credit portfolio collateral	*221.383*	-	-	*200.125*	-	-
- Securities pledged as collateral	*4.096*	-	-	*1.499*	-	-
Total off-balance	**22.433**	**185**	**22.141**	**21.697**	**185**	**21.512**
Total credit exposure	**566.480**	**28.561**	**525.392**	**508.906**	**28.561**	**480.345**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Measurement of expected credit losses

Financial risk management

Principle balance based on loans as at 31 December 2020

Homogeneous groups	Loan balance	Exposure	Recognized amount of collateral	Expected credit loss (ECL) without other assets
COR	25.280	45.809	16.870	5.416
MSME- Working capital loan	86.535	87.880	41.954	6.959
MSME- Loan for fixed assets and investments	103.290	104.454	75.683	9.931
MSME- Non-purpose loan for entrepreneurs	2.734	2.815	1.639	720
MSME- other	37.247	63.825	24.307	3.130
MSME- Transfer loan	70	79	0	78
Overdraft	24.715	31.275	7.327	2.048
PUB	743	745	44	16
Reprogram	15.071	15.365	9.975	7.062
Retail	88.800	90.926	45.135	3.666
TOTAL (Bank)	**384.486**	**443.173**	**222.935**	**39.029**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Measurement of expected credit losses

SEGMENTATION	Overview of credit status by segment and by maturity						
	<=30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 1year	Total
Public Sector	-	15	-	-	533	152	699
Corporate	547	5.485	657	3.165	6.099	11.088	27.041
MSME	13.033	5.619	4.860	15.363	28.530	219.484	287.159
Retail	2.972	175	332	805	2.752	62.550	69.586
TOTAL Bank	**16.822**	**11.294**	**5.849**	**19.333**	**37.915**	**293.273**	**384.486**

Overview of expected credit losses (ECL) per segments:

Segment	31.12.2019		31.12.2020	
	Expected credit loss (ECL)	% share	Expected credit loss (ECL)	% share
Public Sector	40	0,1%	16	0,0%
Corporate	5.484	19,7%	5.692	14,6%
MSME	18.912	68,0%	28.996	74,3%
Retail	3.362	12,1%	4.325	11,1%
TOTAL	**27.798**	**100,0%**	**39.029**	**100,0%**

Overview of loan balances by days of delay:

Days of delay	31.12.2019			31.12.2020		
	Loan balance	% share	PAR%	Loan balance	% share	PAR%
0 days	270.648	79,5%	0,0%	318.837	82,9%	0,0%
1-30 days	51.232	15,0%	15,0%	43.973	11,4%	11,5%
31-90 days	3.366	1,0%	1,0%	2.362	0,6%	0,6%
Over 90 days	15.282	4,5%	4,5%	19.315	5,0%	5,0%
TOTAL	**340.528**	**100,0%**	**20,5%**	**384.486**	**100,0%**	**17,1%**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Loan collateral and other loan security

Collateral held for securing financial assets other than loans and advances depends on the nature of the instrument. The Bank's collateral acquisition policy did not change significantly during the reporting period and there was no significant change in the overall quality of the collateral held by the Bank from the previous period.

The overall exposure to collateral and credit collateral analyzes is presented below as at 31 December 2020 and 31 December 2019:

(In BAM thousand)

	As at 31 December 2020	31 December 2019
Loans secured by special deposit	7.084	5.375
Loans secured by property	148.450	132.002
Loans secured by other collateral	230.334	202.627
Total:	**385.868**	**340.004**

	Loans to customers		
As at 31 December 2020	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	43.550	113.239	156.789
Pledge	7.494	48.556	56.050
Financial asset	2.629	9.554	12.183
Other	102	5.200	5.302
Total	**53.775**	**176.549**	**230.324**

	Loans to customers		
As at 31 December 2019	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	35.640	104.687	140.327
Pledge	7.804	43.401	51.205
Financial asset	1.851	4.280	6.131
Other	85	2.359	2.444
Total	**45.380**	**154.727**	**200.107**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Exposure overview by segments and days of delay as at 31 December 2020

(In BAM thousand)

SEGMENTATION	Days of delay	Loan balance	Total exposure	Allowance
	0 days	699	751	16
Public Sector	1-30 days	-	-	-
	31-90 days	-	-	-
	>90 days	-	-	-
Public Sector Total		**699**	**751**	**16**
	0 days	26.065	49.103	4.642
Corporate	1-30 days	-	-	-
	31-90 days	-	-	-
	>90 days	977	1.050	1.050
Corporate Total		**27.042**	**50.153**	**5.692**
	0 days	232.590	273.653	10.731
MSME	1-30 days	37.003	39.200	2.562
	31-90 days	1.893	1.931	608
	>90 days	15.672	16.702	15.095
MSME Total		**287.158**	**331.486**	**28.996**
	0 days	59.483	62.329	1.343
Retail	1-30 days	6.969	7.144	377
	31-90 days	469	487	66
	>90 days	2.666	2.949	2.539
Retail Total		**69.587**	**72.909**	**4.325**
TOTAL Bank as at 31 December 2020		**384.486**	**455.299**	**39.029**

Exposure overview by segments and days of delay as at 31 December 2019

(In BAM thousand)

SEGMENTATION	Days of delay	Loan balance	Total exposure	Allowance
	0 days	1.372	1.417	40
Public Sector	1-30 days	-	-	-
	31-90 days	-	-	-
	>90 days	-	-	-
Public Sector Total		**1.372**	**1.417**	**40**
	0 days	19.440	35.272	3.943
Corporate	1-30 days	716	2.097	179
	31-90 days	151	155	141
	>90 days	1.207	1.278	1.222
Corporate Total		**21.514**	**38.802**	**5.484**
	0 days	184.217	218.119	6.003
MSME	1-30 days	38.781	40.928	2.611
	31-90 days	2.207	2.300	680
	>90 days	11.760	12.588	9.584
MSME Total		**236.966**	**273.935**	**18.912**
	0 days	65.618	68.263	1.011
Retail	1-30 days	11.734	12.050	479
	31-90 days	1.007	1.096	185
	>90 days	2.315	2.561	1.687
Retail Total		**80.675**	**83.971**	**3.362**
Total		**340.528**	**398.125**	**27.764**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Participation in total exposure of the portfolio using one of the mitigation measures C-19 as at 31.12.2020

(In BAM thousand)

	Total exposure	Due loans	%	Reprogrammed/ restructured loans	%	Interest	%	Advances
Public Sector	15	-	0,00%	-	0,00%	-	0,00%	-
Corporate	8.521	-	0,00%	-	0,00%	-	0,11%	-
MSME	107.149	1.589	1,48%	7.245	6,76%	322	87,03%	665
Retail	14.803	167	1,13%	886	5,99%	48	12,86%	52
Total	**130.488**	**1.757**	**1,35%**	**8.132**	**12,75%**	**370**	**100,00%**	**717**

Principal balance based on loans of the portfolio using one of the mitigation measures C-19 as at 31.12.2020

(In BAM thousand)

Segment	Loan balance	Exposure	Recognized amount of collateral	Expected credit loss (ECL) without other assets
Public Sector	15	15	-	-
Corporate	8.476	8.521	7.124	943
MSME	105.721	107.149	72.514	9.692
Retail	14.568	14.803	6.937	935
TOTAL (Bank)	**128.779**	**130.488**	**86.574**	**11.570**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Balance overview of loans using one of the mitigation measures C-19 by segment and by maturity

(In BAM thousand)

Segmentation	<= 30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 1 year	Total
Public Sector	-	15	-	-	-	-	15
Corporate	-	3.285	-	306	1.133	3.751	8.476
MSME	1.039	523	626	3.920	5.786	93.828	105.721
Retail	28	15	13	154	404	13.954	14.568
Total	**1.067**	**3.838**	**639**	**4.379**	**7.323**	**111.533**	**128.779**

Balance overview of loans using one of the mitigation measures C-19 by days of delay:

(In BAM thousand)

Days of delay	31.12.2019			31.12.2020		
	Loan balance	% share	PAR%	Loan balance	% share	PAR%
0 days	-	-	-	105.793	82,15%	0,00%
1-30 days	-	-	-	18.390	14,28%	14,28%
31-90 days	-	-	-	1.538	1,19%	1,19%
Over 90 days	-	-	-	3.058	2,37%	2,37%
TOTAL	**-**	**-**	**-**	**128.779**	100,00%	**17,10%**

Overview of expected credit losses (ECL) by segments for the portfolio using one of the mitigation measures C-19:

(In BAM thousand)

Segment	31.12.2019		31.12.2020	
	Expected credit loss (ECL)	% share	Expected credit loss (ECL)	% share
Public Sector	-	-	-	0,00%
Corporate	-	-	943	8,15%
MSME	-	-	9.692	83,77%
Retail	-	-	935	8,08%
TOTAL (Bank)	**-**	**-**	**11.570**	**100,00%**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

(In BAM thousand)

Data on gross and net credit risk exposure by sectors and categories of receivables, maturity and value of collateral

	Stage1/Stage2		**Stage3**		**Total gross**	**Allowance**		**Total net**	**Value of collateral**	
2020	**Stage1**	**Stage2**	**Undue**	**Due**	**receivables**	**Stage1/Stage2**	**Stage3**	**receivables**	**Stage1/Stage2**	**Stage3**
By sectors					0					
Balance sheet receivables - retail	**91.548**	**6.519**	**2.567**	**4.257**	**104.891**	**2.482**	**5.561**	**96.848**	**50.793**	**2.982**
General consumption	50.683	4.586	1.693	3.409	60.371	1.415	4.204	54.752	17.611	1.601
Housing loans	13.829	91	-	-	13.920	112	-	13.808	10.222	-
Performing activities (entrepreneurs)	485	-	-	-	485	2	-	483	241	-
Other receivables	26.551	1.842	874	848	30.115	953	1.357	27.805	22.719	1.381
Balance sheet receivables - corporate	**239.002**	**26.202**	**6.322**	**12.013**	**283.539**	**14.652**	**15.649**	**253.238**	**166.498**	**9.988**
PUB – Public enterprises	701	-	-	-	701	16	-	685	-	-
COR – Big enterprises	18.328	7.845	-	1.051	27.224	4.220	1.050	21.954	18.071	437
Micro enterprises	33.289	3.057	2.648	5.278	44.272	1.233	6.540	36.499	20.438	4.440
Small enterprises	106.211	11.934	3.192	3.622	124.959	5.468	5.597	113.894	76.527	4.301
Medium-sized enterprises	80.473	3.366	482	2.062	86.383	3.715	2.462	80.206	51.462	810
By categories of receivables	**330.548**	**32.722**	**8.890**	**16.270**	**388.430**	**38.346**	**21.211**	**328.873**	**217.291**	**12.970**
Non-performing receivables	330.548	32.722	-	-	363.270	17.135	-	346.135	217.291	-
of which restructured	5.294	4.848	-	-	10.142	2.557	-	7.585	7.468	-
Performing receivables	-	-	8.890	16.270	25.160	21.211	21.211	(17.262)	-	12.970
of which restructured	-	-	4.994	3.892	8.886	6.982	6.982	(5.078)	-	5.325
Total balance sheet exposure	**330.550**	**32.721**	**8.889**	**16.270**	**388.430**	**17.134**	**21.210**	**350.086**	**217.291**	**12.970**
Total off-balance sheet exposure	**62.737**	**3.761**	**368**	**-**	**66.866**	**603**	**79**	**66.184**	**16.994**	**47**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

(In BAM thousand)

Data on branch and geographical concentration of exposure

2020	Region 1 Stage1/Stage2	Region 1 Stage 3	Region 2 Stage1/Stage2	Region 2 Stage 3	Region 3 Stage1/Stage2	Region 3 Stage 3	Region 4 Stage1/Stage2	Region 4 Stage 3	Region 5 Stage1/Stage2	Region 5 Stage 3
Balance sheet receivables - retail	**15.105**	**1.196**	**17.941**	**1.709**	**20.090**	**1.159**	**21.911**	**1.349**	**23.021**	**1.410**
General consumption	8.973	1.070	6.301	963	9.252	1.026	13.807	1.005	16.935	1.037
Housing loans	1.831	-	4.963	-	2.898	-	2.524	-	1.705	-
Performing activities (entrepreneurs)	-	-	-	-	-	-	485	-	-	-
Other receivables	4.301	126	6.677	746	7.940	133	5.095	344	4.381	373
Receivables - corporate	**36.937**	**2.214**	**66.168**	**5.482**	**37.391**	**3.040**	**54.091**	**3.462**	**70.617**	**4.137**
Agriculture, forestry, fishing	2.750	61	4.236	101	1.570	257	1.977	264	2.024	265
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	6.854	797	16.457	1.989	10.272	1.607	13.317	318	17.425	1.407
Traffic, storage and communications, electricity supply, hotels and restaurants	9.676	777	11.688	760	6.315	296	9.848	820	10.605	564
Construction	4.604	12	7.914	229	5.403	124	3.397	141	5.251	541
Wholesale and retail trade, repair of motor vehicles and motorcycles	8.385	458	15.495	1.907	11.293	732	19.324	1.867	22.754	814
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	-	-	3.062	17	114	1	273	-	1.276	1
Receivables from other clients	4.668	109	7.316	479	2.424	23	5.955	52	11.282	545
Financial institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total balance sheet exposure	**52.042**	**3.410**	**84.109**	**7.191**	**57.481**	**4.199**	**76.002**	**4.811**	**93.638**	**5.547**
Total off-balance sheet exposure	**4.113**	**8**	**33.950**	**174**	**4.504**	**77**	**17.723**	**40**	**6.207**	**69**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

(In BAM thousand)

Data on gross credit risk exposure by sectors and categories of receivables and number of days in delay / arrears

2020	**Stage1/Stage2**					**Stage3**				
	0 days delay	**1-30 days**	**31-60 days**	**61-90 days**	**Over 90 days**	**0 days delay**	**1-30 days**	**31-60 days**	**61-90 days**	**Over 90 days**
By sectors										
Balance sheet receivables - retail	**84.871**	**12.697**	**331**	**168**	**-**	**1.056**	**131**	**64**	**200**	**5.375**
General consumption	47.510	7.315	275	168	-	548	131	64	93	4.267
Housing loans	13.697	224	-	-	-	-	-	-	-	-
Performing activities (entrepreneurs)	485	-	-	-	-	-	-	-	-	-
Other receivables	23.179	5.158	56	-	-	508	-	-	107	1.108
Balance sheet receivables - corporate	**233.871**	**30.424**	**742**	**166**	**-**	**1.244**	**1.277**	**236**	**500**	**15.079**
PUB – Public enterprises	701	-	-	-	-	-	-	-	-	-
COR – Big enterprises	26.174	-	-	-	-	2	-	-	-	1.050
Micro enterprises	30.917	5.224	79	125	-	692	845	113	47	6.229
Small enterprises	99.917	17.626	560	41	-	478	165	123	453	5.595
Medium-sized enterprises	76.162	7.574	103	-	-	72	267	-	-	2.205
By categories of receivables	**318.741**	**43.123**	**1.073**	**334**	**-**	**2.299**	**1.408**	**300**	**700**	**20.452**
Non-performing receivables	318.741	43.123	1.073	334	-	-	-	-	-	-
of which restructured	8.091	1.936	114	-	-	-	-	-	-	-
Performing receivables	-	-	-	-	-	2.299	1.408	300	700	20.452
of which restructured	-	-	-	-	-	1.695	1.281	190	566	5.153
Total balance sheet exposure	**318.742**	**43.121**	**1.073**	**334**	**-**	**2.300**	**1.408**	**300**	**700**	**20.454**

30. FINANCIAL INSTRUMENTS (continued)
30.5. Credit risk (continued)

(In BAM thousand)

	Data on performing receivables						
2020	**Gross value of total receivables**	**Allowance for total receivables**	**Gross value of Stage3 receivables**	**Out of which: restructured receivables**	**Allowance for Stage3 receivables**	**% of performing receivables**	**Value of collateral for Stage 3 receivables**
	1	**2**	**3**	**4**	**5**	**6 (3/1)**	**7**
Receivables - retail	**104.891**	**8.044**	**6.826**	**3.369**	**5.561**	**6,51%**	**2.982**
General consumption	60.371	5.620	5.103	2.276	4.204	8,45%	1.601
Housing loans	13.920	112	0	0	0	0,00%	0
Performing activities (entrepreneurs)	485	2	0	0	0	0,00%	0
Other receivables	30.115	2.310	1.723	1.093	1.357	5,72%	1.381
Receivables - corporate	**283.539**	**30.302**	**18.336**	**5.517**	**15.649**	**6,47%**	**9.988**
Agriculture, forestry, fishing	13.504	2.191	948	354	798	7,02%	692
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	70.441	8.817	6.117	1.609	5.277	8,68%	3.755
Traffic, storage and communications, electricity supply, hotels and restaurants	51.349	4.781	3.218	1.273	2.679	6,27%	1.834
Construction	27.617	2.948	1.047	90	962	3,79%	524
Wholesale and retail trade, repair of motor vehicles and motorcycles	83.032	8.871	5.779	1.895	5.044	6,96%	2.631
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	32.852	2.430	1.208	296	871	3,68%	552
Receivables from other clients	4.744	264	19	0	18	0,40%	0
Balance sheet receivables from banks and financ.institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total balance sheet exposure	**388.430**	**38.346**	**25.162**	**8.886**	**21.210**	**6,48%**	**12.970**
Total off-balance sheet exposure	**66.866**	**682**	**368**	**123**	**79**	**0,55%**	**3**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

(In BAM thousand)

Data on the credit quality of non-performing / performing receivables and the value of collateral used to secure these receivables

2020	Stage1/Stage2			Stage3	POCI
	High (BG1, BG2)	Medium (BG3)	Low (BG4)		
Receivables - retail	**97.559**	**336**	**174**	**6.826**	**5.122**
General consumption	54.815	280	174	5.103	3.296
Housing loans	13.921	0	0	0	46
Performing activities (entrepreneurs)	485	0	0	0	0
Other receivables	28.338	56	0	1.723	1.780
Receivables - corporate	**264.081**	**742**	**381**	**18.335**	**6.911**
PUB – Public enterprises	701	0	0	0	0
COR – Big enterprises	26.174	0	0	1.051	0
Micro enterprises	36.100	79	166	7.926	3.015
Small enterprises	117.370	560	215	6.814	2.948
Medium-sized enterprises	83.736	103	0	2.544	948
Receivables from other clients					
Balance sheet receivables from banks and financ.institutions	**-**	**-**	**-**	**-**	**-**
Total balance sheet exposure	**361.640**	**1.078**	**555**	**25.161**	**12.034**
Total off-balance sheet exposure	**54.368**	**3**	**1**	**368**	**-**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

(In BAM thousand)

Data on the type and value of collateral by sector and categories of receivables

	Types of collateral			
2020	**Deposits and guarantees of the RS Guarantee Fund**	**Securities**	**Residential and commercial real estate**	**Mobility**
Receivables - retail	**2.731**	**0**	**43.550**	**7.494**
General consumption	2.072	0	11.927	5.214
Housing loans	0	0	10.202	20
Performing activities (entrepreneurs)	0	0	100	140
Other receivables	659	0	21.321	2.120
Receivables - corporate	**10.386**	**4.096**	**113.365**	**48.640**
PUB – Public enterprises	0	0	0	0
COR – Big enterprises	356	4.078	8.548	5.527
Micro enterprises	710	18	15.034	9.117
Small enterprises	4.620	0	54.015	22.192
Medium-sized enterprises	4.700	0	35.768	11.804
Receivables from other clients	-	-	-	-
Balance sheet receivables from banks and financ.institutions	-	-	-	-
By categories of receivables	**13.117**	**4.096**	**156.915**	**56.134**
Non-performing receivables	13.067	4.078	148.539	51.607
of which restructured	5	231	5.909	1.322
Performing receivables	50	18	8.376	4.527
of which restructured	2	0	3.636	1.687
Total balance sheet exposure	**13.117**	**4.096**	**156.915**	**56.134**
Total off-balance sheet exposure	**949**	**0**	**7.229**	**4.320**

30. FINANCIAL INSTRUMENTS (continued)
30.5. Credit risk (continued)

(In BAM thousand)

			Data on restructured receivables				
			Value of restructured receivables				
2020	**Gross value of total receivables**	**Allowance for total receivables**	**Gross value of restructured receivables**	**Out of which: Stage 3 receivables**	**Allowance for restructured receivables**	**% restructured receivables**	**Value of collateral for restructured receivables**
	1	**2**	**3**	**4**	**5**	**6 (3/1)**	**7**
Receivables - retail	**104.891**	**8.043**	**6.451**	**3.369**	**3.362**	**6,15%**	**4.007**
General consumption	60.371	5.619	4.327	2.276	2.328	7,17%	2.206
Housing loans	13.920	112	0	0	0	0,00%	0
Performing activities (entrepreneurs)	485	2	0	0	0	0,00%	0
Other receivables	30.115	2.310	2.124	1.093	1.034	7,05%	1.801
Receivables - corporate	**283.539**	**30.301**	**12.576**	**5.517**	**331.933**	**4,44%**	**8.786**
Agriculture, forestry, fishing	13.504	2.191	1.760	354	1.154	13,03%	1.578
Mining, manufacturing, water supply, waste water management, waste disposal operations and similar activities	70.441	8.816	3.071	1.609	1.433		1.797
Traffic, storage and communications, electricity supply, hotels and restaurants	51.349	4.781	1.703	1.273	1.093	3,32%	1.182
Construction	27.617	2.948	655	90	162	2,37%	445
Wholesale and retail trade, repair of motor vehicles and motorcycles	83.032	8.871	4.364	1.895	2.009	5,26%	3.014
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	32.852	2.430	719	296	254	2,19%	526
Receivables from other clients	4.744	264	304	0	71	6,41%	244
Balance sheet receivables from banks and financ.institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total balance sheet exposure	**388.430**	**38.344**	**19.027**	**8.886**	**454.687**	**4,90%**	**12.793**
Total off-balance sheet exposure	**66.866**	**682**	**128**	**123**	**5**	**0,19%**	**5**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Employees of the Legal Affairs and Restructuring Sector must receive a credit file from a credit officer within 15 days of the debit day. Act on items taken over as soon as possible. The Legal Affairs and Restructuring Division staff responsible for the client is obliged to continue to review the activities and measures taken at specific parties, through updating the strategies in the front application. Even if the loans are properly serviced, the Legal Affairs and Restructuring Sector responsible for the client is required to regularly monitor the client.

Employees in the Legal Affairs and Restructuring Sector have all the measures at their disposal in order to address delays that include aggressive collection, rescheduling of existing debt, restructuring the opening of new debt to the debtor or other participants.

Credit risk-related risks

The Bank issues guarantees to its customers whereupon it has contingent liabilities to make the payment in favor of third parties. In this manner the Bank is exposed to risks similar and related to credit risk, which it may overcome by applying the same control processes and procedures.
Monitoring and collection procedures applied to these exposures are identical to those applied to loans.

Collaterals and other forms of security instruments

The Bank demands security instruments for all types of loans. The amount and type of the security instrument demanded depends on the market segment a specific client belongs to and the type of credit product being approved as well as the assessed credit risk for each individual customer.

The assessment and fair value of collateral are based on the value of security instruments estimated upon loan approval. In accordance with its business policy and internal procedures, the Bank determines the required fair value of the collateral as well as the manner and time of its revaluation.

The management monitors the market value of collaterals and demands additional security instruments upon reassessment of the loan impairment allowance adequacy. The Bank takes into account the value of collaterals upon reassessment of the loan allowance adequacy.

30.5.1. Concentration risk

The Bank has internally defined minimum standards regarding concentration risk management by which the bank secures its business in terms of careful exposure to credit collection risk and risk of potential losses on issued loans, and all other investments as well as potential off-balance sheet liabilities.
In such way the Bank maintains business stability and determines the minimum standards of the highest allowed credit risk exposure of the Bank to a single client, borrower or other subject (or a group of related entities), as well as limits of high exposure.

According to the Article 106 of Law on Banks of the Republic of Srpska, high exposure of banks is the exposure towards a single entity or a group of related entities amounting or exceeding 10% of the recognized Bank's capital. The Bank has adopted policies and procedures aimed to determine and monitor single and total exposure, maintain records, monitor and report on the said exposure, in accordance with Agency regulations.

The Bank's recognized capital is equal to regulatory capital, which is a sum of a regular share capital and supplementary share capital after regulatory adjustments.

Bank's exposure towards single entity or a group of related entities after applying the credit risk decrease method cannot exceed 25% of the Bank's recognized capital. In accordance with Agency regulations, the highest allowed amount of credit receivables that is not secured with a collateral, towards single entity or group of related entities cannot exceed 15% of the Bank's recognized capital. The total exposure of the bank toward its superior and subordinate entity and the related entities is limited by provisions of Article 107 of the Law on Banks.

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

30.5.1. Concentration risk (continued)

The Bank's share in other legal entities is defined by Article 111 of Law on Banks of RS: Prior to consent of the Agency, the Bank is not allowed to have direct or indirect:

- share in a legal entity or subsidiary of that legal entity exceeding 5% of the recognized Bank capital or total net value of all Bank's interest in other legal entities and subsidiaries of those legal entities exceeding 20% of the recognized Bank capital.
- the Bank's share, direct or indirect, in one legal entity from financial sector cannot exceed 15% of Bank's recognized capital.
- the Bank's interest in the legal entity not pertaining to financial sector cannot exceed 10% of Bank's recognized capital, nor 49% of the capital of that entity.
- Total interest in legal entities not pertaining to financial sector cannot exceed 25% of recognized Bank's capital, and total interest in legal entities pertaining to financial sector cannot exceed 50% of the Bank's recognized capital.

Credit risk concentration per industry sector

The Bank has a diversified loan portfolio covering various industries: **In BAM thousand**

	31 December 2020	**In %**	*Adjusted* **31 December 2019**	**In %**
Agriculture, forestry and fishing	10.199	3%	9.203	3%
Mining and stone extraction	5.004	1%	2.526	1%
Manufacturing industry	50.089	13%	44.950	13%
Production and supply of electricity, gas, steam and air conditioning	1.458	0%	2.039	1%
Water supply, sewerage, waste management and environmental remediation activities	3.569	1%	1.059	0%
Construction	25.258	7%	24.516	7%
Wholesale and retail trade; repair of motor vehicles and motorcycles	70.773	18%	66.581	20%
Traffic and storage	31.127	8%	24.523	7%
Accommodation, food preparation and serving activities; hotel and hospitality industry	5.988	2%	4.720	1%
Information and communication	901	0%	1.264	0%
Financial and insurance activities	3.759	1%	2.411	1%
Real estate business	2.430	1%	3.163	1%
Professional, scientific and technical activities	10.955	3%	4.895	1%
Administrative and support service activities	8.981	2%	6.190	2%
Public administration and defense; compulsory social insurance	18	0%	19	0%
Education	155	0%	231	0%
Health and social work activities	1.781	0%	1.395	0%
Arts, entertainment and recreation	796	0%	461	0%
Other service activities	2.648	1%	3.214	1%
Retail and entrepreneurs	149.979	39%	136.644	40%
Total:	**385.868**	**100%**	**340.004**	**100%**

30. FINANCIAL INSTRUMENTS (continued)

30.5. Credit risk (continued)

Concentration of credit risk by types of loans

The Bank regularly monitors and diversifies loans by type of loan. **(In BAM thousand)**

	31 December 2020	U %	*Adjusted* 31 December 2019	U %
Loans per transaction accounts	24.973	7%	25.242	7%
Consumer loans	58.984	15%	54.646	16%
Working capital loans	120.521	31%	115.218	34%
Investment loans	165.384	43%	130.910	39%
Housing loans	15.677	4%	13.557	4%
Investments for realized payments under guarantees	329	0%	431	0%
Total:	**385.868**	**100%**	**340.004**	**100%**

30.5.2. Stress test

In the course of credit risk assessment, the Bank applied the worst possible scenario of events for its portfolio. The Bank performed the stress test under the following assumptions: 30% of BAM devaluation, 30% collateral devaluation, and increase in allowance for customers with recorded defaults in settling their matured liabilities.

In BAM thousand

Portfolio as at 31 December 2020	Total exposure	Total exposure without deposits	Discounted value of collateral	Allowance
Post-test	546.446	538.359	201.138	44.401
Pre-test	455.299	447.212	230.328	39.029
Difference	**91.147**	**91.147**	**(29.190)**	**5.372**

In BAM thousand

Portfolio as at 31 December 2019	Total exposure	Total exposure without deposits	Discounted value of collateral	Allowance
Post-test	477.472	471.340	180.106	32.062
Pre-test	398.125	391.993	200.198	27.798
Difference	**79.347**	**79.347**	**(20.092)**	**4.264**

30. FINANCIAL INSTRUMENTS (continued)

30.6. Market risk

The Bank assumes market risks which represent the risk that the fair value or future cash flows from financial instruments may oscillate due to changes in market values. Market risks occur in open positions exposed to risk based on maturities, interest rates, currencies and capital products exposed to general and special movements and changes related to the degree of market rate and price volatility (such as interest rates, credit margins, foreign exchange rates and prices of capital). The Bank is exposed to foreign exchange risk and interest rate risk.

The market risk control system is implemented through the separation of the risk assuming function (Front Office) from the risk monitoring and management function and backup activities (Back Office).

30.6.1. Foreign exchange risk

Foreign exchange risk represents the Bank's exposure to possible changes in foreign exchange rates and the risk that adverse changes will result in losses in local currency for the Bank, where the level of foreign exchange risk represents the function of the amount and duration of the Bank's exposure to the possible changes in foreign exchange rates and depends on the amount of Bank's foreign debt, extent of the foreign currency exposure of the balance sheet assets and off-balance sheet items as well as the compliance of the currency cash flows of the Bank.

The strategy of the Bank, applied in foreign exchange risk management, is based on the maintenance of foreign currency position within the limits prescribed by the Law on Banks of the Republic of Srpska and Decision on minimum standards for currency risk management in banks.

For the purpose of controlling and identifying foreign currency exposure, the Bank monitors daily balances and structure of foreign currency cash in the treasury, foreign currency assets and structure per currencies on the accounts with foreign banks, ensures the compliance between the foreign currency positions in unstable currencies, includes in contracts currency clause for both balance sheet assets and liabilities and off-balance sheet items, in the form a symmetrical, that is, two-directional currency clause, in order to protect the value of assets and liabilities irrespective of the rise or decline of the exchange rate of the currency the currency clause refers to against the local currency, so as to achieve currency compliance between the financial assets and financial liabilities.

The Treasury and Transactions Department monitors the foreign currency position on a daily basis and, in collaboration with the Market Sector and Bank's Management undertakes adequate aforesaid activities in order to maintain the foreign currency position within the permitted limits.

In planning activities that significantly influences the changes in the structure or maturities of the Bank's financial assets and/or financial liabilities, and thereby Bank's foreign currency position, the Treasury and Transactions Department makes projections of the foreign currency position in order to ensure timely activities for continuous maintenance of the currency compliance of financial assets and financial liabilities.

30. FINANCIAL INSTRUMENTS (continued)

30.6. Market risk (continued)

30.6.1. Foreign exchange rate risk (continued)

The statement on foreign currency balances, net, as at 31 December 2020:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash and cash funds held with the Central Bank	4.420	128	149	18	276	4.991	94.832	99.823
Funds with other banks	13.560	317	1	36	-	13.914	362	14.276
Securities	35.468	-	-	-	-	35.468	471	35.939
Loans due from customers	296.406	-	-	-	-	296.406	51.518	347.924
Equipment, intangible assets and investment property	-	-	-	-	-	-	7.291	7.291
Leased business premises IFRS 16	-	-	-	-	-	-	7.721	7.721
Other assets	336	-	-	-	-	336	4.989	5.325
	350.190	**445**	**150**	**54**	**276**	**351.115**	**167.184**	**518.299**
Liabilities								
Deposits to banks	5.000	-	-	-	-	5.000	2.540	7.540
Deposits to customers	297.404	162	70	5	19	297.660	86.923	384.583
Liabilities per loans	37.512	-	-	-	-	37.512	-	37.512
Subordinated debt	6.964	-	-	-	-	6.964	-	6.964
Lease liabilities IFRS 16	-	-	-	-	-	-	8.006	8.006
Other liabilities	358	27	-	-	-	385	3.425	3.810
Provisions for employee benefits and other contingent liabilities	-	-	-	-	-	-	797	797
	347.238	**189**	**70**	**5**	**19**	**347.521**	**101.691**	**449.212**
Net foreign currency position	**2.952**	**256**	**80**	**49**	**257**	**3.594**	**65.493**	**69.087**

The statement on foreign currency balances, net, as at 31 December 2019:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash and cash funds held with the Central Bank	4.580	63	149	5	205	5.002	96.440	101.442
Funds with other banks	4.492	349	47	29	6	4.923	182	5.105
Investments to other banks	-	-	-	-	-	-	2.992	2.992
Securities	30.373					30.373	360	30.733
Loans due from customers	261.746	-	-	-	-	261.746	51.014	312.760
Equipment, intangible assets and investment property	-	-	-	-	-	-	7.190	7.190
Leased business premises IFRS 16							7.650	7.650
Other assets	116	-	-	-	-	116	5.771	5.887
	301.307	**412**	**196**	**34**	**211**	**302.160**	**171.599**	**473.759**
Liabilities								
Deposits to banks	-	-	-	-	-	-	7.033	7.033
Deposits to customers	260.220	52	66	32	13	260.383	101.628	362.011
Liabilities per loans	17.813	-	-	-	-	17.813	23	17.836
Subordinated debt	6.956	-	-	-	-	6.956	-	6.956
Lease liabilities IFRS 16							7.808	7.808
Other liabilities	3.778	21	-	-	-	3.799	399	4.198
Provisions for employee benefits and other contingent liabilities	-	-	-	-	-	-	330	330
	288.767	**73**	**66**	**32**	**13**	**288.951**	**117.221**	**406.172**
Net foreign currency position	**12.540**	**339**	**130**	**2**	**198**	**13.209**	**54.378**	**67.587**

30. FINANCIAL INSTRUMENTS (continued)

30.6. Market risk (continued)

30.6.1. Foreign exchange rate risk (continued)

During 2019, the Bank maintained the open individual foreign currency position within limits permitted for EUR currency up to the maximum of +/- 30% of its core capital and for USD currency up to 3% of its core capital, while the total foreign currency position was within the permitted range.

Foreign currency sensitivity analysis

The Bank is mostly exposed to EUR. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of fluctuations in the EUR exchange rate.

30.6.2. Interest rate risk

The Bank is exposed to multiple risks, which influence its financial position and cash flows through the effects of changes in the amount of interest rate fluctuations on the market. Interest rate risk is the risk from adverse effect on the Bank's financial result and equity contingent on the changes in interest rates.

The basic objective of interest rate risk management is to minimize adverse effects of changes in interest rates.

Interest rates to loans depend on the volatility of interest rates in the money market as well as on the business policies of the Bank.
Interest rates on loans are fixed for loan repayment periods of up to 36 months, and variable for repayment periods over 36 months. Exceptions to this rule are investment loans for corporate clients and the public sector for which the interest rate is variable for all repayment terms. The Bank opted for a variable interest rate of 6 months EURIBOR rounded to the next major tenth, which is adjusted twice a year on 30.06. and 31.12.
Interest rates on deposits are fixed, and interest rates on loans taken from foreign creditors are variable and are tied to 6 months EURIBOR.

The basic principle of interest rate risk management is matching assets and liabilities per interest rate type (fixed or variable interest rate) and per maturities or dates of redetermining interest rates.

The Bank's top management and Risk Management Department monitor and consider the Bank's optimization of profitability levels and interest rate risk exposure.

Interest rate sensitivity analysis

The sensitivity analyses have been conducted based on the exposure to interest rates for instruments at the statement of financial position date. For variable interest rates, the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date remained the same for the whole year. A 10% increase or decrease rate is used when reporting interest rate risk internally to key management personnel and represents the Bank's management assessment of reasonably possible changes in interest rates.

If interest rates were higher or lower by 10% compared to the existing ones, and if other variables were kept constant, the Bank would have reduced / increased its net profit by BAM 11.896 thousand for the year ended 31 December 2020 (2019: decreased / increased profit by BAM 9.537 thousand).

30. FINANCIAL INSTRUMENTS (continued)

30.6. Market risk (continued)

30.6.2. Interest rate risk (continued)

The following table provides an overview of the annual interest rates applied to the most significant financial instruments:

	In foreign currency	In domestic currency BAM
Assets		
Obligatory reserve at the Central Bank	-	0,00%
Funds over the obligatory reserve	-	(0,50%)
Foreign currency accounts with international banks	0,70%	-
Loans to customers up to one year:		
- corporate	-	2,99%-14,99%
- retail	-	4,85% -15,50%
Loans to customers over one year:		
- corporate	-	3,00%-15,50%
- retail	-	1,65%-15,90% +6M Euribor
Liabilities		
Demand deposits corporate	0,00%	0,00%-0,11%
Demand deposits retail	0,00%-0,50%	0,00%-0,50%
Short-term deposits:		
- corporate	0,00%	0,01%-0,70%
- retail	0,50%-1,20%	0,50%-1,20%
Long-term deposits:		
- corporate	1,45%-2,20%	0,90%-4,10%
- retail	1,20%-5,00%	1,20%-5,00%
Loans:		
FSE	3,10%- 6,20%	-
„Fond za razvoj i zapošljavanje RS“	-	0,30%-1,80%
„Fond stanovanja RS“	-	0,30%-1,80%
„Fond za razvoj istočnog dijela RS“	-	0,30%-1,80%

Lower interest rates on loans over one year for individuals of 2,99% and legal entities of 4,85% refer to loans made from IRB funds.

The Bank is exposed to various risks, which affect its financial position and cash flows through the effects of changes in interest rates on the market.

30. FINANCIAL INSTRUMENTS (continued)

30.6. Market risk (continued)

30.6.2. Interest rate risk (continued)

The following table shows an overview of interest bearing and non-interest bearing assets and liabilities, as at 31 December 2020 and 31 December 2019:

(In BAM thousand)

			31 December 2020
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash and cash funds held with the Central Bank	46.352	53.471	99.823
Funds with other banks	-	14.276	14.276
Securities	35.468	471	35.939
Loans due from customers	347.924	-	347.924
Equipment, intangible assets and investment property	-	7.291	7.291
Leased business premises IFRS 16	-	7.721	7.721
Interest, fee and other receivables	195	5.130	5.325
Total monetary assets	429.939	88.360	518.299
Monetary liabilities			
Deposits of customers	328.431	63.692	392.123
Received loans	37.468	44	37.512
Subordinated debt	6.845	119	6.964
Lease liabilities IFRS 16	8.006	-	8.006
Other liabilities	-	3.810	3.810
Provisions for contingent losses	-	797	797
Total monetary liabilities	380.750	68.462	449.212

(In BAM thousand)

			31 December 2019
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash and cash funds held with the Central Bank	51.681	49.761	101.442
Funds with other banks	-	5.105	5.105
Investments to other banks	2.992	-	2.992
Securities	30.733	-	30.733
Loans due from customers	312.760	-	312.760
Equipment, intangible assets and investment property	-	7.190	7.190
Leased business premises IFRS 16	-	7.650	7.650
Interest, fee and other receivables	1.635	4.252	5.887
Total monetary assets	399.801	73.958	473.759
Monetary liabilities			
Deposits of customers	334.093	34.951	369.044
Received loans	17.836	-	17.836
Subordinated debt	6.956	-	6.956
Lease liabilities IFRS 16	7.808	-	7.808
Other liabilities	-	4.198	4.198
Provisions for contingent losses	-	330	330
Total monetary liabilities	**366.693**	**39.479**	**406.172**

30. FINANCIAL INSTRUMENTS (continued)

30.7. Liquidity risk

Liquidity risk is the risk which emerges when the Bank is unable to settle all liabilities when due and in full. The basic objective of liquidity management is to ensure that the Bank has resources obtainable at reasonable costs necessary to discharge all liabilities for expected and unexpected fluctuations in the statement of financial position. Additionally, the process of liquidity management in the Bank needs to ensure liquid resources sufficient to finance the development of its loan portfolio.

The Bank's liquidity management strategy is implemented by controlling the maturity matching of assets and sources of assets based on the realistic and precise projections of cash inflows and outflows, both recurring and non-recurring, for different time periods.

The strategy of asset liquidity risk management includes the following:

- striving to keep liquid assets in the assets that could be sold on the market without losses in the event of greater exposure to liquidity risk (to have at its disposal a sufficient amount of liquid funds to cover possible liabilities at all times);
- Diversification of investments per customers, per industries and per loan maturities.

The strategy of liability management in respect to liquidity includes the following:

- Striving to ensure deposit stability with increasing participation of long-term deposits,
- Maximum diversification of resources according to their maturity, stability, origin, market and instruments,
- Particular attention is paid to large deposits,
- Undertaking arrangements with domestic and foreign banks on mutual extension of interbank liquidity loans which makes it possible to invest liquidity surpluses at an adequate interest rate, that is, in case of insufficient liquidity funds, these resources are available to the Bank at favorable terms.

Primary sources of funds are local deposits acquired by the Bank by applying an adequate deposit policy and interest rate policy.

The adoption, comprehensiveness and implementation of the Program for liquidity risk management is the responsibility of Bank's Supervisory Board and its Management.

Day-today monitoring of the Bank's daily liquidity is the responsibility of the Head of the Treasury and Transactions Department and Liquidity Commission, short-term liquidity is the responsibility of the Liquidity Commission, and long-term liquidity is the responsibility of ALCO (the Asset and Liability Management Committee).

Responsible persons of the Bank:

- monitor the liquidity position and composition of asset and liability maturities,
- perform operational management of liquid assets on daily basis,
- compare the positions with projected position so as to determine trends in the liquidity positions and undertake adjustment measures so the liquidity position and maturity gaps would be in compliance with the law and the limits set by the Bank's Supervisory Board.

The table below shows a GAP analysis of assets and liabilities according to respective maturity based on the outstanding period before the agreed due date by matching receivables and payables per maturity periods in accordance with BARS regulations.

30. FINANCIAL INSTRUMENTS (continued)

30.7. Liquidity risk (continued)

(In BAM thousand)

31 December 2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash funds held with the Central Bank	99.823	-	-	-	99.823
Funds with other banks	14.276	-	-	-	14.276
Securities	-	-	-	35.939	35.939
Loans due from customers	12.330	25.788	94.272	215.534	347.924
Equipment, intangible assets and investment property	-	-	-	7.291	7.291
Leased business premises IFRS 16	-	-	-	7.721	7.721
Other assets	1.571	518	8	3.228	5.325
Total assets	**128.000**	**26.306**	**94.280**	**269.713**	**518.299**
LIABILITIES					
Deposits	91.222	32.240	130.484	138.177	392.123
Liabilities per loans	240	508	21.624	15.140	37.512
Subordinated debt	119	-	6.845	-	6.964
Lease liabilities IFRS 16	-	-	1.273	6.733	8.006
Other liabilities	1.863	521	286	1.140	3.810
Provisions for contingent losses	-	-	-	797	797
Total liabilities	**93.444**	**33.269**	**160.512**	**161.987**	**449.212**
Liability gap	**34.556**	**(6.963)**	**(66.232)**	**107.726**	**69.087**

(In BAM thousand)

31 December 2019	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash funds held with the Central Bank	101.442	-	-	-	101.442
Funds with other banks	5.105	-	-	-	5.105
Investments to other banks	-	-	2.992	-	2.992
Securities	30.733	-	-	-	30.733
Loans due from customers	14.247	22.012	97.274	179.227	312.760
Equipment, intangible assets and investment property	-	-	-	7.190	7.190
Leased business premises IFRS 16	-	-	-	7.650	7.650
Other assets	5.003	276	579	29	5.887
Total assets	156.530	22.288	100.845	194.096	473.759
LIABILITIES					
Deposits	83.773	24.712	101.696	158.863	369.044
Liabilities per loans	194	380	1.746	15.516	17.836
Subordinated debt	-	111	-	6.845	6.956
Lease liabilities IFRS 16			1.547	6.261	7.808
Other liabilities	2.402	252	630	914	4.198
Provisions for contingent losses	-	-	-	330	330
Total liabilities	**86.369**	**25.455**	**105.619**	**188.729**	**406.172**
Liability gap	70.161	(3.167)	(4.774)	5.367	67.587

30. FINANCIAL INSTRUMENTS (continued)

30.8. Operational risk

Operational risk management is an important part of the Bank's business as it minimizes adverse effects on the income and equity of the Bank. Operational risk management implies the following:

- forming a network of operational risk custodians and reporters across departments and divisions, who are in charge of taking activities in the area of operational risk management,
- maintaining records on harmful events occurrences,
- operational risk identification and assessment within all processes and adoption of measures for risk minimization,
- regular reporting on damages incurred and detailed review of risks identified per process,
- monitoring of implementation of the proposed measures for the review of operational risks.

Operational risk management is based on:

- monitoring of incurred harmful events in the scope of operational risks,
- risk identification per process within the Bank,
- significant risk measurements,
- continuous monitoring and control of operational risks,
- forming the minimum amount of adequate capital.

Monitoring of incurred harmful events in the scope of operational risks results in the historical review of the scale and type of actually occurred operational risks and is performed in accordance with the Procedure and instructions for recording of harmful events.

Operational risk management includes the following activities:

- identification of existing sources of operational risks and sources contingent on the introduction of new products, systems and activities,
- operational risk measurement through accurate and timely risk estimates,
- continuous control of operational risks ensuring the maintenance thereof up to the level acceptable for the Bank's risk profile, its reduction and minimization;
- continuous monitoring of operational risks by analyzing amounts, changes and trends of the Bank's exposure thereto;
- forming the minimum amount of capital for protection against incurring operational risk-based losses (MAKOR),
- clear definition of authority and responsibility lines in the process of operational risk assumption and management,
- setting up a system to ensure that all Bank's employees become familiar with their respective obligations in the process of operational risk management,
- setting up a system for regular reporting to the Supervisory Board and Management Board on functioning of the operational risk management,
- obligatory regular periodical review and obligation of the Bank's Supervisory Board to analyze and assess the adequacy of the established system for operational risk management at least annually.

30.9. Capital management

Capital is a rare economic resource and capital management is one of the most important components of prudent, efficient and strategic planning and management of the Bank. The capital management policy includes ensuring and maintaining the quantity and quality of capital at least at the level of the minimum standards set out in the Decision on minimum standards for managing banks' capital and capital protection, that is, the minimum amount of initial capital and the minimum amount of net capital that the Bank must maintain may not be less than BAM 15 million. Pursuant to the Decision, the Bank's capital comprises the amounts of core (Tier 1), supplementary (Tier 2), and net capital represents the amount of capital less deductible items.

The Bank's policy for maintaining the quantity and quality of the capital include the following:

- respect of the shareholder composition and profile, focus on shareholders from the banking sector and areas of micro crediting, financial investment, corporate shareholders and individuals,
- policy of diverse equity instruments, particularly within the core and supplementary capital, and decrease or avoidance of the capital deductibles of the Bank,
- in respect of the profit distribution, increase in the Bank's total capital in accordance with the effective regulations,
- in respect of the capital adequacy, when the capital adequacy ratio falls below 15%, the Bank undertakes activities to improve capital adequacy by new share issues, increase of supplementary capital by setting as priorities restructuring of bad assets, write-off of liabilities and obtaining subordinated debts.

30. FINANCIAL INSTRUMENTS (continued)

30.9. Capital management (continued)

Procedures for continuous monitoring of the balances are implemented through:

- maintaining up-to-date accounting records,
- monitoring capital balances per quantity, quality and structure,
- monitoring and analyzing balance sheet items and off-balance sheet credit equivalents,
- reporting on changes in capital and changes that could have material adverse effect on the capital adequacy,
- proposing necessary measures to be taken in order to ensure the quantity and quality structure of capital,
- planning the capital in terms of anticipating the Bank's future needs and requirements for capital.

The Bank is under obligation to maintain capital adequacy at the minimum of 12% and the management regularly monitors the adequacy indicators and submits a report in the prescribed form to BARS on a quarterly basis.

As at 31 December 2020, the Bank was in full compliance with all the prescribed capital indicators:

	As at 31 December 2020	As at 31 December 2019
Regular share capital	64.501	61.354
Supplementary capital	6.272	7.285
Regulatory capital	**70.773**	**68.639**
Total amount of risk exposure	360.215	347.059
% share capital adequacy	**17,91%**	**17,68%**
% regulatory capital adequacy	**19,65%**	**19,78%**

The regulation defines that retained earnings are recognized in regulatory capital, and by the decision of the Shareholders' Assembly, accumulated retained earnings from 2019 are allocated in 2020 to accumulated profit, statutory reserves and coverage of the effect arising from the Decision on credit risk management and determination of expected credit losses of the Banking Agency of the Republic of Srpska, which affected the decrease of the regulatory capital adequacy ratio compared to 2019.

31. POST-REPORTING DATE EVENTS

Considering the expected impact and consequences of the Corona virus pandemic on the global economy, the Bank estimates that it will also have an impact on the Bank's operations. It is currently not possible to assess the impact of the spread of the Corona virus (COVID - 19) and its consequences on the Bank 's financial position and operations. In the coming period, the Bank will monitor and comply with all legal and regulatory decisions regarding the implementation of the measures resulting from the Corona virus pandemic (COVID - 19).

32. FOREIGN EXCHANGE RATES

The official foreign exchange rates used in the translation of statement of financial position items as at 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020	In BAM 31 December 2019.
USD	1,5926	1,7480
CHF	1,8014	1,7991
EUR	1,9558	1,9558