Do the right thing!

2020

Annual Report

Banking that matters. | UniCredit Bank Banja Luka

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"Year 2020 taught us that health and the safety of our clients and employees must be our top priority."

Message from the President of the Bank Management Board

Gordan Pehar
President of the Bank Management Board

Dear Clients, Shareholders and Partners, Dear Colleagues,

In 2020, the health and safety of our employees and customers were our highest priority.

Although, in the beginning of the year, nobody could probably envisage all the challenges that we would face because of the COVID-19 pandemic impact, I can say that we, in UniCredit Bank Banja Luka, had commenced all the important preparations even before the pandemic proportions could be guessed at. Taking into account the needs of our employees and customers in the first place, then the clear guidelines that we received from our UniCredit Group, the leading Pan-European banking group, and the instructions of the local authorities, we were ready very quickly, already in the middle of the first quarter, for remote work along with the shortened working hours in branch offices, the teams that rotate and ensure the backup in the case of the infection occurrence within some of the teams. Aimed at additional protection of the health and safe operations, the priority was to introduce a series of technical measures of protection, such as glass barriers, distance signs, thermal cameras and thermometers. Moreover, in order to influence as much as possible the reduction of the physical contact, we have actively directed the customers to the multi-channels like ATMs, mobile and electronic banking, at the same offering our know-how and experience, in sharing the best practices, to other institutions in the community.

Before we move to the financial results, I would like to tell you that I am extremely satisfied with our response time, readiness and flexibility to organise the remote work with a smaller number of employees and all without greater difficulties. As, already in 2019, we started working on introduction of certain flexibility options, through flexible working hours and "smart work" concept, the newly occurred circumstances additionally sped us up and created the preconditions to apply such a work method to a certain extent in the future, too. That way, we also confirmed our readiness to adapt ourselves and respond to the greatest challenges.

Given all the stated challenges, the Bank achieved results bellow the planned in 2020, however, with the profit of BAM 16.2 million, assets of BAM 1.658 billion, and equity of BAM 254.6 million, we can say that we have yet again confirmed our position as a systemically strong and important financial institution on the local market.

We maintain the long term stability and sustainability of the Bank through the strong capital position (adequacy rate 23.5%), loan portfolio with a low share of non-performing loans (3.1%) and a high non-performing exposure coverage (79.4%), as well as a well-balanced balance sheet and an adequate liquidity level in every moment. Also, the growth in customers' deposits (+7.2% y/y) is a confirmation of the continuously growing trust of the customers in the Bank.

The total number of active customers in the financial year of 2020 reached the number of 129 thousand, whilst the number of active mobile banking service users grew by 7.5% y/y.

As a part of UniCredit Group, we are also largely in the process of digital transformation, which means that we worked daily on improvement and introduction of the new technologies into our work, while simultaneously monitoring the customers' satisfaction, taking care of their needs and habits, and paying attention to "being only one step ahead of the customers, but not more than that". That way, in 2020, we released two new, redesigned applications: mbank and eba application with a series of new functionalities and improved customers' experience.

Although, concerning the multi-channels, UniCredit Bank Banja Luka is the leading bank in the segment on our market, we are aware that the needs of our customers are still strongly focused on a direct contact and the branch network, therefore, we do our best to respond to the current needs of the customers today, and, at the same time, through innovations, to prepare both our customers and our infrastructure for the latest trends.

Ethics & Respect

Do the right thing!

At the same time, I am especially proud that we, in 2020, as a team, showed a high level of empathy and solidarity with the people and the community where we live and work. We, in UniCredit, believe that only if we do the right things, we can also operate well. Thus, in the previous period, we took numerous steps in support of customers affected by the COVID-19 consequences through the approval of various reliefs for loan repayment. We have also helped our community through various donations, where we were united as individuals and the institution, in order to raise the funds together e.g., to support the Red Cross of the Republic of Srpska, as a form of help to the most affected categories of the society, but also through a donation to the Solidarity Fund in order to support a faster recovery of the economy of the Republic of Srpska. Additionally, through the UniCredit Foundation and the "Support to Childhood" Project, we supported several associations that were engaged in protection and improvement of the living quality of the children and young people. In cooperation with the partners, we supported the association "Together, We are One" engaged in prevention and assistance in medical treatment of breast cancer, and during the pandemic, we also helped the Economic School of Banja Luka to equip two of its classrooms for the practical classes in IT sciences. We will continue to be dedicated to such forms of support in the coming period.

Further on, I would point out that even that year we did not stop with the development activities for our employees, we only shifted them to online channels. Even only belonging to the large international Group opens up constant opportunities to learn from different experiences of the employees of our Group; our colleagues perform a large number of projects, but also daily activities by sharing experiences and examples of good practices with the colleagues from the other countries, which is at the same time an excellent learning method for all of us. We also continued strengthening our teams through selection and reception of the top quality employees on the market. We are proud that our colleagues are also recognised on the market as bankers and professionals with great knowledge and experience, and as such are often targeted by the other companies.

We also want to send a message to young people that, on the local market, there are stable companies, continuously operating with success, that need ambitious and educated members in their teams. Majority of students, who participated in our Student Program in previous years, are our colleagues today, and we even have examples of those that joined the Bank through the program and have already had the opportunity to continue their career within the Group.

Therefore, generally, when the people are in question, our ambition is to be the most desirable place for work in the segment, to continuously develop the internal personnel and righteously reward individual contributions and work. That is why we nurture the ethics and respect as key values, and it is something that has always been recognised, regardless of the fact when and under which circumstances we operate and live.

And, finally, no matter how we think, as a business entity, of the growth and profit, the year of 2020 has taught us that we have to put the health and safety of our customers and employees in the first place. So far, we have always overcome the challenges with decisiveness, a professional but also conservative approach, and we have managed countless times to prove that we are a part of systematically important projects and solutions. However, the challenges that the year brought us were not reflected only in the business sense, but also in the family and personal sense, thus it was extremely important to us that both the customers and our employees felt the comprehensive support, and it will remain in the same way all until the health conditions prove to be safe, and then we will be ready to return to the well-known business dynamics that we all miss.

Yours sincerely,

Gordan Pehar,

President of the Bank Management Board

Do the right thing!
For the Real Economy

We quickly took decisive actions to support the backbone of the real economy in Europe: small and medium sized enterprises.

AWARDED ‘WORLD'S BEST BANK FOR SMES’

In October, UniCredit was awarded ‘Best Bank for SMEs’ by Global Finance magazine in its World’s Best Global Banks Awards. This was based on our performance over the past year, based on criteria including reputation and management excellence.

About UniCredit Group

UniCredit is a successful Pan-European Commercial Bank, with a simple commercial banking model, focusing on the client both in retail and corporate and investment banking segment, and delivering a unique Western, Central and Eastern European network to its extensive, and rapidly growing client franchise.

UniCredit offers both local and international expertise to its clients, providing them with unparalleled access to leading banks in its 13 core markets through its European banking network: Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia, and Turkey. Leveraging on an international network of representative offices and branches, UniCredit serves clients in another 16 countries worldwide.

Core values and vision

UniCredit's business is based on "Ethics and Respect", "Five Fundamentals" and one principle that we always "Do The Right Thing".

Our first priority, every moment and every day, is to provide a service to clients and do the best we can (Client first). In order to do so, we rely on the quality and commitment of our people (People Development), as well as on our ability to co-operate and achieve synergies as "One Bank, One UniCredit" (Cooperation and Synergy). In doing so, we take the right kind of risk (Risk Management), while at the same time being disciplined in executing our strategy (Execution and Discipline).

At UniCredit, we say what we do and we do what we say. For us, long-term sustainable results and values are ahead of short-term solutions.

Strategic Plan Team 23

In 2019, the Bank adopted a four-year strategic plan "Team 23" aimed at maximising value creation for all our stakeholders, maintaining a focus on customer satisfaction thanks to simplified processes and innovative products. As "One UniCredit", by doing the right thing, we remain, as was the case in previous years, committed to mutual success and the goal of remaining a true Pan-European winner.

Taking into account the COVID-19 effects on the Bank's operations, the banking system and the market, the Bank revised the existing and adopted a new strategic plan "T23" for the period 2021-2023, which plans to recover the Bank's business in line with the recovery of macroeconomic indicators. The Covid-19 pandemic brought about new challenges for the whole society, but also the need to adapt to new models of behaviour of our clients, and in 2020 the Bank turns to accelerating the digitalisation process and the use of digital channels (Mbank - mobile banking, Eba - internet banking) and improving the Contact Centre.

A successful realisation of the new "T23" strategy of UniCredit is based on 4 key pillars of the Strategic Plan "Team 23":

- **Grow and Strengthen the Client Franchise** – we are focused on strengthening and growing of the customer base across all the segments. Our strategic initiatives are focused on the user experience, in order to improve our customers' satisfaction and the service quality.

- **Transform and Maximise Productivity** – being customer-oriented, we stay focused on the process optimisation and adopt new work methods, in order to enhance productivity, improve processes and minimise operational risks.

- **Disciplined Risk Management and Controls** – we will keep our strict risk discipline and high quality of the new loan portfolio. Compliance with all regulations and rules remains our key priority, as each of us is the first defence line..

- **Capital and Balance Sheet Management** – we continue with decisive activities, and a proactive approach to the capital and balance sheet management.

With a new business model, we are moving from the current, branch-oriented business model, to an integrated principle that will allow customers to fully use different channels: branches, contact centre or digital channels to meet their needs and achieve added value through the advisory role of our employees.

We consider the way, in which we achieve our results, as important as the results themselves, due to which we give the priority to a long-term sustainability compared to one-time solutions. Relying on our two values, Ethics and Respect, our principle and corporate culture make sure that we always: Do the Right Thing!

Business Principle: Do the Right Thing!

At UniCredit, our corporate culture is based on two key values: Ethics and Respect. Our dedication to "Do the Right Thing" is our leading principle for all types of relationships with our stakeholders: investors, clients, colleagues and the community.

For our customers: we continuously improve their experience, while we are committed to data protection and confidentiality.

For our shareholders (investors): we focus on execution, discipline & transparency, favouring long-term sustainable outcomes.

For our colleagues: we launch dedicated initiatives to create an attractive and positive working environment.

For our community: we support the financial access and inclusion through "Social Impact Banking Initiatives".

For our environment: we partner with our clients in a shift to a low carbon economy solutions, giving a contribution through our own direct impact.

Throughout "Team 23", we all are committed to:

- building a great and inclusive place to work,
- expanding our work-life balance initiatives,
- reinforcing our speak-up culture through the anti-retaliation policies,
- improving the way we work through digitalisation.

Together, let's make sure that UniCredit remains a true pan-European winner!

Macroeconomic Overview in 2020

The global health crisis marked the year of 2020. In every area of life, personal, business and scientific, there have been sudden and significant changes all over the world. At the outset, the spread of the COVID-19 virus was primarily attempted to be halted by lockdown measures in the spring of 2020, in order to bring the spread of the virus under control by reduced contacts. For Bosnia and Herzegovina, this meant declaring a state of disaster in March 2020, on the basis of which a state of emergency was introduced in form of a reduction in population movements, public gatherings and the way businesses operate. At the end of May, the state of emergency was lifted, and restrictive measures were gradually eased.

There have been remarkable developments in the world of science. Although it usually takes up to ten years to develop, test, approve and distribute vaccines against new diseases, in this pandemic we have come to the point where the whole process should be completed within 18 months. As early as the end of 2020, certain countries started the process of vaccination, which is an extreme progress in the field of medical sciences.

However, the negative impact of the pandemic has left a big mark on economies, which will be difficult to compensate in the next few years, and strong lockdown measures are still in force in most European countries, even in 1Q 2021. Since early 2020, macroeconomic forecasts for Bosnia and Herzegovina have changed several times, because, in fact, the main problem comes down to the health situation and the spread of the virus, which is difficult, almost impossible to predict. So after the first lockdown, it was not possible to know for sure if a new wave would happen, especially after the summer, which unfortunately happened.

The situation in Bosnia and Herzegovina's economy deteriorated rapidly due to special circumstances caused by the COVID-19 pandemic in April and May. GDP forecasts have changed many times during 2020, from more optimistic to pessimistic, with the last estimate for the year-end ending at -5.2% y/y. Recovery after the lifting of the COVID-19 restrictions at the end of May was not very pronounced, indicating a weak recovery in the second half of 2020. However, although the pandemic situation worsened significantly in October, only relatively mild restrictive measures were introduced, suggesting that economic recovery continued in 4Q20.

Large deteriorations were also registered in other high-frequency indicators in 2020. Foreign trade has already developed major negative trends during the first lockdown. The largest annual decrease, compared to the previous year, was recorded in exports and imports in May (-16% and -19.2%, respectively), and, although it was followed by a slight improvement, 2020 ended largely behind 2019 (-8.5% and -13.4%, respectively). The slow recovery in the second half of 2020 reflects a general increase in COVID-19 cases in Europe and the associated uncertainty.

Industrial production remained below the pre-COVID-19 pandemic levels, with a decline of -6.2%, despite a slight improvement after the completion of the lockdown. The results of the manufacturing industry were even worse. Production in this category decreased by -7.6% compared to the previous year.

The labour market was severely affected by the impact of the COVID-19 pandemic, which further deteriorated the unemployment rate in Bosnia and Herzegovina. The number of employees decreased significantly during the lockdown, with a slight improvement in the months following the easing of measures, but still with a significant lag compared to the year prior to the pandemic. All this leads to a steady rise in the unemployment rate, and it will take a long time for BiH to get back to the positive trend registered in the previous year.

In 2020, the retail index decreased by -8.3% compared to 2019, which still reflects a significant decrease in household consumption, despite a slight improvement compared to the first lockdown in the spring.

Given all the difficulties that have befallen the country's entire economy, the current account deficit should amount to 6.2% of gross domestic product (GDP) at the end of 2020. The deterioration occurs under the influence of a sharp decline in export earnings and inflows of remittances from abroad. However, the fact is that the large current account deficit in 2020 was successfully financed without major problems, given the IMF's package of measures called the Rapid Financing Instrument, amounting to about 2% of Bosnia's GDP and Herzegovina.

It is also significant that Bosnia and Herzegovina's fiscal position remained under control despite an estimate of -4% of total GDP. It seems that the fiscal position can be successfully maintained on the basis of the prudent fiscal stance that Bosnia and Herzegovina has maintained in recent years, recording a budget surplus and a moderate level of debt, and thanks to financing by foreign financial institutions.

Confirmation of the sustainability of the fiscal position was also given by agencies S&P and Moody's, that in 2020 confirmed the credit ratings of Bosnia and Herzegovina (B with a stable outlook and B3 with a stable outlook, respectively).

Expectations for 2021

The economic recovery is expected to begin in the second quarter of 2021, supported by vaccination and treatment of COVID-19. This should allow GDP growth of around 4% throughout the year. It is also expected that the main drivers of acceleration will be the construction industry and the export-oriented manufacturing sector, while a slower recovery in personal consumption is expected due to a slower improvement in the labour market. Construction is likely to continue to outperform other sectors thanks to ongoing major infrastructure projects, particularly those involving motorways, for which foreign funding has already been secured and on which work has already begun or has been contracted.

The banking sector of Bosnia and Herzegovina remained stable during 2020, despite the negative consequences of the COVID-19 pandemic, which both indirectly and directly affected the operations of banks. Although the sector recorded a negative result, as expected, stability remained in form of capital adequacy, sufficient provisions for bad loans, a strong customer deposit base, but also a smaller reduction in the volume of loans than expected.

Banking Sector in 2020

In the year prior to the COVID-19 pandemic, the banking sector's operations were also challenging, given the long-term low market rates and a weak investment climate. However, a strong and sudden negative impact came primarily during the first lockdown in March, and then continued until the end of the year, but on a smaller scale. Not only did the overall market situation with clients change, but the banks themselves were exposed to the additional costs of switching to the new way of doing business.

The banking sector was the first to introduce measures to help clients affected by the COVID-19 crisis, allowing a moratorium on loans. Clients were able to file a moratorium request by the end of 2020.

Subsequently, the entity governments also established a Guarantee Fund to help companies directly affected by COVID-19, which will be secured through co-operation with commercial banks. The guarantee fund was activated in September 2020.

The banking sector realised a pre-tax profit of BAM 213 million during I-IX 2020. The deterioration of the trend is reflected in all categories of the income statement. The decrease, compared to the same period last year, was also recorded in non-interest income due to reduced volume of business and payment transactions. The costs of the banking system have increased also due to additional investments and adjustments to the new way of doing business during the pandemic.

Loan volumes in 2020 decreased by 2% compared to the end of 2019, however, given the one-off effect of the change in reporting methodology in 2020, related to write-offs of non-performing loans, the decrease was much smaller than the originally expected negative effects. Banks based in the FBiH recorded a more pronounced decline than those based in the RS.

Deposits continued to grow by 4.9% in 2020 compared to 2019, which is still a lower growth rate than before COVID-19. Deposits comprise mostly transaction deposits, while time deposits decreased. It is also a result of the influence of low interest rates under the influence of market prices.

Expectations for 2021

Given the macroeconomic projections, which predict a recovery from 2Q 2021, a moderate recovery in loans is expected, as well as deposits and remittances from abroad. The banking sector will continue to reduce profitability next year, but the goal is to maintain stability and sufficient provisions for loans, especially with regards to the expected start of loan repayments for loans that were under a moratorium during 2020.

Business Overview

UniCredit Bank a.d. Banja Luka (hereinafter: the “Bank”) is a licensed commercial bank with a registered office in Banja Luka, Bosnia and Herzegovina.

As the legal successor of the first bank built in this area “Privilegovana Zemaljska Banka za BIH - Filijala Banja Luka“ (“Privileged Land Bank for BiH - Branch Office of Banja Luka”) founded in 1910, UniCredit Bank a.d. Banja Luka has had the longest tradition of banking operations in Bosnia and Herzegovina in its foundations. In its 110-year history, the Bank went through several different transformations and operated successfully in different legal and organisational forms.

The Bank provides a full range of financial services to companies and private individuals in the Republic of Srpska, one of the two entities in Bosnia and Herzegovina. The set of banking services provided by the Bank includes all types of operations with private individuals, small and medium sized companies, corporate and investment banking, business with financial institutions and public sector, as well as international operations.

The Bank actively participates in the implementation of new development projects in the banking sector, and contributes through its engagement to the promotion of corporate responsibility related to compliance and operational risks, as well as the implementation of the highest reporting standards and sharing the know-how gained from the rich experience and affiliation to the UniCredit Group.

By using the best practices of the banks - Legal Entities of the UniCredit Group, while taking into account the specifics and true needs of our clients, we strive to provide our clients with an integrated approach to our products and services through simplified contracting procedures. In this way, besides increasing the work efficiency, we strive to provide the simplicity and ease in dealing with the Bank to the clients.

Constant improvement of our business model and offer of products for individuals and legal entities, long-term and partner relationship with our clients, and the support to the development of our economy, through projects of public and social importance, still remain the main priorities of our business.

The Branch Network Map

Business Segments Overview

Retail Segment

Organisation

The Retail Segment provides a wide range of products and services to the customers, through two business areas - Individual and Small Business Sales. It manages a network of business units and direct distribution channels, such as ATMs, mobile and electronic banking.

In 2020, the Bank's business network was divided into four geographically and economically connected regions (Banja Luka - Prijedor region, Doboj - Gradiška region, Sarajevo - Bijeljina region, Trebinje - Foča region), with a total of 36 organisational units at the end of 2020.

In its portfolio Retail Banking has more than 128 thousand active clients within the segment of private individuals and SB segment.

Retail objectives are constantly focused on improvement of relationships with the existing and acquisition of new clients, with the continuous improvement and development of products and services, but also a clear focus on digital products and further development of alternative channels, accelerating the process of digital transformation, and synergy in accessing the customers together with Corporate and Investment Banking Segment. Retail analyses and improves key processes and adapts to new market conditions that increasingly indicated the need to accelerate the transition of clients from traditional to digital channels, their training about the previously stated, and to improve the service promptness and the customer satisfaction.

Commercial Activities in 2020

Clients recognise the Bank as a reliable partner and, owing to that, the Bank recorded a growth in the volume of deposits in the Retail segment in 2020.

Hence, due to the strengthening of customer confidence in the Bank, Retail customers' deposits increased to BAM 570.9 million at the end of 2020. The market share in retail deposits is 12.7% in the Republic of Srpska, and 3.6% in BiH as of the end of November 2020.

On the other hand, as a consequence of the COVID 19 pandemic and new internal financing rules, the volume of Retail loans decreased in 2020 compared to the previous year, and at the end of 2020 amounted to BAM 503.2 million. The market share in loans to individuals is 18.4% in the Republic of Srpska and 4.8% in BiH as of the end of November 2020.

The development of the Bank's products continued in 2020, primarily in the area of improving the quality of services, as well as through simplification and acceleration of processes. The focus in 2020 was on increasing the level of digitalisation (mobile and internet banking, ATMs cards). "End to End" application for loan approval ("Consumer Finance Platform") was upgraded during the year, and the activities on introduction of a new module for private individuals' overdrafts have been finished, while activities on a completely new module for legal entities' loans, which is based on the same platform (SME tool), commenced.

Digitalisation and strengthening of the direct channels have been recognised as a key development direction, where mobile banking also plays a significant role. Modern technologies give us the opportunity to access our Bank account and carry out the desired transactions through a mobile phone, at any time and from any location, whereby the banking itself takes on the global characteristics.

In 2020, the Bank was active in promotion of the Bank's products through various campaigns, where we highlight:

"Back to school" through which we have prepared for all our customers exceptional benefits with selected retailers, so that the purchase of new school supplies, clothing, footwear or electronic equipment for school children was as comfortable as possible.

Corporate and Investment Banking Segment

Organisation

Corporate and Investment Banking segment operates with large and medium-sized domestic business entities, public and financial sector, as well as with the international customers to which, in addition to the financing products, it also offers products from the domain of global transaction banking and financial markets.

Through the business centres East and West, structured according to the geographic and economic connections, the Bank covers the whole territory of the Republic of Srpska, and manages business relationships with more than a thousand clients, large and medium sized by the amount of income.

Commercial Activities in 2020

During 2020, the key focus of Corporate and Investment Banking was on constant support to companies affected by the COVID-19 situation, business relationships with stable companies that were under low COVID-19 influence (agriculture, forestry, energy), participation in financing large investment projects in the public and financial sector, more intensive use of credit lines of the Investment - Development bank of RS, EBRD, EIB and Guarantee fund funds and directing clients to a greater use of direct channels.

The Bank has signed an agreement with the Guarantee Fund for loan approval with the guarantee of the Guarantee Program to support the economy to mitigate the consequences of the COVID-19 pandemic. Amount allocated to UniCredit Bank a.d. Banja Luka amounts to BAM 45 million.

Despite the challenging environment, the Bank maintained the level of lending to corporate clients with a total gross loan amount of BAM 478.9 million at the end of 2020, while the corporate clients' deposits amounted to BAM 539.4 million. Market share in loans to legal entities amounted to 17.19% in the Republic of Srpska and 4.9% in BiH as of the end of November 2020, and in the part of deposits, the market share amounted to 23.74% in the Republic of Srpska and 4.8% at the BiH level, as of the end of November 2020.

The structure and stability of the loan portfolio were strengthened, retaining the share of bad loans at a significantly lower level compared to the market. Throughout the entire year, the Bank also participated in securities auctions and confirmed its high market share in this business segment, as well.

In 2020, the Bank continued to take part in all significant and major private sector transactions in the country, which are related to the corporate banking clients, while retaining a dominant position in the business relationship with the state and public institutions.

The Bank also provided support to the local companies through projects in the field of renewable energy and energy efficiency improvements, as well as small and medium-sized companies, in co-operation with international financial institutions (GGF and EBRD).

Through the International Centre, we became recognisable on the market of the Republic of Srpska, at the same time using the best practices, the know-how, experience and network of UniCredit Group with the aim to provide comprehensive support to the customers of Corporate and Investment Banking.

In addition to many commercial activities, it is important to emphasise that in both business segments, in Retail and Corporate and Investment Banking, we continued to work intensively on strengthening of the human resources quality, as one of the key preconditions for growth and long-term sustainability and stability of the Bank.

Financial Overview of the Bank

In the reporting period, the Bank operated in compliance with the Law on Banks of the Republic of Srpska and decisions stipulated by the Banking Agency of Republic of Srpska (hereinafter: BARS), as well as other valid legal regulations and by-laws, and prepared the reports defined by the BARS and other local institutions, as well as reports for the majority owner (managerial and for the needs of preparation of the consolidated statements at the UniCredit Group level).

Financial indicators

In 2020, the Bank confirmed its previous trend of continuous growth and the maintenance of high standards in sense of profitability and efficiency.

Table: Financial Performance Indicators Overview

UniCredit Bank a.d. Banja Luka in thousand BAM	2020.	2019.	Change
Profit and loss			
Total operating income	61 397	66 780	-8,1%
Total operating expenses	(33 892	(33 238)	2,0%
Profit before tax	17 764	32 372	-45,1%
Profit for the year	16 178	29 581	-45,3%
Balance sheet			
Loans and receivables due from customers	935 120	1 026 118	-8,9%
Deposits and borrowings due to customers	1 110 311	1 035 665	7,2%
Total equity and reserves	254 611	244 795	4,0%
Total assets	1 658 006	1 661 630	-0,2%
Capital adequacy			
Total risk weighted assets (RWA)	931 917	1 024 680	-9,1%
Own funds (Regulatory capital)	219 102	213 116	2,8%
Capital adequacy ratio (CAR)	23,5%	20,8%	2,7 pp
Business indicators			
Cost income ratio	55,2%	49,8%	5,4 pp
Return on equity (ROAE)	6,4%	12,1%	-5,7 pp
Return on assets (ROAA)	1,0%	1,8%	-0,8 pp
Customers Loans to deposits ratio	84,2%	99,1%	-14,9 pp
Number of employees	436	448	-12
Number of organizational units	36	36	0

Profit and loss

The generated net profit in 2020 amounted to BAM 16.2 million and was lower by 45.3% than the profit made in the year before, largely due to higher net impairment losses/recoveries per credit risk, and reduced volume of business of the Bank and its clients due to the negative effects of COVID-19.

Total operating income in 2020 amounted to BAM 61.4 million, which was lower by 8.1% compared to the total operating income generated in 2019, as the result of decrease in net interest income, as well as fees and commissions.

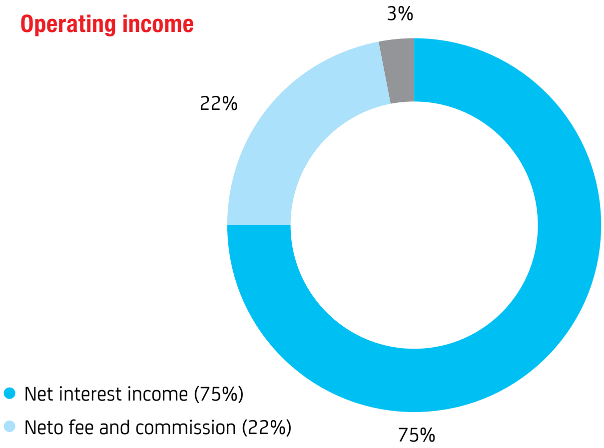
The total operating expenses in 2020 amounted to BAM 33.9 million and they recorded growth of 2% vs. the previous year, mostly as a result of the increase in depreciation and amortisation.

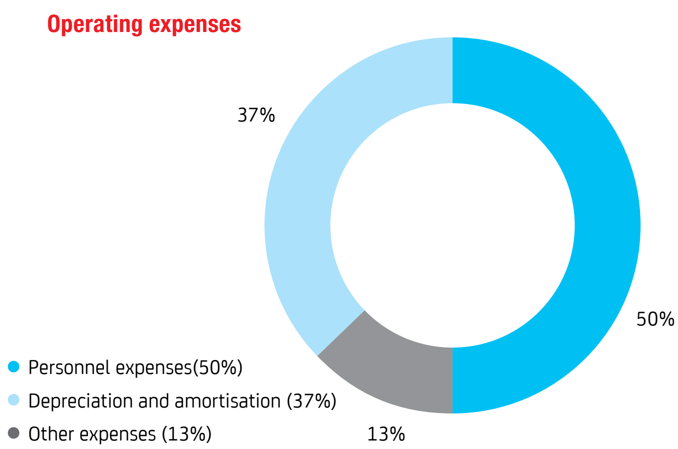
The share of operating expenses in the total operating income increased from 49.8% to 55.2%, which presents a negative trend and it is a result of a decrease in income and a small increase in total operating expenses.

The decrease of operating income resulted in lower profit before impairment and provisions by the amount of BAM 6 million compared to the previous year

Net interest income was generated in the amount of BAM 45.9 million, which is lower by 5.7% compared to the same period of the previous year, and it formed 75% of the total operating income of the Bank. The drop in the net interest income compared to the previous year was a result of a lower interest income, which was not fully compensated through a decrease in the interest expense.

Chart: Operating income and operating expenses structure





Net fee and commission income amounted to BAM 13.7 million, which was lower by 16.3% compared to the same period of the previous year, and formed 22% of the total operating income. The decrease in fees was mainly the result of lower loan fees and a change in the model of recognising credit protection insurance provisions (CPI - Credit Protection Insurance; instead of recognising it in net fee and commission income, it is recognised in net interest income, as a component of the effective interest rate).

Other items of the income included net foreign exchange gains upon recalculation of monetary assets and liabilities in the amount of BAM 1.7 million, dividend and profit sharing income in the amount of BAM 4 thousand, and together they made 3% of the total operating income of the Bank.

Total operating expenses amounted to BAM 33.9 million, which was higher by 2% compared to the same period of the previous year. HR expenses amounted to BAM 17.0 million, recording a fall by 1.2% compared to the previous year, accounting for 50% of total operating costs. Other administrative costs with BAM 12.6 million participated with 37% in total operating expenses, while the depreciation and amortisation costs of tangible and intangible assets amounted to BAM 4.2 million and made 13% of total operating expenses.

The recorded growth of total operating expenses compared to the previous year was mainly the result of an increase in depreciation and other expenses.

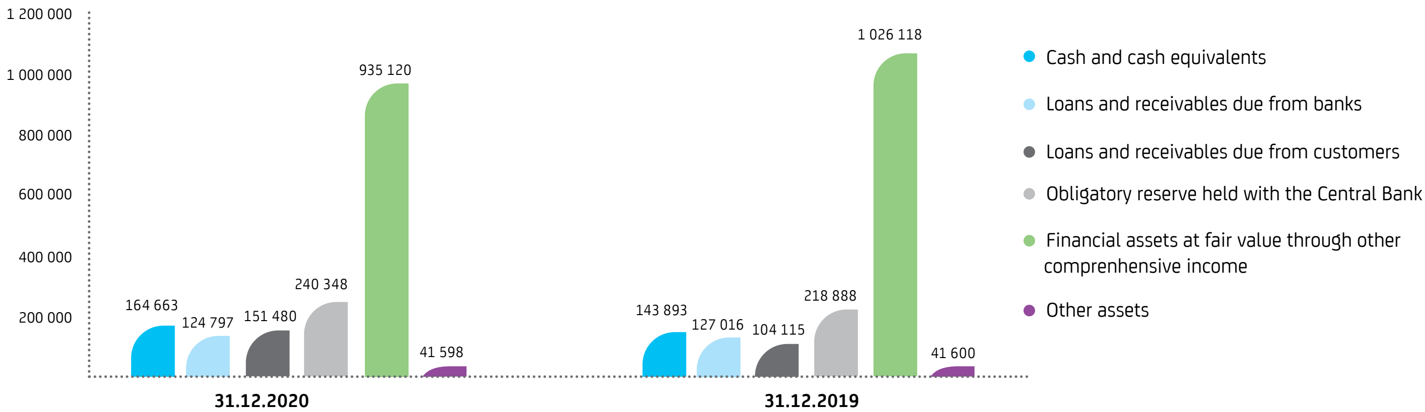
In 2020, the Bank allocated BAM 11.6 million for the costs of net impairment losses/recoveries per credit risk, which was higher by BAM 11.1 million compared to the previous year, maintaining the high quality of the portfolio.

Balance Sheet

Assets

At the end of 2020, the total assets of the Bank reached the amount of BAM 1.7 billion and it was at approximately the same level as in the previous year.

Chart: Bank Assets structure



In the structure of the Bank assets, the most significant share of 56.4% belongs to Loans and receivables due from customers amounting to BAM 935.1 million and recording a drop of 8.9% compared to the previous year's end. Loans and receivables due from banks amounted to BAM 151.5 million, and together with the minimum reserve held with the Central Bank, cash and cash equivalents and other assets, they accounted for 26.6% of total assets of the Bank.

Financial assets at fair value through the other comprehensive income participated with 14.5% in the total Bank's assets. They amounted to BAM 240.4 million which was higher by 9.8% compared to the previous year's end and consisted of securities issued by the Government of the Republic of Srpska.

Other items of assets consist of tangible assets, intangible assets, financial assets held for trading, deferred tax asset and other assets. In the structure of the most significant item of the assets - loans and receivables due from customers, loans to legal entities accounted for 54% and loans to private individuals accounted for 46%. Net loans to legal entities as at December 31, 2020 amounted to BAM 500.6 million, while net loans to private individuals amounted to BAM 434.5 million.

Gross loans provided to legal entities decreased by 6.8%, while gross loans provided to private individuals decreased by 8.2% compared to the end of the previous year.

Liabilities

In the structure of the Bank liabilities, deposits and borrowings due to customers had the most significant share (67%). Total deposits and borrowings due to customers amounted to BAM 1,110.3 million and they increased by BAM 74.6 million or 7.2% compared to balance at the previous year's end.

Deposits and borrowing due to banks amounted to BAM 259.5 million which was lower by BAM 94.4 million or 26.7% lower vs. the end of the previous year.

Total Deposits and borrowings due to customers and banks as at December 31, 2020 amounted to BAM 1,369.8 million (31.12.2019: BAM 1,389.5 million), which was lower by BAM 19.8 million or 1.4% compared to the balance at the previous year's end

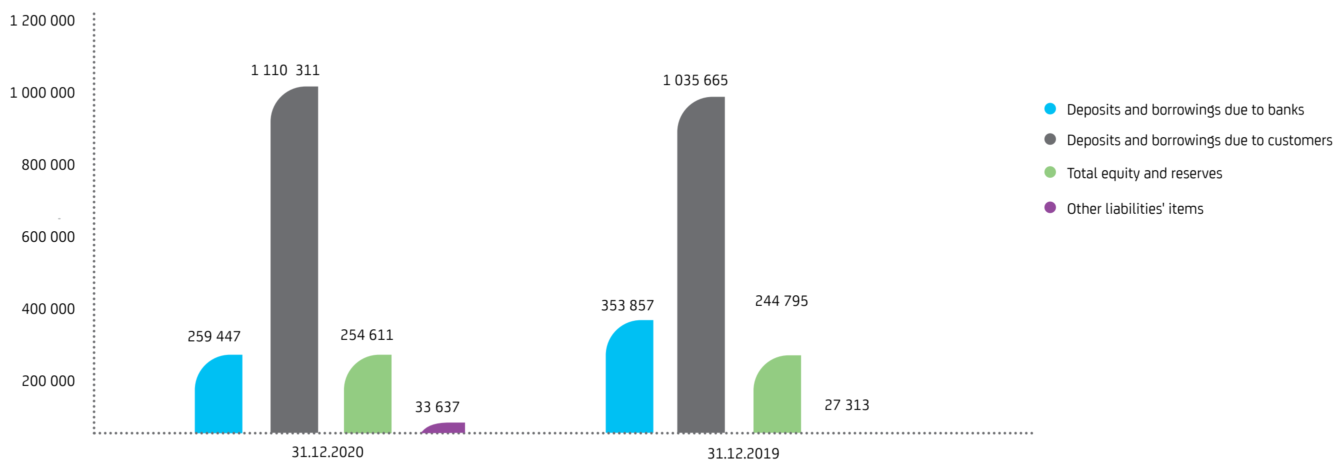
In the structure of deposits and borrowings due to customers, deposits and loans taken from legal entities formed 55%, while deposits of private individuals made 45%.

The legal entities' deposits, which include deposits from small businesses, amounted to BAM 559.8 million at the end of 2020, which was higher by BAM 36.2 million or 6.9% vs. the end of the previous year. Sight deposits of the legal entities formed 65.9%, while the term deposits formed 34.1% of total legal entities' deposits.

Private individuals' deposits amounted to BAM 495.1 million, which was higher by BAM 27.6 million or 5.9% compared to the previous year. Private individuals' sight deposits formed 59.7%, while term deposits formed 40.3% of private individuals' total deposits.

Customers Loan to deposit ratio decreased from 99.1% to 84.2% as a result of an increase in deposits from customers on the one hand, and decrease in loans placed to customers in 2020 vs. 2019, on the other.

Grafikon: Struktura pasive Banke



Capital and reserves

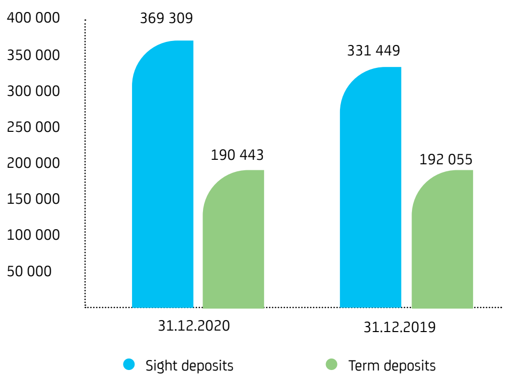
Capital and reserves of the Bank amounted to BAM 254.6 million at the end of 2020, which was higher by BAM 9.8 million compared to previous year's end. Net increase in capital of BAM 9.8 million is a result of a total net profit realised in 2020 of BAM 16.2 million, and a decrease in capital of BAM 7.1 million, related to the effect of the first time adoption of the Decision on credit risk management and determination of expected credit losses of BAM 5.1 million, and the change in CPI fee valuation model of BAM 2.0 million.

The total capital of the Bank also includes a portion of profits in the amount of BAM 14.8 million (50% of the net protif from 2019), which should be, based on the Shareholders' Meeting Decision adopted on Apr 7, 2020, paid as a dividend once the Decision on the Interim Measures of Banks for Mitigation of the Negative Economic Consequences Caused by the Virus Disease "COVID-19" comes out of effect.

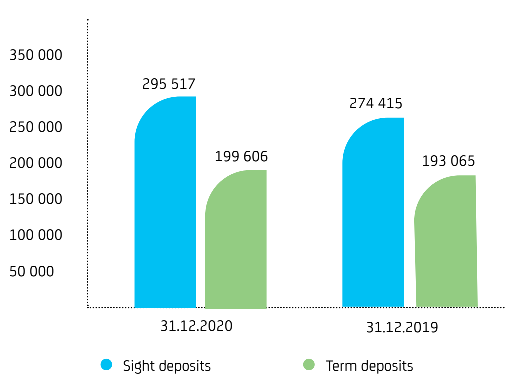
As at 31.12.2020, the capital adequacy ratio amounted to 23.5% (31.12.2019: 20.8%), which was significantly above the regulatory minimum of 12%.

Chart: Structure of legal entities and private individuals' deposits

Deposits from the legal entities



Deposits from the individuals



Management and Organisational structure

In accordance with the RS Law on Banks and the Articles of Association of the Bank, the governance bodies of the Bank are: Shareholders' Assembly, Supervisory Board and Management Board. The Bank also has the Audit Committee, and other committees in accordance with regulations.

Shareholders' Meeting of the Bank

The Shareholders' Assembly of the Bank consists of its shareholders. The Shareholders' Meeting is chaired and the decisions are signed by the Chairman of the Shareholders' Meeting, who is elected by the present shareholders at the beginning of each meeting.
As of 31 December 2020, the Bank had 62 shareholders in total, out of whom/which UniCredit S.p.A, Milan had the largest share with 99.43% of the participation in the total equity of the Bank.
As at 31 December 2020, the Bank's share capital amounted to BAM 97,055 thousand and it consisted of 138,650 ordinary "B" class shares with nominal value of BAM 700.00 per share.
According to the ownership structure of the shareholders, the private capital participates with 99.96%, and the cooperative with 0.04% in the total capital of the Bank, and by origin of the capital 99.49% is composed of the foreign capital, and 0.51% of the domestic capital.
The ordinary "B" class shares are entitled to one vote in the Shareholders' Meeting of the Bank. Owners of ordinary shares are entitled to manage the Bank, have the right to participate in profit and other rights defined by the Articles of Association, the legal and other regulations.

Supervisory Board

The Supervisory Board manages the Bank's operations and the work of Management Board, determines the proposal for the Bank's business policy and strategy, the business plan and submits them to the Shareholders' Assembly for the final approval and adopts the general acts, and has the other competencies specified in the Law on Banks of the Republic of Srpska and the Articles of Association of the Bank.
The Supervisory Board has a President and four members elected by the shareholders at the Shareholders' Assembly of the Bank for a period of four years.

Pasquale Giamboi	President	UniCredit S.p.A.
Daniel Svoboda	Deputy President	UniCredit S.p.A.
Laura Kristina Orlić	Member until 16.10.2020	UniCredit S.p.A.
Margherita Giulia Cerqui	Member from 17.10.2020.	UniCredit S.p.A.
Perica Rajčević	Member	Independent Member
Zoran Vasiljević	Member	Independent Member

Management Board

The Management Board organises the work, manages the operations and represents the Bank. The Management Board is appointed by the Supervisory Board, with a prior approval of the Banking Agency of the Republic of Srpska.

The Management Board members of the Bank in 2020 were:

Gordan Pehar	President of the Bank Management Board
Nevena Nikše	Member of the Bank Management Board for Finance Management until 31.05.2020
Jasminka Bajić	Member of the Bank Management Board for Finance Management from 01.08.2020
Slađan Stanić	Member of the Bank Management Board for Risk Management until 31.07.2020
Dragana Janjić	Member of the Bank Management Board for Risk Management from 01.08.2020
Siniša Adžić	Member of the Bank Management Board for Corporate and Investment Banking and Retail until 30.06.2020
Slađan Stanić	Member of the Bank Management Board for Corporate and Investment Banking and Retail from 01.08. to 18.12.2020
Tsvetelin Petyov Minchev	Member of the Bank Management Board Global Banking Services

Audit Committee

The Audit Committee is responsible for supervision over the implementation, and engagement of an external auditing company, which will conduct the audit of financial statements, and has the other responsibilities as defined by the Law on Banks of Republic of Srpska and the Articles of Association of the Bank.

The Audit Committee consists of three members who are appointed by the Supervisory Board for a period of four years.

Members of the Audit Committee of the Bank in 2020 were:

Jelena Poljašević	President	Independent Member
Ante Križan	Member	Zagrebačka banka d.d., Zagreb.
Antonija Matošin	Member	Zagrebačka banka d.d., Zagreb.

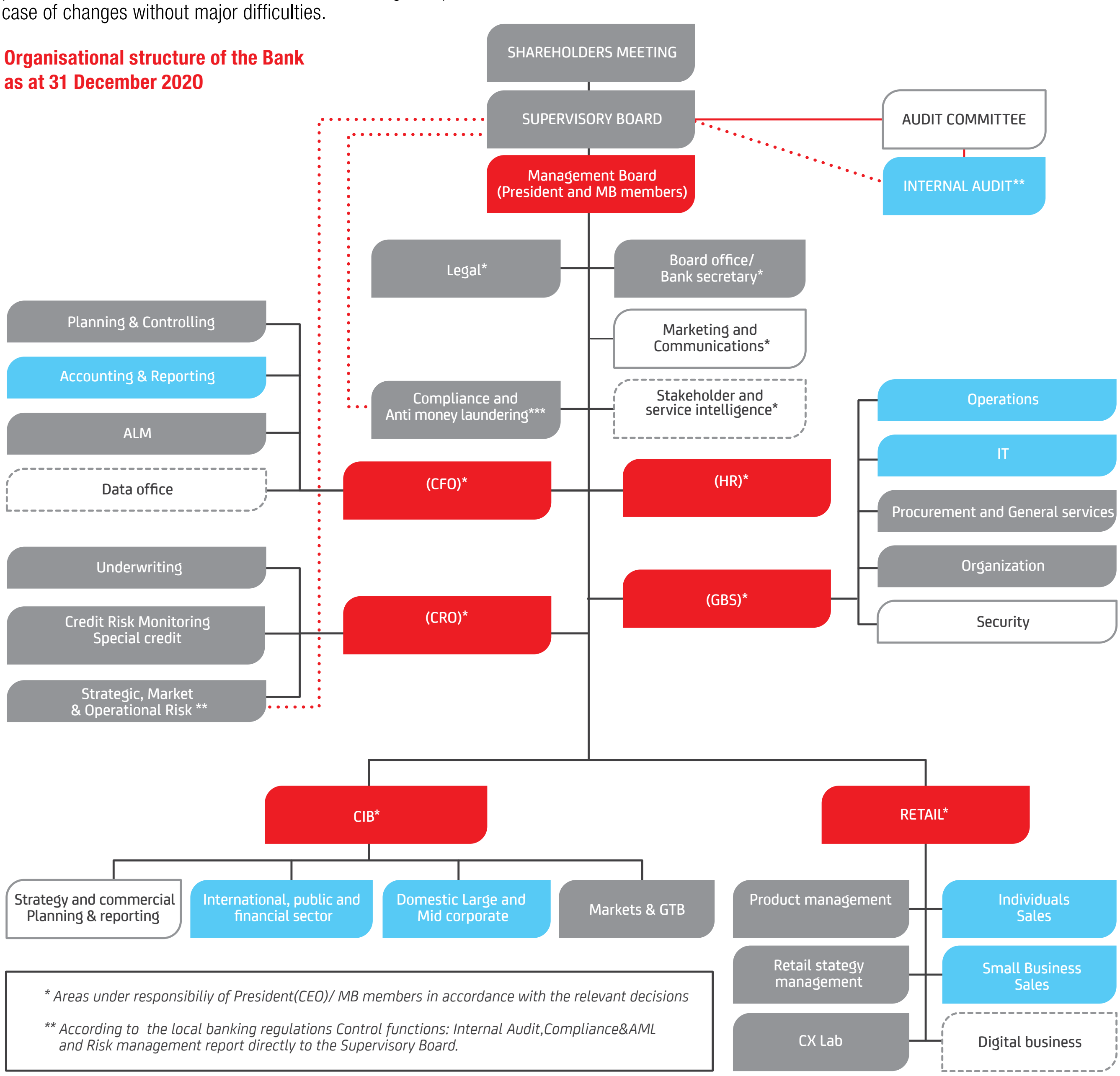
Employees

At the end of 2020, the Bank had 436 employees.
The whole of 2020 was marked by a changed way of working through work from home, and a reduced number of executors and a changed regime of work in branches. The safety and health of employees and clients were our number one priority, and we took a series of measures and activities to minimise the risk to people's health. We constantly monitored the epidemiological situation in general, and in the Bank, and planned additional measures and activities accordingly. Regardless of the challenging situation during the year, we are aware that our further development and success depends on the quality and commitment of our employees, and we continued to work on improving their knowledge and competencies, as well as improving the working conditions for all employees. Through development activities, we pay a special attention to the training of sales staff, managers and employees with high potential, identified as talents.
Given the specific situation during 2020, all development activities were held online, through various applications and platforms, and with several new initiatives and activities launched. As an example, we can cite the activity "At Home Talks" through which some of our colleagues recorded short educational videos on various topics,

which were then available to all colleagues through the internal communication platform - Yammer. Also, a special group "Covid-19" was created on the Yammer platform, intended for sharing useful content and practical advice when it comes to situations with the appearance and spread of the Corona virus, which requires different approaches to work, and everyday life.
It is extremely important for us to introduce new employees, as well as newly appointed managers to the business, and during 2020 we worked on improving the on-boarding programme for these two groups of employees. In accordance with the needs and dynamics within the Bank, during 2020 we had 31 newly employed workers. A number of colleagues were appointed to management positions within the Bank, of which 9 employees were appointed to management positions at the first and second levels of management. The Bank regularly works on succession planning for all managerial positions, development of potential candidates, which allows us to fill managerial positions in case of changes without major difficulties.

Through the Employee Satisfaction Survey, the Bank again recorded high results, among which the most significant is the Engagement Index, with a score of 82, and is among the highest in the UniCredit Group. Based on the results, an action plan for further improvements was made, which included several activities aimed at an even better involvement of employees in proposals for change, new initiatives and activities and similar. Through internal communication channels, we surveyed employees for suggestions for activities on a variety of topics, including opinions and suggestions related to working from home.
During the year, two online meetings where all employees participated were held, at which various current topics, results and the like were presented.

Organisational structure of the Bank as at 31 December 2020

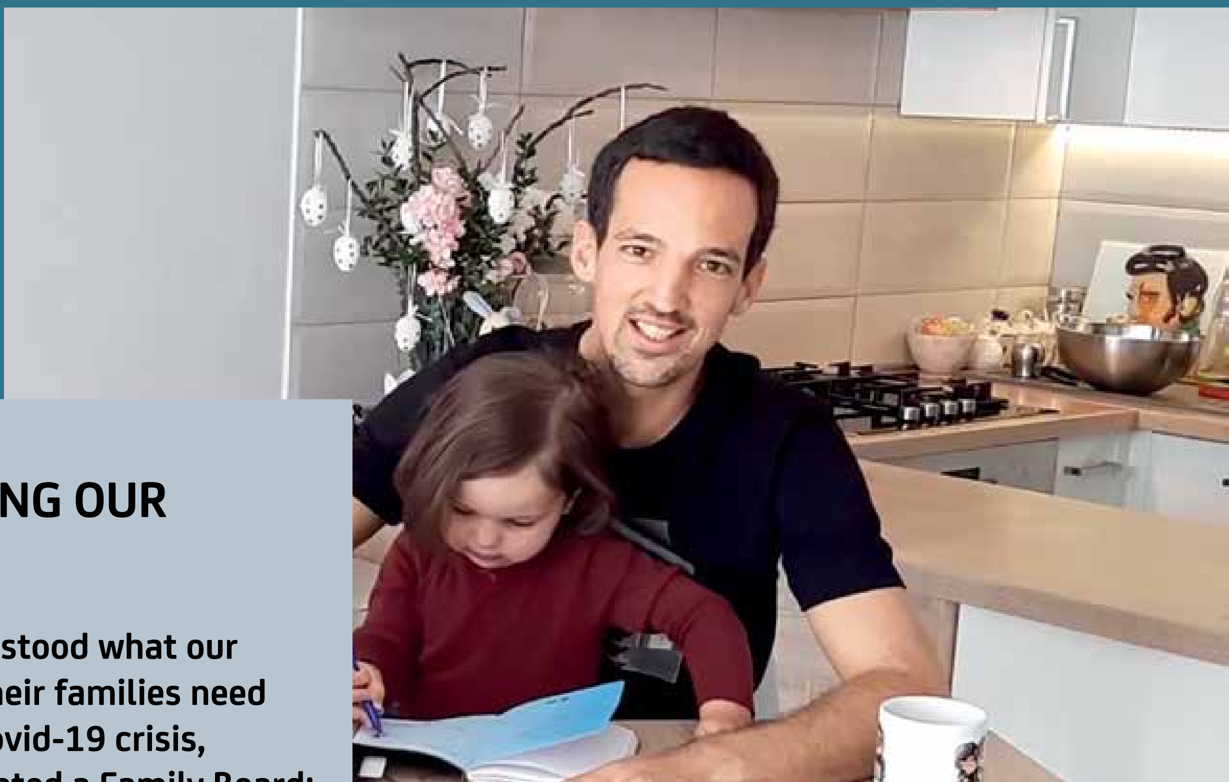


** Areas under responsibiliy of President(CEO)/ MB members in accordance with the relevant decisions*

*** According to the local banking regulations Control functions: Internal Audit,Compliance&AML and Risk management report directly to the Supervisory Board.*

Do the right thing!
For our Colleagues

Throughout 2020, we focused on protecting our people: we provided them with millions of PPE items and fast IT upgrades, rolling out new laptops and remote access to around 82,000 UniCredit employees, to make sure they could work safely and effectively.



PROTECTING OUR PEOPLE

To best understood what our people and their families need to face the Covid-19 crisis, UniCredit created a Family Board: the 20-person team meets regularly to define solutions and recommendations in terms of flexibility, wellbeing and other support (i.e. homeschooling/ homework).

Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with the accounting regulations applicable to banks in Republika Srpska, which give a true and fair view of the state of affairs and results of UniCredit Bank a.d. Banja Luka for that period.

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

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

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

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

Signed on behalf of the Management Board

President of the Board	**Member of the Board**
Gordan Pehar	Jasminka Bajić

UniCredit Bank a.d. Banja Luka
Marije Bursać 7
78000 Banja Luka
Bosnia and Herzegovina

February 10, 2021

Independent Auditors' Report

To the Shareholders of UniCredit Bank a.d. Banja Luka

Deloitte d.o.o. Banja Luka
Braće Mažar i majke Marije 58 i 60
78000 Banja Luka
Republika Srpska
Bosna i Hercegovina
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Faks: +387 (0)51 224 990
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Opinion

We have audited the financial statements of UniCredit Bank a.d. Banja Luka (hereinafter: the "Bank"), which comprise the statement of profit and loss and other comprehensive income, the statement of financial position as at December 31, 2020, the statement of changes in equity and the statement of cash flows for the year then ended, including a summary of significant accounting policies and other notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with the accounting regulations applicable to banks in Republika Srpska.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (Continued)

Impairment of loans to and receivables from customers (expected credit losses)

In its financial statements for the year ended December 31, 2020, the Bank presented loans to and receivables from customers in the amount of BAM 935,120 thousand and total expected credit loss in the amount of BAM 46,975 thousand.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowance for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas:: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of credit risk stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Assessment of the forward-looking information, including the impact of the COVID-19 pandemic • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to Management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with the accounting regulations applicable to banks in Republika Srpska as a key audit matter in our audit of the financial statements for the year ended 31 December 2020. Management has provided further information in notes *2.7- Financial instruments - Measurement and classification, 2.8 - Financial instruments - Impairment, 14 - Net losses/recoveries from allowances for credit losses, 21 - Loans and receivables from customers measured at amortized cost, and 34.1 - Credit risk..*	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9; • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including used applications and information technology tools and corresponding internal controls; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Alocating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. .criteria used for determination of significant increase in credit risk, including the impact of COVID-19; iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information, including the impact of COVID-19. vii. re-performing calculation of expected credit losses on a selected sample. viii. analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance ix. assessment of appropriateness of staging transition and allocation of exposures with granted moratoria • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19 iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance v. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

To the Shareholders of UniCredit Bank a.d. Banja Luka (CONTINUED)

Responsibilities of the Management Board and the Supervisory Board for the Financial Statements

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations applicable to banks in Republika Srpska, and for such internal controls as Management Board determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 the International Standards on Auditing, we exercise professional judgment 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's internal control• Ocjenjujemo primjerenost korištenih računovodstvenih politika i razumnost računovodstvenih procjena i povezanih objava koje je stvorila Uprava.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Auditor's Responsibility for the Audit of the Financial Statements (Continued)

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

The Engagement Partner on the audit resulting in this independent auditor's report is Sabina Softić

Ranko Travar, Director and licensed auditor

Sabina Softić, Partner and licensed auditor

Deloitte d.o.o. Banja Luka
Braće Mažar i majke Marije 58 i 60
Banja Luka, Bosnia and Herzegovina
February 18, 2021

Financial Statements

Financial Statements for the Year Ended December 31, 2020

Statement of Profit or Loss and Other Comprehensive Income

	Note	Year Ended December 31, 2020 BAM '000	2019 BAM '000
Interest income and similar income	*6*	54,873	57,213
Interest expenses and similar expenses	*7*	(8,923)	(8,490)
Net interest income		**45,950**	**48,723**
Fee and commission income	*8*	17,210	19,938
Fee and commission expenses	9	(3,474)	(3,534)
Net fee and commission income		**13,736**	**16,404**
Dividend and profit sharing income	*10*	4	10
Net foreign exchange gains upon translation of monetary assets and liabilities	*11*	1,707	1,643
Total operating income		**61,397**	**66,780**
Personnel expenses	*12*	(17,007)	(17,218)
Tangible assets depreciation charge	*22*	(2,538)	(2,413)
Intangible assets' amortization charge	*23*	(1,702)	(1,347)
Other administrative expenses	*13*	(12,645)	(12,260)
Total operating expenses		**(33,892)**	**(33,238)**
Profit before impairment and provisions		**27,505**	**33,542**
Net impairment (losses) / recoveries per credit risks	*14*	**(11,614)**	**(505)**
- Financial assets at amortised cost		(11,123)	(1,478)
- Financial assets at fair value through other comprehensive income		(491)	973
Provisions for risks and expenses	*15*	**966**	**(1,888)**
- Provisions for credit risks and guarantees		917	(1,927)
- Long-term provisions for employees		49	39
Other operating income and expenses		948	1,093
(Losses)/gains on sales of property and equipment		(41)	130
Profit before tax		**17,764**	**32,372**
Income tax	*16*	(1,478)	(2,785)
Gains from deferred taxes		171	-
Losses from deferred taxes		(279)	(6)
Profit after tax		16,178	29,581
Profit for the year		**16,178**	**29,581**

Statement of Profit or Loss and Other Comprehensive Income (Continued)

	Note	Year Ended December 31, 2020 BAM '000	2019 BAM '000
Profit for the year		**16,178**	**29,581**
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss:			
- Gains of tangible assets revaluation		193	2,365
- Net (losses)/gains in value of financial assets at fair value through other comprehensive income		(39)	649
- Net gains/(losses) in provisions for credit risks of financial assets at fair value through other comprehensive income		491	(973)
- Net loss / gain of the period recognised directly in capital		104	51
Total comprehensive income for the year		**16,927**	**31,673**
EARNINGS PER SHARE		**BAM**	**BAM**
Earnings per share (basic)	*31*	116.68	213.35
Diluted earnings per share	*31*	116.68	213.35

These financial statements were approved by the Bank's Management on February 10, 2021.

Signed on behalf of UniCredit Bank a.d. Banja Luka by:

Gordan Pehar
President of the Management Board

Jasminka Bajić
Member of the Management Board

Financial Statements for the Year Ended December 31, 2020

Statement of Financial Position

As of

	Note	**December 31, 2020 BAM'000**	**December 31, 2019 BAM'000**
Assets			
Cash and cash equivalents	*17*	164,663	143,893
Financial assets at fair value through profit or loss		-	244
Financial assets at fair value through other comprehensive income	*18*	240,348	218,888
Financial assets at amortised cost		**1,211,397**	**1,257,249**
a) Obligatory reserve held with the Central Bank	*19*	124,797	127,016
b) Loans and receivables due from banks	*20*	151,480	104,115
c) Loans and receivables due from customers	*21*	935,120	1,026,118
Tangible assets	*22*	23,725	24,765
Intangible assets	*23*	11,551	10,530
Current tax assets - pre-paid income tax	*27*	1,089	-
Deferred tax assets	*27*	160	6
Other assets	*24*	5,073	6,055
Total assets		**1,658,006**	**1,661,630**
Liabilities			
Financial liabilities at amortised cost		**1,372,164**	**1,392,598**
a) Deposits and borrowings due to banks	*25*	259,447	353,857
b) Deposits and borrowings due to customers	*26*	1,110,311	1,035,665
c) Lease liabilities	*26 a*	2,406	3,076
Tax liabilities		**557**	**644**
a) Current tax liabilities		-	381
b) Deferred tax liabilities	*27*	557	263
Other liabilities	*28*	26,109	18,362
Provisions for risks and expenses	*29*	**4,565**	**5,231**
a) Provisions for credit risk on commitments and financial guarantees issued		2,713	2,959
b) Long-term provisions for employees		366	415
c) Provisions for litigations		1,486	1,857
Total liabilities		**1,403,395**	**1,416,835**
Equity and reserves			
Share capital	*30*	97,055	97,055
Share premium		373	373
Legal reserves		9,706	9,706
Capital reserves		42,897	42,846
Regulatory reserves for credit losses	2.1	(5,076)	-
Fair value reserves		5,133	4,488
Retained earnings		88,345	60,746
Net profit for the year		16,178	29,581
Total equity and reserves		**254,611**	**244,795**
Total liabilities, equity and reserves		**1,658,006**	**1,661,630**

Statement of Changes in Equity

	Share capital	Share premium	Legal reserves	Capital reserves	Regulatory reserves for credit losses	Fair value reserves	Retained earnings	Net profit for the year	Total
	BAM'000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2019	**97,055**	**373**	**9,706**	**39,242**	**3,604**	**2,447**	**38,477**	**27,771**	**218,675**
Net profit for the year	-	-	-	-	-	-	-	29,581	29,581
Other comprehensive income:									
Net gain from changes in fair value of financial assets through other comprehensive income	-	-	-	-	-	649	-	-	649
Net loss from provisions for credit risks on financial assets at fair value through other comprehensive income	-	-	-	-	-	(973)	-	-	(973)
Net gains for period recognised in equity	-	-	-	-	-	-	51	-	51
Effects of tangible assets revaluation - property (Notes 22 and 27)	-	-	-	-	-	2,365	-	-	2,365
Other comprehensive income	-	-	-	-	-	*2,041*	*51*	-	*2,092*
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	***2,041***	***51***	**29,581**	***31,673***
Profit distribution	-	-	-	-	-	-	27,771	(27,771)	-
Dividend payment (Note 31)	-	-	-	-	-	-	(5,553)	-	(5,553)
Transfer to reserves	-	-	-	3,604	(3,604)	-	-	-	-
Balance as at December 31, 2019	**97,055**	**373**	**9,706**	**42,846**	**-**	**4,488**	**60,746**	**29,581**	**244,795**
Correction of beginning balance as at January 1, 2020 (Note 2.1.)	-	-	-	-	(5,076)	-	(2,035)	-	(7,111)
Net profit for the year	-	-	-	-	-	-	-	16,178	16,178
Net gain from changes in fair value of financial assets through other comprehensive income	-	-	-	-	-	(39)	-	-	(39)
Net gain from changes in fair value of financial assets through other comprehensive income	-	-	-	-	-	491	-	-	491
Net gains / losses for period recognised in equity	-	-	-	-	-	-	104	-	104
Effects of tangible assets revaluation - property (Notes 22 and 27)	-	-	-	-	-	193	-	-	193
Other comprehensive income	-	-	-	-	-	*645*	*104*	-	*749*
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	***645***	***104***	***16,178***	***16,927***
Profit distribution	-	-	-	51	-	-	29,530	(29,581)	-
Balance as at December 31, 2020	**97,055**	**373**	**9,706**	**42,897**	**(5,076)**	**5,133**	**88,345**	**16,178**	**254,611**

Financial Statements for the Year Ended December 31, 2020

Statement of Cash Flows

	Year Ended December 31,	
	2020 BAM '000	2019 BAM '000
Cash flows from operating activities		
Interest income and similar income	54,873	57,213
Interest expenses and similar expenses	(8,923)	(8,490)
Fee and commission income	17,210	19,938
Fee and commission expenses	(3,474)	(3,534)
Dividend and profit sharing income	4	10
Net foreign exchange gains upon translation of monetary assets and liabilities	1,707	1,643
Administrative operating expenses	(29,652)	(29,469)
Other inflows / (outflows)	907	1,223
1. Net cash generated by operating activities	**32,652**	**38,534**
Changes in operating assets and liabilities		
Changes in the financial assets at amortised cost		
Obligatory reserve held with the Central Bank	2,219	(1,139)
Loans and receivables due from banks	(47,365)	39,900
Loans and receivables due from customers	80,882	(90,021)
Changes in the financial liabilities at amortised cost		
Deposits and borrowings due to banks	(94,410)	(61,812)
Deposits and borrowings due to customers	74,646	29,014
Lease liabilities	(670)	(664)
Other assets	480	(922)
Other liabilities	746	818
2. Net changes in operating assets and liabilities	**16,528**	**(84,826)**
3. Net cash generated by operating activities before tax (1+2)	**49,180**	**(46,292)**
4. Income tax	(2,786)	(2,582)
5. Net cash generated by operating activities (3+4)	**46,394**	**(48,874)**
Cash flows from investing activities		
Tangible assets	(1,442)	(1,792)
Intangible assets	(2,722)	(3,762)
Financial assets at fair value through other comprehensive income	(21,460)	(21,623)
Dividend payment	-	(5,548)
6. Net cash used in investing activities	**(25,624)**	**(32,725)**
7. Net increase/(decrease) in cash (5+6)	**20,770**	**(81,599)**
8. Cash and cash equivalents at the beginning of year	**143,893**	**225,492**
9. Cash and cash equivalents at the end of year (7+8)	**164,663**	**143,893**

Do the right thing!
For our Clients

With over 16 million clients in 13 countries, we worked harder than ever in 2020 to help all our clients face new challenges: from billion euro funding programmes for multinational companies to mentoring new start-up businesses, UniCredit is committed to being part of the solution.

€10 MILLION OF NEW FINANCING FOR A 100-YEAR OLD PASTA MAKER

This loan was set up to meet the working capital needs of Gragnano-based Pastificio Di Martino. It was also the first large loan issued in under Italy's guaranteed loans programme.

1. THE REPORTING ENTITY

UniCredit Bank a.d. Banja Luka is a shareholding company registered in the Republika Srpska for performance of payment transactions, credit and deposit and other banking operations in the country and abroad in accordance with the regulations of the Republika Srpska and Bosnia and Herzegovina.

History of the Bank is related to the beginning of the past century, i.e. to 1910 and establishment of the Monetary Institute which subsequently developed into the "Banka za trgovinu i obrt". In the following 60 years, numerous transformations and changes of names under which the Bank operated were made: in 1956, the "Sreska Komunalna Banka", in 1961, the "Komunalna Banka", and in 1966, the "Kreditna Banka". By the reform of the banking system in 1971, the "Kreditna Banka" was merged by the "Privredna Banka Sarajevo" as its branch, and in 1976 it obtained a high degree of autonomy and was registered as the "Osnovna Banka". Under the Decision of the Founder Assembly in December 1989, the Bank was spun off from the "Privredna Banka Sarajevo" system into an independent bank, under the name of "Banjalučka Banka d.d. Banja Luka". From June 1998, it continued its operations as a shareholding company under the name of "Banjalučka Banka a.d. Banja Luka".

In accordance with regulations on privatisation of state-owned capital in the Republika Srpska, in October 2000, the Bank's shares held by state-owned enterprises were transferred to the management of the RS Ministry of Finance until the completion of the state-owned capital privatisation process.

In early 2002, the Government of the Republika Srpska sold the state-owned shares of the Bank to the company "Verano Motors" d.o.o. Belgrade. The first Shareholders' Meeting of the private Bank adopted a decision on the change of the name from "Banjalučka Banka" into "Nova Banjalučka Banka a.d. Banja Luka".

Since the end of 2002, the Bank's shares have been quoted on the Banja Luka Stock Exchange. At the end of 2005, having purchased a package of shares (83.3% equity interest) at the Stock Exchange, the Bank Austria Kreditanstalt AG Vienna became the majority owner of the Bank, which also at the end of the same year became a member of UniCredit Group and changed its name to UniCredit Bank Austria AG.

With the change in the ownership structure after the entry of Bank Austria as the majority shareholder, the Bank became a member of HVB Group, and after the change in the ownership structure of the Bank Austria, whose majority owner became UniCredit Bank S.p.A. Milan, the Bank became a member of UniCredit Group. In 2008, the name "Nova Banjalučka Banka a.d. Banja Luka" was changed, hence since June 1, 2008, the Bank has been operating under the name of "UniCredit Bank a.d. Banja Luka".

During 2016, ownership of all banks in Central-Eastern Europe was transferred from UniCredit Bank Austria AG, as the Sub-holding, to UniCredit S.p.A. - Holding, Italy, at the level of UniCredit Group.

UniCredit S.p.A. Italy is the Bank's majority shareholder with 99.4252% equity shares at the end of 2020.

As at December 31, 2020, the Bank consisted of the Head Office in Banja Luka (with the registered address at no. 7, Marije Bursać Street), and 36 branch offices (December 31, 2019: 36 branch offices).

As at December 31, 2020, the Bank had 436 employees (December 31, 2019: 448 employees).

The tax identification number of the Bank is 4400958880009, and its VAT code is 400958880009.

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

2.1. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with the legal accounting regulations applicable to banks in the Republika Srpska ("RS"), which are based on the Law on Accounting and Auditing of the RS, the Law on Banks of the RS and bylaws of the RS Banking Agency adopted in accordance with the stated laws.

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

The Law on Banks of the RS prescribes the preparation of annual financial reports in accordance with the previously mentioned Law on Accounting and Auditing of the RS, this law, and bylaws adopted on the basis of both laws.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.1. Statement of Compliance (continued)

The Banking Agency of the RS has adopted a Decision on Credit Risk Management and Determination of Expected Credit Losses (the "Decision"), which applies from 1 January 2020 and which has resulted in certain differences arising from the calculation of value adjustments and provisions for credit losses (ECL) due to the application of minimal rates prescribed by the Decision, which are not required by the standard: "Financial instruments" ("IFRS 9"). The decision also has an impact on the valuation of non-financial assets arising from credit operations (acquired tangible assets the valuation of whch is within the scope of other relevant IAS and IFRS).

Correction of opening balances based on first application of BARS Decision

Effects of the first application of the Decision have been recognised in equity as of January 1, 2020. In accordance with the provisions of the Decision, at the time of its first application, the Bank formed higher value adjustments and provisions for credit losses by BAM 5,076 thousand compared to the amount obtained by the calculation resulting from the Bank's internal model, according to IFRS 9.

The stated difference of BAM 5,076 thousand arose due to the following reasons:

- application of minimal rates of value adjustments and provisions prescribed in Article 23 of the Decision for exposures in the level of credit risk 1 - difference of BAM 2,133 thousand,
- application of minimal rates of value adjustments and provisions prescribed in Article 24 of the Decision for exposures in the level of credit risk 2 - difference of BAM 2,693 thousand,
- application of minimal rates of value adjustments and provisions prescribed in Article 25 of the Decision for exposures in the level of credit risk 3 (non-performing assets) - difference of BAM 250 thousand.

The previously described differences between the stipulated legal accounting regulations applicable to banks in the RS and the requirements for recognition and measurement according to International Financial Reporting Standards have resulted in the following effects*:

	January 1, 2020	December 31, 2020
	BAM '000	**BAM '000**
Assets (please refer to ECL movement in Notes 20 and 21)	(4,405)	(3,135)
Total assets	**(4,405)**	**(3,135)**
Liabilities	671	327
Equity:		
- *regulatory reserves*	(5,076)	(5,076)
- *net profit*	-	1,614
Total liabilities	**(4,405)**	**(3,135)**
		December 31, 2020 BAM '000
Profit after tax (net profit)		**1,614**

** Note: amounts in parentheses represent a decrease in value.*

Correction of opening balance based on change of the model for recognition of CPI fees

The Bank corrected (decreased) the opening balance of retained earnings and net loans in the amout of BAM 2,035 thousand based on change in the model for recognition of CPI (Credit Protection Insurance) fees. This amount relates to commission income (CPI fees) collected for CPI policies for consumer loans charged from the moment when this commission, based on its characteristics, became a part of the effective interest rate. The corrected amount of BAM 2,035 thousand will be amortised in interest income during the period of amortisation (collection) of loans based upon which it was charged.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.2. General Preparation Criteria

The annual financial statements include:

- Statement of Profit or Loss and Other Comprehensive Income (Income Statement),
- Statement of Financial Position (Balance Sheet),
- Statement of Changes in Equity,
- Statement of Cash Flows (compiled using the direct method), and
- Notes to the financial statements.

The accompanying financial statements have been prepared on a going concern basis, since the Bank's governing bodies did not identify any symptoms in the capital and financial structures or any economic effects that could indicate uncertainty regarding the ability of the Bank to continue to operate profitably in a foreseeable future.

The adopted measurement criteria are in line with this assumption and the principles of accrual accounting, the relevance and significance of the accounting information, and prevalence of the economic substance over the legal form. Compliance with these criteria has not changed since the previous years, except for the changes described below, which relate to the introduction of new standards and interpretations, as well as implementation of the local Decision on credit risk management and determination of expected credit losses.

According to IFRS, the management has to make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities, reported income and expenses, as well as the disclosure of contingent assets and liabilities. Estimates and related assumptions are based on the historical experience and other factors that are considered reasonable under the given circumstances and have been used to estimate the carrying amount of assets and liabilities that are not readily available from other sources.

Estimates and assumptions are reviewed regularly. All changes arising from these revisions are recognised in the period in which the revision is made, if the change relates only to that period. If the change relates to both the present and future periods, it is recognised accordingly for both present and future periods.

During the financial year 2020, the pandemic caused by the Covid-19 virus spread to the markets of Republika Srpska and Bosnia and Herzegovina and thus affected the Bank's business activities and its profitability.

First of all, a slowdown in economic activity has led to a reduction in all categories of commercial income, primarily interest and fees.

In addition, during 2020, extraordinary expenses were incurred, which were necessary to maintain the continuity of business communication and adequate security in accordance with the circumstances arising from the pandemic.

The current market environment is further affected by uncertainties regarding the possibilities and degree of economic recovery that could occur in the future, as well as the development of a pandemic.

These circumstances affected the measurement of financial and non-financial assets, which the Bank recognised in its balance sheet.

The results of these assessments may be subject to change due to circumstances, which cannot be assumed at this time, and which depend on the development of the pandemic, the effect of mitigation measures to be adopted, as well as the possibilities and degree of economic recovery. Possible deviations from the actual economic recovery compared to the assumptions that form the basis of the estimates may require a new determination of the parameters used, especially in relation to future cash flows.

When it comes to credit exposure, the slowdown in economic activity due to the Covid-19 virus pandemic and related closure measures has affected the assessment of the possibility of their collection and the calculation of the corresponding loan value adjustments. The amount of expected credit losses is determined based on classification, existing and expected, and credit parameters (PD; LGD and EAD), which in accordance with the stricter of the accounting regulations applicable to banks in Republika Srpska or IFRS includes, among other factors, information on future trends and expected development of the macroeconomic scenario, as and with the application of the minimum amounts of ECL prescribed by credit risk levels.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.2. General Preparation Criteria (Continued)

In this context, the Bank updated the macroeconomic scenarios from 31 December 2020, considering, in addition to the baseline scenario, both the worse and the better scenario, and applying the appropriate weights.

In addition, in this case, the measurement is influenced by the already mentioned uncertainty in the development of the pandemic, the effects of measures to mitigate its consequences and, finally, the existence and degree of economic recovery.

The development of these factors may certainly in the future financial years require the classification of additional credit exposures as non-performing, and the recognition of additional value adjustments related to both these exposures and future exposures, depending on developments in credit parameters. In this context, the client's ability to service its debt after the expiration of the moratorium measures introduced by the ABRS will, among other things, be essential.

In addition, changes in value adjustments may be required due to the realisation of a macroeconomic scenario, which is different from that taken into account when calculating credit risk parameters, or due to the predominance of non-performing exposures in the market at prices different from those assumed in the calculation.

Additional elements, in addition to the pandemic caused by the Covid-19 virus, that affect estimation uncertainty are domestic socio-economic conditions and their further impact on the Bank's profitability and credit ratings, financial markets and their impact on changes in interest rates, prices and actuarial assumptions, and the real estate market and its influenced by the value of the property, which serves as collateral.

2.3. Functional Currency and Presentation Currency

These financial statements are stated in convertible marks (hereinafter: "BAM"), BAM being the Bank's functional currency. The data in tables and explanations are presented in thousands of convertible marks (BAM '000), unless otherwise stated.

The Central Bank of Bosnia and Herzegovina (hereinafter: the "Central Bank") implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is pegged to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2020 and 2019.

The official exchange rate, applied for the translation of balance sheet items as at 31 December 2020 and 31 December 2019 for the following significant currencies, was:

	December 31, 2020	**December 31, 2019**
USD	1,592566	1,747994
CHF	1,801446	1,799126
EUR	1,955830	1,955830

2.4. Subsidiaries, Joint Ventures and Associates

As of the reporting date, the Bank did not have:

- subsidiaries, i.e. entities, including structured entities, over which it has direct or indirect control,
- joint arrangements with other entities, which in accordance with the IFRS 11 include joint control, joint operations and joint ventures, or
- associates.

2.5. Impact and Application of New and Revised IFRS

Initial application of the new and amendments to the existing standards that came into effect

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

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.5. Impact and Application of New and Revised IFRS (Continued)

Initial application of the new and amendments to the existing standards that came into effect (continued)

- Amendments to IFRS 3 "Business Combinations" – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements. The Bank has voluntarily applied IFRS 16 "Leases" as of 1 January 2019.

New Standards and Amendments to the Existing Standards in Issue, but not yet Effective

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (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),
- 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);
- Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 4 "Insurance Contracts" – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022).

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

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.6. Impact of Covid-19 pandemic

The outbreak of the Covid-19 pandemic has triggered a global health crisis and a major impact on the global economy due to massive locking measures, travel restrictions, trade and other measures. In terms of macroeconomic and geopolitical risks, the Covid-19 pandemic has shifted its focus around the world towards global and national efforts and measures to address this crisis. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with more remote / network channels for customer service.

The prospects for the normalisation of the pandemic in terms of its time sequence and further evolution remain very uncertain, as do the magnitudes of the economic downturn.

The global economic downturn may be further affected by potential new rounds of general blockades that some countries could cause around the world, with the risk of further slowing the expected recovery.

From the outset, UniCredit has introduced preventive measures to deal with the Covid-19 emergency, including tightening risk monitoring, and continues to proactively manage situation developments in all dimensions of its risk profile.

Shortly after the outbreak of the Covid-19 pandemic, the RS Banking Agency issued a Decision on interim measures to alleviate the negative economic consequences caused by Covid-19 pandemic related to:

- granting benefits to the bank's clients who are directly or indirectly affected by the negative effects,
- special rules related to credit risk management, which the bank applies in case it approves special measures to the client, and
- measures aimed at preserving the bank's capital.

In accordance with the aforementioned Decision, the Bank adopted a Program of interim measures, based upon which it has, in the period from April to December 2020, granted its clients, directly or indirectly affected by the effects of "Covid-19", prescribed reliefs in order to overcome difficulties in regular credit settlement.

The most common measure is a temporary moratorium on loan repayment for a period of 3 to 6 months with the possibility of extension, and other measures are: grace period, extension of the repayment period, etc.

According to the BARS Decision, the banks were allowed to accept clients' requests for approval of special measures until December 31, 2020.

The Decision on interim measures to mitigate the negative economic consequences caused by Covid-19 pandemic was in force at the time of preparation of this report.

More detailed information on the effects of the Covid-19 pandemic on the Bank's operations is provided in chapter: Risk Management.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.6. Impact of Covid-19 pandemic (Continued)

DESCRIPTION	Total loans in credit risk level 1 as at the date of approval of special measure		Total loans in credit risk level 2 as at the date of approval of special measure		Total loans in credit risk level 3 as at the date of approval of special measure	
	Gross loan amount	ECL amount	Gross loan amount	ECL amount	Gross loan amount	ECL amount
Total corporate loans	**131,772**	**1,497**	**31,736**	**4,278**	**363**	**363**
A - Agriculture, forestry and fishing	**-**	-	**486**	97	**-**	-
B - Mines and quarries	**-**	-	**-**	-	**363**	363
C - Processing industry	**13,149**	168	**8,991**	1,261	**-**	-
D - Production and distribution of electricity, gas, steam and air conditioning	**-**	-	**5,223**	364	**-**	-
E - Water supply; sewage, waste management and restoration (remediation) of environment	**-**	-	**-**		**-**	-
F - Construction	**14,022**	65	**4,506**	450	**-**	-
G - Wholesale and retail trade; servicing motor vehicles and motorcycles	**7,758**	37	**3,608**	526	**-**	-
H - Transport and warehousing	**97**	2	**115**	5	**-**	-
I - Accommodation, food; hotels and hospitality	**-**	-	**5,817**	1,444	**-**	-
J - Information and communications	**-**	-	**-**	-	**-**	-
K - Financial services and insurance services	**6,994**	56	**-**	-	**-**	-
L - Real estate	**502**	2	**-**	-	**-**	-
M - Expert, scientific and technical business activities	**-**	-	**-**	-	**-**	-
N - Administrative and auxiliary services	**-**	-	**-**	-	**-**	-
O - Public administration and defence; obligatory social insurance	**61,939**	351	**2,990**	131	**-**	-
P - Education	**25**		**-**	-	**-**	-
Q - Health care and social work	**27,286**	816	**-**	-	**-**	-
R - Art, entertainment and recreation	**-**	-	**-**	-	**-**	-
S - Other services	**-**	-	**-**	-	**-**	-
T - Household activities as employers; household activities producing various goods and performing services for own use	**-**	-	**-**	-	**-**	-
U - Business of exterritorial organisations and bodies	**-**	-	**-**	-	**-**	-
Total retail loans	**12,611**	**279**	**4,457**	**518**	**1,512**	**966**
General consumption	**8,357**	250	**3,726**	474	**1,042**	684
Housing construction	**4,203**	29	**731**	44	**470**	282
Business activities (entrepreneurs)	**51**	-	**-**	-	**-**	-
Total loans	**144.383**	**1.776**	**36.193**	**4.796**	**1.875**	**1.329**

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.7. Classification and Measurement

In accordance with IFRS 9, classification of assets and liabilities is based on the business model and characteristics of the contractual cash flows.

Analysis of the business models has been performed by mapping the Bank's business areas and by allocating a specific business model to each of them.

In this regard, a "hold-to-collect" or "hold-to-collect and sell" business models have been allocated to the business areas comprising the Bank's portfolio in accordance with the intention of holding and expected sales of financial instruments.

For the classification of financial assets into the new categories stipulated by IFRS 9, the analysis of the business models was complemented by the analysis of the contractual cash flows ("SPPI Test").

In this regard, the Bank has established processes to analyse the portfolio of debt securities and loans by which it assesses whether the features of their contractual cash flows allow their measurement at amortised cost ("hold-to-collect" portfolio) or at fair value through other comprehensive income ("hold-to-collect and sell" portfolio").

The analysis is performed both by contract and by defining specific clusters based on the features of transactions and using a specific tool developed by the Group (SPPI Tool) in order to analyse the features of the contracts against IFRS 9 requirements, or by using external data providers.

In applying the above rules, the financial assets and liabilities of the Bank are classified as follows.

a) Financial Assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if:

- it is acquired or generated principally for the purpose of selling or repurchasing it in the near term;
- it is part of the portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term;
- it is held for profit making;
- it is a derivative contract not defined by hedge accounting, including derivatives with a positive fair value embedded in financial liabilities other than those that are measured at fair value through profit or loss.

Like other financial instruments, financial assets held for trading are initially measured at fair value at settlement date, which is usually equal to the amount paid, excluding transaction costs and income, which are recognised in profit and loss account, if they can be directly attributed to financial assets. Trading book derivatives are recognised at the trading date.

After initial recognition, these financial assets are measured at fair value through profit and loss account.
A gain or loss arising from the sale or repurchase or change in the fair value of a financial asset held for trading is recognised in the profit and loss account under the item of "net gains on trading and foreign exchange gains on the translation of monetary assets and liabilities", including gains or losses from financial derivatives related to financial assets and/or financial liabilities designated at fair value or other financial assets that are mandatorily held at fair value.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.7. Classification and Measurement (Continued)

a) Financial Assets Held for Trading (Continued)

If the fair value of a financial instrument falls below zero, which can be the case with derivative contracts, it is recognised on "financial liabilities held for trading" item.

These assets are measured similarly to the "financial assets held for trading" but gains and losses, whether realised or unrealised, are recognised within the item of "gains (losses) on financial assets/liabilities at fair value through profit and loss".

b) Financial Assets at Fair Value through Other Comprehensive Income

Financial assets are classified at fair value through other comprehensive income if:

- they reflect the business model "hold-to-collect and sell";
- their cash flows are solely payments of principal and interest.

This category includes debt instruments (bonds and treasury bills) and equity instruments.

Upon initial recognition, on settlement date, financial assets are measured at fair value, which is usually equal to the consideration paid plus transaction costs and income that can be attributed directly to the instrument.

After initial recognition, interest accrued on interest-bearing instruments is recorded in the profit and loss account under the criterion of amortised cost within the item of "interest income and similar income".

Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income and reported in equity within the "fair value reserve" item.

In case of disposal, accumulated gains and losses are recorded other comprehensive income.

In accordance with the provisions of IFRS 9, impairment losses on equity instruments are not recognised in the profit or loss statement. Only dividends are recognised in the profit or loss statement under the item "income from dividends and similar income".

c) Financial Assets at Amortised Cost

Financial assets are classified at amortised cost if:

- their business model is holding for collection, and
- their cash flows are solely for payment of principal and interest.

Upon initial recognition, on settlement date, financial assets at amortised cost are measured at fair value, which is usually equal to the consideration paid plus transaction costs and income that can be attributed directly to the instrument. After initial recognition at fair value, these assets are measured at amortised cost that requires interest recognition on an accrual basis using the effective interest method during the life of the loan. Such interest is recognised within the item of "interest income and similar income". The carrying value of a financial asset at amortised cost is adjusted to take into account the impairment allowances/write-offs arising from the measurement process.

Impairment losses are recorded in the profit and loss under the "net impairment losses/recoveries on loans relating to the financial assets at amortised cost".

In case of disposal, accumulated gains and losses are recorded in the profit and loss under the "gains (losses) on disposal and redemption of financial assets at amortised cost".

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.7. Classification and Measurement (Continued)

c) Financial Assets at Amortised Cost (Continued)

Amounts arising from adjusting the carrying amount of financial assets, gross cumulative write-offs, made to reflect changes in contractual cash flows that do not lead to discontinuation of accounting recognition, are recognised in profit and loss as gains/losses on contractual changes, yet such a line item does not include the effect of contractual change in the amount of expected loss recognised under the item "net impairment losses/recoveries on loans" that relate to the item: "financial assets at amortised cost".

d) Financial Liabilities Measured at Amortised Cost

Financial liabilities measured at amortised cost include financial instruments (other than those held for trading or those that are designated at fair value) that represent different forms of financing by third parties. These financial liabilities are recognised at the settlement date initially at fair value that is usually received, less any transaction costs that can be directly attributed to the financial liability. Thereafter, these instruments are measured at amortised cost using the effective interest method. Such interest is recognised within the item of "interest expenses and similar expenses".

e) Financial Liabilities Held for Trading

Financial liabilities held for trading include derivatives not designated as hedging instruments.
These liabilities are measured at fair value upon initial recognition and for the duration of the transaction.
A gain or loss arising from the sale or repurchase or change in the fair value of a financial liability held for trading is recognised in the profit and loss account under the item of "net gains (losses) on trading and foreign exchange gains/losses on the translation of monetary assets and liabilities".

f) Qualitative information on Fair Value

Fair value disclosures are made in accordance with the requirements of IFRS 13. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal at the measurement date (i.e., the exit price). For financial instruments that are quoted in active markets, fair value is determined on the basis of official prices in the principal market the Bank operates in and has access to (Mark to Market).

A financial instrument is considered to be quoted on an active market if quoted prices are easily and regularly available from pricing services, distributors, brokers, pricing agencies or regulatory agencies, and these prices represent real and regular market transactions at the "arm's length" principle. If the published price quotation on an active market does not exist for a financial instrument as a whole, but for active markets for its components, fair value can be determined on the basis of relevant market prices for the component parts.

g) Fair Value Measurement Principles

Fair values of financial assets and financial liabilities traded in active markets are based on the quoted market prices. For all other financial instruments, the Bank determines fair values using fair value assessment (valuation) techniques.

Valuation techniques for fair value involve models of cash flow discounting to their net present value, comparison to similar instruments with identifiable market prices and other valuation techniques. Assumptions and inputs used in valuation techniques include risk-free and reference interest rates, credit margins, prices of shares and bonds, FX rates, prices of indices and other variables and their correlations. The objective of the valuation techniques is to compute the fair value that best reflects the price of a financial instrument as at the reporting date, i.e. the price that would be determined by other market participants under the normal market conditions.

When calculating fair value, the Bank takes into account fair value hierarchy rules prescribed by IFRS 13, which reflect the significance of inputs used in the valuation process. Each instrument is assessed individually in detail. Levels of the fair value hierarchy are determined based on the lowest level of inputs relevant for determining the fair value of an instrument.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.7. Classification and Measurement (Continued)

h) Fair Value Assesment Models

Financial instruments carried at fair value are grouped in three levels of the fair value hierarchy under IFRS 13, as follows:

- Level 1 - instruments that are measured by means of active market quoted prices. These are instruments the fair value of which can be determined directly based on prices quoted in active liquid markets;
- Level 2 - instruments that are measured by means of valuation techniques using available market inputs. These are instruments the fair value of whch is determined by comparison to similar instruments traded in active markets, or where all inputs used in the measurement techniques are available in the market;
- Level 3 - instruments that are measured by means of valuation techniques using market data that is not available on the active market. These are instruments the fair value of which cannot be determined directly using available market information, and where somewhat different valuation techniques are used for the calculation of value.

i) Debt Securities

Debt securities are measured through a two-phase process dependent on the liquidity of the relevant market. Liquid instruments in active markets are measured at market value (Mark to Market) and are therefore classified into Level 1 of the fair value hierarchy. Instruments not traded in active markets are measured using models that make the most use of the relevant and available parameters, and the least use of the inputs unobservable in the market. Given the aforesaid, depending on the significance of unobservable inputs, bonds are classified in an appropriate level.

j) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle, on a net principle, or realise the asset and settle the liability simultaneously.

Income and expenses are presented in the net amount only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Bank’s trading activities.

2.8. Impairment

a) General

Loans and debt securities classified as financial assets at amortised cost, financial assets at fair value through other comprehensive income and relevant off-balance sheet exposures are tested for impairment in accordance with IFRS 9.

For such purposes, these instruments are classified into Stage 1, Stage 2, or Stage 3 according to their absolute or relative credit quality compared to the initial payment.
Specifically:

- Stage 1: includes (i) newly approved or acquired credit exposures, (ii) exposures for which credit risk has not significantly increased since initial recognition, (iii) exposures with low credit risk;
- Stage 2: includes credit exposures that have a significant credit risk increase since initial recognition;
- Stage 3: includes impaired credit exposures.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.8. Impairment (Continued)

a) General (Continued)

For exposures in Stage 1, the impairment is equal to the expected credit loss that is calculated over a time horizon of up to one year.

For exposures in Stage 2, the impairment is equal to the expected credit loss that is calculated over a time horizon corresponding to the entire lifetime of the exposure.

For exposures in Stage 3, the impairment is calculated on a collective basis or on an individual basis, depending on the client's characteristics.

By the Decision on Credit Risk Management and Determination of Expected Credit Losses (hereinafter the Decision), BARS prescribed minimum rates of expected credit losses at the level of the transaction depending on the level of credit risk.

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

1) for low risk exposures[1] – 0.1% of exposures,

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

3) for exposures to banks and other financial sector entities for which there is a credit assessment of a recognized external institution for credit rating assessment, which in accordance with Article 69 of the Decision on calculation of banks' capital is assigned to credit quality level 1, 2 or 3 – 0.1% of exposures,

4) for other exposures – 0.5% of exposures.

The Bank is obliged to determine and record the expected credit losses in the amount of 5% of the exposure for the exposures allocated to **Level 2**.

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

Table 1

Secured exposure	
Days overdue	**Min ECL**
≤ 180	15%
181-270	25%
271-365	40%
366-730	60%
731-1460	80%
> 1460	100%

Table 2

Unsecured exposure	
Days overdue	**Min ECL**
≤ 180	15%
181-270	45%
271-365	75%
366-456	85%
> 456	100%

1 Exposures to the Central Bank of BiH, Exposures to the Council of Ministers of BiH, the Government of the RS, the Government of the FBIH, the Government of the Brčko District

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.8. Impairment (Continued)

b) General (Continued)

In order to meet the requirements of the standards, the Group has developed specific models for calculating the expected loss on the basis of PD, LGD and EAD parameters used for regulatory purposes and adjusted to ensure consistency with the accounting regulations.

In this context, forward-looking information is included through the elaboration of specific scenarios.

The stage allocation model is the key aspect of the new accounting model required for expected credit loss calculation, whose aim is transfer of credit exposures from Stage 1 to Stage 2. Stage 3 includes exposures in default.

IFRS 9 guidelines are extensive in terms of principles of assessing material increases in credit risk. However, the Standard does not precisely define the term “material”, so it is at the banks’ discretion to define materiality in credit risk increase.

Qualitative criteria that the Bank uses in recognition of significant credit risk increase are:

- Forbearance status classification - results in an exposure automatically classified in Stage 2 for a period of at least 9 months (from the date of classification);
- 30 days past due - if a transaction reaches 30 dpd, it should be classified as Stage 2;
- 30+ days past due during the past 12 months;
- Restructuring status - all performing exposures transferred to the remit of the Special Credit Unit are automatically classified as Stage 2 (PSC 651);
- Watch list classification (Watch list; PSC 600 and 601);
- Manual adjustments - customers with recognised increasing credit risk but not classified using the main qualitative criteria;
- Criteria that the Bank follows in comprising the list of contracts / clients for manual stage adjustments are:
    - the client has not fulfilled their obligation of registering a mortgage in housing loans within defined deadlines;
    - employees of a client-legal entity with recognised increasing credit risk;
    - other – individual cases of recognised increasing credit risk.

When it comes to financial assets consisting of securities, the Bank classified them in Stage 1 in accordance with local regulations, prescribing that all placements to central governments should be classified as Stage 1, whereas in accordance the Group’s approach, in reports for the Group, the Bank classified them to Stage 2, since the securities are classified as non-investment grade securities.

The impairment calculated for impaired (default status) assets includes forward-looking adjustments and multiple scenarios applicable to this class of assets.

The definition of default is aligned with the principles embedded in the Definition of Default Guidelines issued by European Banking Authority (EBA), where the aggregate borrower exposure is classified as a default exposure if only one of the transactions is in the default status (the so called “debtor approach”).

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.8. Impairment (Continued)

c) Parameters and risk definitions used for impairment calculation

As mentioned above, specific models have been developed for calculating the expected loss based on PD, LGD and EAD parameters and the effective interest rate:

- PD (Probability of Default), represents the likelihood of the occurrence of a credit exposure default event over a given time horizon;
- LGD (Loss Given Default), represents the percentage of estimated loss, and thus the expected recovery rate, at the date of the occurrence of credit exposure default;
- EAD (Exposure at Default) represents the measurement of exposure at the time of credit exposure non-payment;
- Effective interest rate is a discount rate that expresses the time value of money.

Furthermore, specific adjustments have been developed on probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters used in the expected credit loss (ECL) calculation. The new model has been developed for allocation of unimpaired assets to the so-called Stages, at a transaction level, between Stage 1 and Stage 2.

The main difference between the two Stages refers to the time horizon for which the expected credit loss is expected to be calculated. In fact, for Stage 1 transactions a one-year expected credit loss is applied, while a “lifetime” expected credit loss applies to Stage 2 transactions.

Basic adjustments made to the credit parameters are the following:
- inclusion of the “point-in-time” approach in the parameters’ calculation, instead of the “through-the-cycle” adjustment (TTC),
- inclusion of forward-looking information (FLI), and
- credit parameters calculation considering the period of assets’ duration.

As for what concerns the lifetime PDs, the TTC PD curves, obtained by fitting the observed cumulative default rates, have been further calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the TTC LGD has been adjusted to reflect the most recent recovery rate trend as well as expectation about a future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y managerial model, including expectation about future drawing levels.

The expected credit loss derived from such adjusted parameters takes into consideration macroeconomic forecasts applying multiple scenarios so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of expected loss. In this sense the Bank has developed a so called “overlay factor” that should be directly applied on expected loss. The same scenario is used in other risk relevant processes (EBA stress test and ICAAP). In those processes the Bank provides the necessary information in the required scope and regulated format.

d) Definition of Default

The default definition is key for determining expected credit losses. The definition of default is used to measure the amount of expected credit losses and to determine whether the loss is based on a 12-month or a lifetime expected credit loss.

All exposures classified as default exposures are regarded as having objective evidence of impairment. According to the Basel III Standard, exposures are in the default status when one or both of the following conditions are met:
1) they are over 90 days past due in liability settlement,
2) the Bank considers it is certain that the customer will be unable to settle at least one of its credit liabilities in full without the Bank resorting to the collection measures (Unlikeliness to pay).

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.8. Impairment (Continued)

d) Definition of Default

For legal entities and private individuals' exposures, the Bank determines the default status at the debtor level taking into account all the debtor's exposures. Counting of the number of days past due in liability settlement commences when liabilities matured at the individual borrower level exceed the materiality threshold defined. Materiality threshold for legal entities equals the liabilities matured in the amount of 1% of the total exposure of the client and BAM 1,000. Materiality threshold for individuals equals the liabilities matured in the amount of 1% of the total exposure of the client and BAM 200.

e) Significant credit risk increase

The Bank monitors all financial assets subject to impairment request to estimate whether there has been a significant increase in credit risk from initial recognition. If there is a significant increase in credit risk, the Bank measures the loss based on a lifetime rather than a 12-month expected credit loss.

When assessing whether a credit risk on a financial instrument has significantly increased since its initial recognition, the Bank compares the risk of default arising on the financial instrument at the reporting date based on the remaining maturity of the instrument, with the risk of default foreseen for the remaining maturity as of the reporting date when the financial instrument was recognised for the first time. In making this assessment, the Bank also considers quantitative and qualitative information that is reasonable and evident, including historical experience and forward-looking information (FLI), available without undue expense or effort, based on the Bank's historical experience and expert credit assessments, including FLI.

f) Purchased or originated credit impaired assets (POCI)

POCI financial asset is a financial asset that is credit impaired upon origination. The Standard defines special rules for these items in terms of their valuation rules, recognition of loss provisions, recognition of interest income and the application of discount rates.

POCI assets include:

- loans and debt securities purchased when they were already of impaired credit value larger than 5% of its net accounting value, unless the seller is selling financial assets in cases that are not connected with credit risk,
- purchased financial assets or refinanced exposure (partial or full) that was classified as credit risk Stage 3 in a different bank,
- loans disbursed to customers with already impaired credit value; additionally, new financing is significant in relation to the total customer exposure,
- exposures that are classified as credit risk Stage 3, and for which a significant modification has been performed in accordance with Manual for classification and recognition of financial assets.

Regarding the determination of new significant financing, the relative and absolute thresholds are applied. New financing is significant if the following criteria are met:

- it is at least 20% of total exposure in default of the borrower's liabilities or ≥ BAM 100,000.

While determining POCI status of assets, the Bank is obliged to consider exposure on a single exposure level, not on a client level.
The Bank determines expected credit loss for POCI assets on an individual basis.

g) Write-offs

The Bank performs write-offs of bad exposures when the exposure is entirely due and when expected credit loss has been classified as 100% of gross accounting value. The Bank defines two types of write-offs: accounting and permanent write-off.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.8. Impairment (Continued)

g) Write-offs (continued)

Accounting write-off is a transfer of balance sheet exposure to off-balance, during which the Bank keeps the right to perform measures of payment collection from debtors. The Bank performs accounting write-offs of balance sheet exposures that is in non-performing status i.e. bad exposures classified as credit risk Stage 3, two years after the later of the two events; expected loss has been booked at 100% of gross accounting value and the exposure was classified as entirely due.

Debt acquittal is a write-off of balance sheet exposure that leads to termination of recognition of entire exposure or its part in general ledger of the Bank (balance and off balance). In case there is any kind of sign that a certain amount will be collected from the client, the Bank will not perform permanent write-off of exposure. Permanent write-off is performed only in case when the Bank terminates all attempts at collecting the receivable from the client.

h) De-recognition of financial assets

In the event of significant changes to the terms and conditions, the Bank ceases to recognise financial assets such as a credit to a client when the contractual terms have been changed to such extent that the contract becomes a new loan, where the difference is recognised in the gain or loss of de-recognition but to the extent that impairment losses have not already been recorded. The newly recognised credit is classified as Stage 1 for ECL measurement purposes, unless new credit is POCI.

When assessing the de-recognition of a loan to a client, the Bank shall, inter alia, consider the following factors: change in the currency of the loan, introduction of equity interest provisions, change of the other contracting party, or in the event that the amendment results in the instrument no longer meeting the SPPI test criteria.

If the change in the terms does not lead to a change in cash flows, the de-recognition will not take place. Based on the change in cash flows discounted by the original EIR, the Bank records the gain or loss on the change, to the extent that the impairment loss is not already recorded.

In the event that there are no significant changes to the terms, financial asset (or its part or part of a group of similar financial assets) is derecognised when the right to receive cash flows from the financial asset expires or when virtually all of the risks and rewards associated with the ownership or control over property were transferred.

2.9. Presentation of Expected Credit Losses in the Statement of Financial Position

Expected credit losses are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: impairment allowance or impairment, as deduction from the gross carrying value of the asset;
- for debt instruments measured at fair value through other comprehensive income: not recognised as impairment, but as item of fair value reserves within equity,
- for liabilities under undrawn loans and contracts on financial sureties (guaranties, letters of credit and other guarantees): as provisions for risks and expenses within liabilities.

2. BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (CONTINUED)

2.9. Presentation of Expected Credit Losses in the Statement of Financial Position (continued)

a. The difference between the ECL in accordance with the BARS decision and the ECL according to the internal IFRS 9 methodology

The following table shows the differences in impairment and provisions (ECL) in accordance with the RS Banking Agency (BARS) Decision and in accordance with the internal IFRS 9 methodology at the date of first application of the BARS Decision and on the reporting date:

	ECL according to BARS	ECL according to IFRS 9	Difference
	January 1, 2020	January 1, 2020	January 1, 2020
	BAM '000	BAM '000	BAM '000
Impairment			
1. Cash and cash equivalent	**-**	**-**	**-**
2. Financial assets at amortised cost	**40,002**	**35,601**	**4,401**
Obligatory reserve held with the Central Bank	468	468	-
Loans and receivables due from banks	184	134	50
Loans and receivables due from customers	39,350	34,999	4,351
3. Other assets	**1,026**	**1,022**	**4**
4. Provisions for credit risk on commitments and financial guarantees issued	**3,630**	**2,959**	**671**
TOTAL (1+2+3+4)	**44,658**	**39,582**	**5,076**

	ECL according to BARS	ECL according to IFRS 9	Difference
	December 31, 2020	December 31, 2020	December 31, 2020
	BAM '000	BAM '000	BAM '000
Impairment			
1. Cash and cash equivalent	**-**	**-**	**-**
2. Financial assets at amortised cost	**47,903**	**44,903**	**3,000**
Obligatory reserve held with the Central Bank	646	646	-
Loans and receivables due from banks	282	214	68
Loans and receivables due from customers	46,975	44,043	2,932
3. Other assets	**495**	**495**	**-**
4. Provisions for credit risk on commitments and financial guarantees issued	**2,713**	**2,386**	**327**
TOTAL (1+2+3+4)	**51,111**	**47,784**	**3,327**

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described hereunder have been consistently applied to all the years included in these financial statements.

3.1. Interest Income and Expenses

Interest income represents the accrued interest whose base for calculation is the facility expressed in the balance sheet assets. Interest income can also be negative in the case that the Bank pays interest on facility given to the other party, and then it is recognised as interest expense.

Interest expenses represent the accrued interest whose base for calculation of liabilities is expressed in balance sheet liabilities. Interest expense can also be positive in the case that the other party pays the Bank interest on the given deposit, and then it is recognised as interest income.

Interest income is recognised in the profit and loss depending on the fact whether the calculation of interest is performed on performing exposures - credit risk stage 1 and 2 (PE), or on non-performing exposures - credit risk stage 3 (NPE), where default interest is charged on collection. Recognition of interest income in the profit and loss is performed using the effective interest rate.

The effective interest rate is the rate, by which the net present value of the future expected net inflows/ outflows is equalised with the net carrying amount of financial assets/liabilities. Net book value of financial assets/liabilities is equal to the amount of inflows/outflows based on financial assets/liabilities, decreased by all fees and inflows/outflows on the basis of the asset/liabilities.

One-time collected/paid fees on the occasion of approval/taking of loans, i.e. issuance of securities, are considered as interest income/expense and are recognised in Profit and Loss Account on the time basis in the period of loan collection/repayment.

Collected income from commission fees for credit protection insurance (CPI) are recognised as interest income if they meet the conditions required for them to be an integral part of the effective interest rate, i.e. if the commission fee is included in the calculation of the nominal interest rate, resulting in the loans without CPI having a higher nominal interest rate than the loans with CPI. The difference between these nominal rates is collected in form of a commission fee, and, as such, represents an integral part of the effective interest rate of the loan.

Matured and not matured, yet uncollected, interest on performing exposures is also subject to provisioning (impairment allowance) with provisions accruing in the same way as for the principal, to which the interest receivables are related.

For non-performing exposures the Bank will:

- suspend matured yet uncollected interest,
- further calculation after interest suspension continues and is booked within off-balance sheet items, and
- interest income is recognised in the profit or loss statement upon collection.

Interest income and expenses recognised and stated in the statement of profit or loss include:

- interest on financial assets and financial liabilities that are measured at amortised cost calculated using the effective interest method, and
- interest on financial assets at fair value through other comprehensive income calculated using the effective interest method.

3.2. Fee and Commission Income and Expenses

Fees and commissions, which are a constituent part of the effective interest rate applicable to financial assets and financial liabilities, are included in interest income and expenses.

Other fee and commission income, which mainly comprise fees related to credit card transactions, guarantees, loans, domestic and foreign payment transactions and other services and are recognised in the statement of profit or loss upon performance of the relevant service.

Other fee and commission expenses, primarily service and transaction fees, are recognised as expenses upon receipt of the service.

3.3. Net Trading Gains and Losses and Foreign Exchange Gains and Losses on Translation of Monetary Assets and Liabilities

Net trading gains and losses and foreign exchange gains and losses arising on translation of monetary assets and liabilities include unrealised and realised trading and net foreign exchange (FX) gains and losses on derivative financial instruments, and gains and losses arising on translation of monetary assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Foreign Currencies

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into BAM at the foreign exchange rate effective at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss, except in the case of FX gains and losses arising on non-monetary financial assets at fair value through other comprehensive income, which are recognised within equity. Non-monetary assets and liabilities denominated in foreign currencies measured at amortised cost are translated into BAM using the exchange rate effective at the date of the transaction and are not retranslated at the reporting date.

3.5. Specific Instruments

Cash and Cash Equivalents

Cash and cash equivalents include: cash in domestic and foreign currencies, checks sent to payment and cash deposited on the account with the Central Bank in excess of the amount of the obligatory reserve.

Financial Guarantees and Loan Commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, which is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of its amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).
Loan commitments are firm commitments to approve loans under pre-specified terms and conditions.

3.6. Tangible Assets

Tangible assets recognised according to IAS 16 - „Property, Plant and Equipment“ - include the following items:
- land;
- buildings;
- furniture and fixtures;
- plant and machinery;
- other machinery and equipment.

Tangible assets are classified in the following categories:
- tangible assets used for the Bank’s own business activities;
- tangible assets held as investment - for earning rental income (investment property);
- inventories of materials;
- assets acquired in collateral foreclosure.

Tangible assets used for own business purposes

Tangible assets used for own business purposes are held for use in production or supply of goods or services or for administrative purposes and are expected to be used longer than one year. This category also includes tangible assets that are leased or are in the process of construction and is leased under finance lease arrangements.

The item of “property, plant and equipment” includes assets that the Bank uses as a lessee in a lease contract (right of use), or leases out under operating lease, as well as leasehold improvements connected with assets that can be individually identified. Leasehold improvements are usually performed in order to adjust the leased space to the expected use.

Assets held as investment property are covered by IAS 40, i.e., those are held to earn rental income and / or for capital appreciation.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Tangible Assets (Continued)

Tangible assets used for own business purposes (continued)

Subsequent expenditures are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised as incurred within the profit and loss items:

- other administrative expenses, if they refer to assets used for own business; or
- other operating income/expenses, if they refer to property held as investment.

After initial recognition, tangible assets are measured as follows:

- buildings and land used for the Bank's own business are measured using the revaluation model;
- tangible assets used in business, other than buildings and land, are measured using the cost model;
- buildings and land held as investment (investment property) are measured at fair value.

The revaluation model requires that tangible assets are stated in the balance sheet at a value that is not significantly different from the fair value. Revaluation is performed by independent external appraisers via a "desktop" or an "on-site" assessment, based on asset relevance.
Positive changes in the fair value are recognised within the other comprehensive income, under the item of tangible assets, and are accumulated within the revaluation reserves unless the said changes offset previous negative changes recognised in the profit and loss under item of other operative income and expenses.
Negative changes in the fair value are recognised under other operating income and expenses, unless they offset the previous positive changes recognized in the other comprehensive income, under the item tangible assets and accumulated within the revaluation reserves.
The cost model requires that the gross carrying value be amortised through the asset's lifetime.
Tangible assets measured using both the revaluation model and the cost model are subject to straight-line depreciation during their useful lives for those if they have definite lifetimes.

Depreciation rates used for tangible assets are set out below:

	2020	**2019**
Buildings	2.0% - 5.0%	2.0% - 5.0%
Electronic systems	12.5% - 25.0%	12.5% - 25.0%
Office furniture and equipment	12.5% - 20.0%	12.5% - 20.0%
Other	12.5% - 25.0%	12.5% - 25.0%
Leasehold improvements	20.0%	20.0%

Depreciation is calculated monthly and is recognised under the line item of "tangible assets' depreciation charge".

Items with indefinite useful lives are not depreciated.

Land and buildings are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings have a finite useful life and are therefore subject to depreciation.
The estimate of the useful life of an asset is reviewed at least at each accounting period-end based, inter alia, the terms of the asset's use, maintenance conditions and expected obsolescence, and, if expectations differ from the previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.
If there is clear evidence that an asset measured according to the cost model has been impaired, the carrying amount of the asset is compared to its recoverable value, which is equal to the greater of its fair value less costs to sell and its value in use, i.e. the present value of the future cash flows expected to be generated from the asset. Any value adjustment is recognised in the profit and loss item of the net value write-down of the property, plant and equipment.
If the value of a previously impaired asset is recovered, its increased carrying amount cannot exceed the net carrying amount it would have had if no impairment losses had been recognised in the previous period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Tangible Assets (Continued)

Change of the accounting policy of measurement of tangible assets: property used for the Bank's own business and investment property

Starting with the financial statements of December 31, 2019, and in accordance with the change in accounting policies of the Group, the Bank has decided to change the model of measurement of the following tangible assets:

- properties used for the Bank's own business purposes (measured in line with IAS 16 "Property, Plant and Equipment") providing for transition from the cost model to the revaluation model for the measurement subsequent to initial recognition;
- properties held as investment (ruled by IAS 40 "Investment property") providing for the transition from the cost model to the fair value model.

The change in the accounting policy, i.e the measurement model for properties ensures both a higher alignment of the financial information with the strategies of the property management and a more reliable, relevant and direct representation of the economic substance, and the related accounting impacts on the activities that will be taken.

The positive effects of the revaluation of the Bank's real estate are recorded within the revaluation reserves in the capital and from Dec 31, 2020: BAM 2,843 thousand gross (2019: BAM 2,628 thousand), i.e. BAM 2,559 thousand net of taxes (2019: BAM 2,365 thousand), and deferred tax liability amounts to BAM 284 thousand (2019: BAM 263 thousand).

Negative effects of the revaluation are recorded as an impairment loss in the income statement and during 2020 this expense was recorded in the amount of BAM 65 thousand (2019: BAM 53 thousand).

In accordance with regulations of the regulators of the Republika Srpska banking sector, revaluation reserves from changes in the value of tangible assets cannot be included in the calculation of the regulatory capital.

De-recognition

Items of property, plant and equipment are derecognised in case of disposal or when no future economic benefits are expected from an asset's use or future sale, while any difference between the sale proceeds or the recoverable amount and its carrying value is recognised within gains/ (losses) on tangible assets.

For tangible assets measured at revalued amounts, any gain on the sale, including the amounts accumulated in the revaluation reserves, is reclassified to the equity reserves, with no impact on the profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Tangible Assets Acquired by Collateral Foreclosure

Tangible assets acquired by collateral foreclosure (property and equipment) in order to prevent losses from the crediting operations are recognised when the relevant court adopts a ruling on foreclosure and transfer or an equivalent document, and this becomes effective, or on the date when the property is acquired in an out-of-court settlement.

In case the Bank has no intention of using the using the acquired property for own business purposes, such property is initially recognised at the lower of the following two values:

- the net carrying value of the Bank's receivables secured by collateral; in case the booked expected credit losses equal the value of the receivable, the Bank books the acquired property at a technical value of BAM 1; or
- the estimated fair value provided by an independent appraiser, net of the costs of sale. Costs oc sale are such costs that are directly attributable to the sale, such as the cost of notary, taxes, court fees, etc.

If the Bank doesn't sell the acquired assets within three years from the date of their initial recognition, it is obliged to reduce their value to BAM 1.

3.8. Intangible Assets

Intangible assets are measured at cost less accumulated amortisation and impairment. Cost includes all costs directly attributable to the acquisition of the assets.

Intangible assets, with the exception of intangible assets in progress, are amortised on a straight-line basis over their estimated useful lives. Useful life is reviewed and adjusted, if necessary, at each reporting date.

Amortisation rates used for intangible assets are set out below:

	2020	2019
Intangible assets - software and licences	20.0%-25.0%	20.0%-25.0%

3.9. Right-of-use Assets

Right-of-use assets in the lessee are recognized in accordance with IFRS 16, which is effective from January 1, 2019, while the lessor accounting has remained unchanged.

Leases in which the Bank is the lessee are recognized as assets, which represent the right to use the subject property and at the same time the obligation for future payments of agreed leases.

These assets are initially measured on the basis of the cash flows from the lease. After initial recognition, the right-of-use is measured based on the rules applicable to assets measured under IAS 16 by applying the cost model, less accumulated depreciation and any accumulated impairment losses.

On the date of first application of IFRS 16, January 1, 2019, the Bank recognized the right-of-use tangible assets in the amount of BAM 3,077 thousand, which relates to lease agreements for business premises and lease obligations in the same amount.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

4.1. Provisions for Risks and Expenses

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made for unidentified losses on off-balance-sheet credit risk exposures in accordance with regulations.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of future losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of different transactions, as well as other relevant facts. Provisions are released only for such expenditure in respect of which provisions were recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

4.2. Equity

Share capital comprises common stock (ordinary) shares and is stated in BAM at nominal value.

Reserves from profit were formed through the distribution of the net profits from prior years, and include legal reserves and capital reserves. According to the Companies Act, upon distribution of profit as per the annual accounts, shareholding companies in the Republika Srpska are required to allocate a minimum of 5% of their annual profit to reserves from profit until the amount of such reserves reaches a level of 10% of the company's shareholding capital.

Share premium represents the accumulated positive difference between the nominal value of the issued shares and the paid-in amount.

Fair value reserves generated based on the fair value calculation include changes in fair value of tangible assets and reserves for credit risks of financial assets at fair value through other comprehensive income, net of deferred tax.

Dividends on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

Retained earnings or accumulated profit include retained and unallocated earnings that can be distributed in the ensuing period.

4.3. Commitments and Given Guarantees

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

4.4. Managed Funds for and on Behalf of Third Parties (Consignment)

The Bank manages funds for and on behalf of third parties. These funds do not constitute part of the Bank's assets, and, therefore, they are excluded from the statement of financial position. The Bank receives fee income for providing these services and does not bear any credit risk.

4.5. Segment Reporting

An operating segment represents portion of assets, liabilities and business activities (products and services) subject to risks and benefits different from those in other operating segments. A geographic segment generates products or services within a specific economic environment that are subject to risks and benefits different from those operating in other economic environments.

The Bank has identified three main segments: Corporate and Investment Banking, Retail and Other.
Basic information per segment is based on the internal reporting structure of operating segments. Segment results are measured by applying an internal funding price (Note 5).

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.6. Employee Benefits

Employee Salaries

Gross salary costs are recorded in the statement of profit or loss in the period when incurred. Gross salaries include net employee salaries/wages, personal income tax and payroll, i.e. social insurance contributions calculated as the prescribed percentage rates applicable to the gross salary amount. The aforesaid contributions are paid by the Bank to the mandatory social insurance funds.

Employee commuting allowances, meal allowances, annual leave allowance and other benefits to employees are paid in accordance with the local legislation. These costs are recognised in the statement of profit or loss in the period when incurred.

Long-term provisions for employees

The Bank pays out jubilee awards to its employees in accordance with the regulations of the Republika Srpska. Jubilee awards are paid out in the amount of one average salary paid by the Bank in the month preceding the payment for the completion of 20 years of service, or two average salaries paid by the Bank for the completion of 30 years of service with the Bank.

In accordance with internal regulations on salaries, the Bank pays retirement benefits to employees upon retirement in the amount of three average monthly net salaries of the vesting employee.

Calculation of long-term provisions for employee benefits (severance payments and jubilee awards) is performed annually by a certified actuary using the projected unit credit method. The projected unit credit method takes into consideration each year of service with the Bank, where the sum of all the particular units is the final liability which is measured individually for each unit. Liabilities are measured at present values of estimated future cash flows discounted at an econometrically modelled interest rate, which is more adequate in the existing market conditions than the interest rate on Government long-term debt securities.

4.7. Dividend Income

Dividend income is recognised in the statement of profit or loss when the Bank’s right to receive dividends has been established.

4.8. Earnings per Share

Earnings per share are calculated by dividing the profit or loss for the current period by the weighted average number of ordinary shares outstanding during the period.

4.9. Leases

Leases where the Bank as a lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. At the reporting date, the Bank had no finance leases.

All other leases are classified as operating leases.

As noted in the section “Initial implementation of new and amendment to existing standards that came into effect”, effective from January 1, 2019, lease payments will only be recognised for short-term leases and leases of small value, while the leases with terms of over one year and with underlying assets of higher value will be recognised as tangible assets.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENT (CONTINUED)

4.10. Income Tax

Income tax is based on the taxable profit for the year and comprises current and deferred taxes.

Current Income Tax

Current income tax is the amount calculated by applying the prescribed tax rate of 10% to the taxable income determined in the income tax return, which represents the amount of the profit before tax adjusted for the effects of income and expense adjustments and any adjustments to the tax payable for prior years, in accordance with the tax legislation of the Republika Srpska.

Deferred Tax

Deferred tax is recognised taking into account the temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for tax calculation purposes. Deferred taxes are not recognised on temporary differences at initial recognition of assets and liabilities in a transaction other than a business combination and which does not affect accounting or taxable profit. The amount of deferred tax asset or liability is recognised using the tax rate that is expected to be applied to taxable profit for the period in which realisation or settlement of the carrying values of the assets or liabilities is expected, based on the tax rates applicable at the reporting date.

Measurement of deferred tax liabilities and assets reflects the tax effects that would result from the manner in which the Bank expects, at the reporting date, to recover or settle the net carrying values of these assets and liabilities.

Deferred tax assets and liabilities are offset only if they relate to the same tax jurisdiction and if there is a legal right to offset current tax assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as long-term assets and/or liabilities in the statement of financial position.

Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax relief. At each reporting date, the Bank reassesses unrecognised contingent deferred tax assets and tests the carrying values of the recognised deferred tax assets for impairment and is reduced to the extent that it is no more likely that the recognised tax assets can be utilised.

4.11. Regulatory Requirements

The Banking Agency of the Republika Srpska (BARS) is authorised to perform regulatory inspection of the Banks' operations and can request adjustments to the carrying values of assets and liabilities in accordance with the relevant regulations.

After the new RS Banking Law came into effect in early 2017, BARS adopted a series of bylaws aimed to harmonise the regulatory framework for banking operations in the Republika Srpska with the regulatory framework of the European Union, which, inter alia, refer to capital management, risk management (currency risk, interest risk, large exposures), etc.

In 2019, BARS adopted a Decision on Credit Risk Management and Determination of Expected Credit Losses, applied from 1 January 2020, which has resulted in certain differences arising from the calculation of value adjustments and provisions for credit losses compared with IFRS 9, as explained in item 2.1.

During 2020, ABRS adopted a new Decision on liquidity risk management which, in addition to the minimum requirements for managing this risk, prescribes quantitative requirements related to the Liquidity Coverage Ratio (LCR) and the provision of Net Stable Funding Ratio (NSFR).

4.12. Litigations

The Bank performs an individual assessment of all court cases and makes provisions according to the assessment. The assessment is performed by a special Commission of three members, two of whom are employees of the Bank's Legal Affairs, and one is from the Human Resources. Heads of the Legal Affairs, Human Resources, Accounting and Reporting and Payment Systems and Account Administration verify proposals for provisions after the assessment, and the decision on creating the provisions is made by the Bank's Management Board.

At the reporting date, there were 43 legal suits instigated against the Bank, 21 of which included damage claims filed. According to the Decision of the Bank's Management Board, at the proposal of the Commission for risk assessment of liabilities for litigations against the Bank, for the suits that the Bank believes could be lost or significant costs may be incurred thereon, provisions were formed in the total amount of BAM 1,486 thousand, of which BAM 1,419 thousand relates to provisions for other legal suits and BAM 67 thousand relates to old savings in foreign currencies (2019: a total amount of BAM 1,857 thousand, of which BAM 1,811 thousand relates to provisions for other legal suits and BAM 46 thousand relates to old savings in foreign currencies) (Notes 15 and 29).

5. SEGMENT REPORTING

Segments recognised for the purposes of segment reporting in accordance with UniCredit Group methodology comprise of the following:

- "Retail": private individuals, entrepreneurs, micro and small companies;
- "Corporate and Investment Banking" (CIB): large and medium-sized companies and public sector;
- "Other": capital and reserves, Assets and Liability Management, other centralised services and other assets and liabilities not associated with other segments.

Segment reports were prepared in accordance with internal Bank's management reports and additionally reconciled with the financial statements within these notes.

When measuring operating results, internal funding prices are applied based on specific prices of products and services reflecting currencies and maturities in accordance with the methodology of the Group.

Since the Bank operates mainly in the Republika Srpska, Bosnia and Herzegovina, secondary (geographical) segments are not presented.

Statement of profit or loss and other comprehensive income by segment

Year ended December 31, 2020	Corporate and Investment Banking	Retail	Other	Total by segment reports	Adjustments	Total by financial statements
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Net interest income	**13,900**	**27,162**	**4,890**	**45,952**	**(2)**	**45,950**
Net fee and commission income	**3,634**	**10,788**	**(690)**	**13,732**	**4**	**13,736**
Dividend and profit sharing income	-	-	4	4	-	4
Net foreign gains/losses on translation of monetary assets and liabilities	1,133	574	-	1,707	-	1,707
Total operating income	**18,667**	**38,524**	**4,204**	**61,395**	**2**	**61,397**
Personnel expenses	(1,216)	(6,676)	(9,115)	(17,007)	-	(17,007)
Tangible assets depreciation costs	(188)	(1,402)	(741)	(2,331)	(207)	(2,538)
Intangible assets amortisation costs	(127)	(874)	(701)	(1,702)	-	(1,702)
Other administrative expenses	(1,200)	(5,684)	(3,776)	(10,660)	(1,985)	(12,645)
Indirect and other allocated expenses	(3,806)	(9,844)	13,650	-	-	
Total operating expenses	**(6,537)**	**(24,480)**	**(683)**	**(31,700)**	**(2,192)**	**(33,892)**
Profit before impairment and provisions	**12,130**	**14,044**	**3,521**	**29,695**	**(2,190)**	**27,505**
Net loan impairment losses/recoveries	**(2,860)**	**(8,885)**	**(259)**	**(12,004)**	**390**	**(11,614)**
- Financial assets at amortised cost	(2,860)	(8,885)	(259)	(12,004)	882	(11,123)
- Financial assets at fair value through other comprehensive income	-	-	-	-	(491)	(491)
Provisions for risks and expenses	**(1,048)**	**(1,143)**	**49**	**(2,142)**	**3,108**	**966**
- Provisions for credit risk on commitments and financial guarantees given	(1,048)	(1,143)	-	(2,191)	3,108	917
- Long-term provisions for employees	-	-	49	49	-	49
Other operating income and expenses	176	884	(62)	998	(50)	948
Gains/losses on the sales of tangible assets	-	-	(532)	(532)	491	(41)
Profit before tax	**8,398**	**4,900**	**2,717**	**16,015**	**1,749**	**17,764**
Income tax expense	(761)	(444)	(246)	(1,451)	(135)	(1,586)
Profit for the year	**7,637**	**4,456**	**2,471**	**14,564**	**1,614**	**16,178**
Statement of other comprehensive income						
Profit for the year						
Profit for the year	**7,637**	**4,456**	**2,471**	**14,564**	**1,614**	**16,178**
Other comprehensive income, net of income taxes						
Items that can be subsequently reclassified to gains or losses:						
- (Losses)/gains on financial assets at fair value through other comprehensive income	-	-	749	749	-	749
Total comprehensive income for the year	**7,637**	**4,456**	**3,220**	**15,313**	**1,614**	**16,927**

5. SEGMENT REPORTING (CONTINUED)

Statement of profit or loss and other comprehensive income by segment (Continued)

Year ended December 31, 2019	Corporate and Investment Banking	Retail	Other	Total by segment reports	Adjustments	Total by financial statements
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Net interest income	**17,650**	**27,597**	**3,476**	**48,723**	**-**	**48,723**
Net fee and commission income	**4,501**	**12,437**	**(534)**	**16,404**	**-**	**16,404**
Dividend and profit sharing income	-	-	10	10	-	10
Net foreign gains/losses on translation of monetary assets and liabilities	998	645	-	1,643	-	1,643
Total operating income	**23,149**	**40,679**	**2,952**	**66,780**	**-**	**66,780**
Personnel expenses	(1,258)	(6,702)	(9,249)	(17,209)	(9)	(17,218)
Tangible assets depreciation costs	(173)	(1,429)	(677)	(2,279)	(134)	(2,413)
Intangible assets amortisation costs	(93)	(700)	(554)	(1,347)	-	(1,347)
Other administrative expenses	(1,180)	(5,532)	(3,689)	(10,401)	(1,859)	(12,260)
Indirect and other allocated expenses	(3,988)	(9,510)	13,498	-	-	-
Total operating expenses	**(6,692)**	**(23,873)**	**(671)**	**(31,236)**	**(2,002)**	**(33,238)**
Profit before impairment and provisions	**16,457**	**16,806**	**2,281**	**35,544**	**(2,002)**	**33,542**
Net loan impairment losses/recoveries	**(2,784)**	**(1,844)**	**868**	**(3,760)**	**3,255**	**(505)**
- Financial assets at amortised cost	(2,784)	(1,844)	868	(3,760)	2,282	(1,478)
- Financial assets at fair value through other comprehensive income	-	-	-	-	973	973
					76	
Provisions for risks and expenses	**(978)**	**(1,017)**	**31**	**(1,964)**	**67**	**(1,888)**
- Provisions for credit risk on commitments and financial guarantees given	(993)	(1,032)	31	(1,994)	67	(1,927)
- Long-term provisions for employees	15	15	-	30	9	39
Other operating income and expenses	847	457	144	1,448	(355)	1,093
Gains/losses on the sales of tangible assets	926	172	5	1,103	(973)	130
Profit before tax	**14,468**	**14,574**	**3,329**	**32,371**	**1**	**32,372**
Income tax expense	(1,248)	(1,257)	(286)	(2,791)	-	(2,791)
Profit for the year	**13,220**	**13,317**	**3,043**	**29,580**	**1**	**29,581**
Statement of other comprehensive income						
Profit for the year						
Profit for the year	**13,220**	**13,317**	**3,043**	**29,580**	1	**29,581**
Other comprehensive income, net of income taxes						
Items that can be subsequently reclassified to gains or losses:						
- (Losses)/gains on financial assets at fair value through other comprehensive income	-	-	2,092	2,092	-	2,092
					-	
Total comprehensive income for the year	**13,220**	**13,317**	**5,135**	**31,672**	1	**31,673**

Income and results per segment presented in the tables above (for the years ended December 31st, 2020 and 2019) represent income generated from products sold and services rendered to customers within these segments.

Accounting policies of the reporting segments are identical to the Bank's accounting policies described in Note 3, except for ECL, which is included in accordance with the stricter of the accounting regulations applicable to banks in Republika Srpska and IFRS 9, and deposit protection insurance, where the differences are presented in column "Reconciliations".

Segment profit represents the profit of each segment with included all allocated costs and revenues. The aforesaid is the criterion used for reporting to the managers in charge of key decision making for the purpose of allocating adequate resources to the segments and analysis of their results. The Bank's revenues from its core services are disclosed in detail in Notes 6 and 8 to the financial statements.

5. SEGMENT REPORTING (CONTINUED)

Statement of financial position by segment

December 31, 2020	Corporate and Investment Banking	Retail	Other	Total by segment reports	Adjustments	Total by financial statements
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Assets						
Cash and cash equivalents	-	-	164,663	164,663	-	164,663
Financial assets held for trading	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	240,348	240,348	-	240,348
Financial assets at amortised cost	465,562	472,490	276,345	1,214,397	(3,000)	1,211,397
- Obligatory reserve with the Central Bank	-	-	125,127	125,127	(330)	124,797
- Loans and receivables due from banks	-	-	151,218	151,218	262	151,480
- Loans and receivables due from customers	465,562	472,490	-	938,052	(2,932)	935,120
Tangible assets	-	-	22,883	22,883	842	23,725
Intangible assets	-	-	11,551	11,551	-	11,551
Current tax assets - pre-paid income tax	-	-	1,089	1,089	-	1,089
Deferred tax assets	-	-	294	294	(134)	160
Other assets	-	-	5,916	5,916	(843)	5,073
Total assets	**465,562**	**472,490**	**722,000**	**1,660,052**	**(2,046)**	**1,658,006**
Liabilities						
Financial liabilities at amortised cost	539,414	570,897	259,447	1,369,758	2,406	1,372,164
- Deposits and borrowings due to banks	-	-	259,447	259,447	-	259,447
- Deposits and borrowings due to customers	539,414	570,897	-	1,110,311	-	1,110,311
- Lease liabilities	-	-	-	-	2,406	2,406
Financial liabilities held for trading	-	-	-	-	-	-
Tax liabilities	-	-	557	557	-	557
- Current tax liabilities	-	-		-	-	-
- Deferred tax liabilities	-	-	557	557	-	557
Other liabilities	-	-	28,709	28,709	(2,600)	26,109
Provisions for liabilities and costs	-	-	4,045	4,045	520	4,565
- Provisions for credit risk on commitments and financial guarantees given	-	-	2,386	2,386	327	2,713
- Long-term provisions for employees	-	-	173	173	193	366
- Provisions for litigations	-	-	1,486	1,486	-	1,486
Total liabilities	**539,414**	**570,897**	**292,758**	**1,403,069**	**326**	**1,403,395**
Equity and reserves						
Share capital	-	-	97,055	97,055	-	97,055
Share premium	-	-	373	373	-	373
Legal reserves	-	-	9,706	9,706	-	9,706
Capital reserves	-	-	42,897	42,897	-	42,897
Regulatory reserves for credit losses	-	-	-	-	(5,076)	(5,076)
Fair value reserves	-	-	5,133	5,133	-	5,133
Retained earnings	-	-	88,345	88,345	0	88,345
Net profit for the year	7,637	4,456	2,471	14,564	1,614	16,178
Total equity and reserves	**7,637**	**4,456**	**245,980**	**258,073**	**(3,462)**	**254,611**
Total liabilities, equity and reserves	**547,051**	**575,353**	**538,738**	**1,661,142**	**(3,136)**	**1,658,006**

5. SEGMENT REPORTING (CONTINUED)

Statement of financial position by segment (Continued)

December 31, 2019	Corporate and Investment Banking	Retail	Other	Total by segment reports	Adjustments	Total by financial statements
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Assets						
Cash and cash equivalents	-	-	143,893	143,893	-	143,893
Financial assets held for trading	-	-	244	244	-	244
Financial assets at fair value through other comprehensive income	213,873	-	5,015	218,888	-	218,888
Financial assets at amortised cost	500,223	525,895	231,131	1,257,249	-	1,257,249
- Obligatory reserve with the Central Bank	-	-	127,016	127,016	-	127,016
- Loans and receivables due from banks	-	-	104,115	104,115	-	104,115
- Loans and receivables due from customers	500,223	525,895	-	1,026,118	-	1,026,118
Tangible assets	-	-	23,715	23,715	1,050	24,765
Intangible assets	-	-	10,530	10,530	-	10,530
Deferred tax assets	-	-	6	6	-	6
Other assets	-	-	7,105	7,105	(1,050)	6,055
Total assets	**714,096**	**525,895**	**421,639**	**1,661,630**	**-**	**1,661,630**
Liabilities						
Financial liabilities at amortised cost	503,113	532,552	353,857	1,389,522	3,076	1,392,598
- Deposits and borrowings due to banks	-	-	353,857	353,857	-	353,857
- Deposits and borrowings due to customers	503,113	532,552	-	1,035,665	-	1,035,665
- Lease liabilities	-	-	-	-	3,076	3,076
Tax liabilities	-	-	645	645	(1)	644
- Current tax liabilities	-	-	382	382	(1)	381
- Deferred tax liabilities	-	-	263	263	-	263
Other liabilities	-	-	21,630	21,630	(3,268)	18,362
Provisions for liabilities and costs	-	-	5,038	5,038	193	5,231
- Provisions for credit risk on commitments and financial guarantees given	-	-	2,959	2,959	-	2,959
- Long-term provisions for employees	-	-	222	222	193	415
- Provisions for litigations	-	-	1,857	1,857	-	1,857
Total liabilities	**503,113**	**532,552**	**381,170**	**1,416,835**	**-**	**1,416,835**
Equity and reserves						
Share capital	-	-	97,055	97,055	-	97,055
Share premium	-	-	373	373	-	373
Legal reserves	-	-	9,706	9,706	-	9,706
Capital reserves	-	-	42,846	42,846	-	42,846
Regulatory reserves for credit losses	-	-	-	-	-	-
Fair value reserves	-	-	4,488	4,488	-	4,488
Retained earnings	-	-	60,746	60,746	-	60,746
Net profit for the year	13,220	13,317	3,044	29,581	-	29,581
Total equity and reserves	**13,220**	**13,317**	**218,258**	**244,795**	**-**	**244,795**
Total liabilities, equity and reserves	**516,333**	**545,869**	**599,428**	**1,661,630**	**-**	**1,661,630**

6. INTEREST INCOME AND SIMILAR INCOME

a) Breakdown by type of financial asset

	Debt securities 2020 BAM '000	Loans 2020 BAM '000	Total 2020 BAM '000	Total 2019 BAM '000
1. Financial assets at fair value through other comprehensive income	7,736	-	**7,736**	7,504
2. Financial assets at amortised cost	-	47,137	**47,137**	49,709
a) Loans and receivables due from banks	-	348	**348**	599
b) Loans and receivables due from customers	-	46,789	**46,789**	49,110
Total	**7,736**	**47,137**	**54,873**	**57,213**
Of which: interest income on non-performing portfolio	-	*526*	*526*	*664*

b) Breakdown by sectors

	Year Ended December 31, 2020 BAM '000	2019 BAM '000
Private individuals	28,533	29,903
Companies and entrepreneurs	9,856	10,330
Banks	348	599
Public sector	16,136	16,381
	54,873	**57,213**

7. INTEREST EXPENSES AND SIMILAR EXPENSES

a) Breakdown by type of financial liabilities

	Deposits 2020 BAM '000	Borrowings 2020 BAM '000	Total 2020 BAM '000	Total 2019 BAM '000
Financial liabilities at amortised cost				
- Deposits and borrowings due to banks	2,416	275	2,691	2,126
- Deposits and borrowings due to customers	6,232		6,232	6,364
Total	**8,648**	**275**	**8,923**	**8,490**

b) Breakdown by sectors

	Year Ended December 31, 2020 BAM '000	2019 BAM '000
Private individuals	3,144	2,996
Companies and entrepreneurs	1,574	1,436
Banks	2,691	2,126
Public sector	243	336
Other organisations	1,271	1,596
	8,923	**8,490**

8. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2020 BAM '000	**2019 BAM '000**
Domestic payment transactions	6,976	7,103
Card operations	2,745	2,703
Payment of foreign pensions and remittances of individuals	1,854	1,791
Foreign payment transactions	1,732	2,010
Issuance of guarantees and other sureties	1,397	1,456
Foreign exchange spot trading gains and cash operations	1,031	1,311
Loan origination fees	847	3,077
Other fees and commissions	628	487
	17,210	**19,938**

9. FEE AND COMMISSION EXPENSES

	Year Ended December 31,	
	2020 BAM '000	**2019 BAM '000**
Card operations	2,185	2,128
Domestic payment transactions	631	671
Foreign payment transactions	198	247
Loan origination/processing fees	128	96
Cash operations	28	102
Other fees and commissions	304	290
	3,474	**3,534**

10. DIVIDEND AND PROFIT SHARING INCOME

	Year Ended December 31,	
	2020 BAM '000	**2019 BAM '000**
Dividend income	4	10
	4	**10**

11. FOREIGN EXCHANGE GAINS UPON TRANSLATION OF MONETARY ASSETS AND LIABILITIES

	Year Ended December 31,	
	2020 BAM '000	**2019 BAM '000**
Net foreign exchange gains upon translation of monetary assets and liabilities	1,707	1,643
	1,707	**1,643**

12. PERSONNEL EXPENSES

	Year Ended December 31,	
	2020	2019
	BAM '000	BAM '000
Fixed payments – gross salaries	13,874	13,678
Other personnel costs	1,625	1,453
Variable payments – bonuses	854	1,716
Severance pays and retirement benefits	482	195
Other costs (service contracts)	172	176
Total personnel expenses	**17,007**	**17,218**

Personnel expenses include contributions for pension and disability insurance paid in 2020 in the amount of BAM 3,399 thousand (2019: BAM 3,499 thousand).

13. OTHER ADMINISTRATIVE EXPENSES

	Year Ended December 31,	
	2020	2019
	BAM '000	BAM '000
Information & communication technology expenses	4,281	3,827
Sundry operating expenses	2,916	2,726
Real estate expenses	1,176	1,190
Consulting & professional services	1,567	1,584
Security and cash management	1,120	1,099
Advertising & marketing expenses	374	454
Back office expenses	545	459
Other personnel expenses	223	376
Indirect taxes and contributions	266	279
Loans collection	177	266
	12,645	**12,260**

14. NET IMPAIRMENT LOSSES / REVERSAL GAINS AND PROVISIONS FOR CREDIT RISK

	Year Ended December 31,	
	2020	2019
	BAM '000	BAM '000
Financial assets at fair value through other comprehensive income	491	(973)
Loans and receivables due from banks	277	(868)
Loans and receivables due from customers (Note 21)	10,897	2,701
Other assets	(51)	(355)
	11,614	**505**

15. PROVISIONS FOR RISKS AND EXPENSES

	Year Ended December 31,	
	2020	**2019**
	BAM '000	**BAM '000**
Provisions for credit risk per commitments and guarantees	(917)	1.927
Long-term provisions for employees	(49)	(39)
	(966)	**1.888**

16. INCOME TAX

Income tax charged to the statement of profit or loss comprises current and deferred taxes.

a) Income tax expense recognised within the statement of profit or loss

	Year Ended December 31,	
	2020 **BAM '000**	**2019** **BAM '000**
Current income tax expense	1,478	2,785
Deferred income tax (Note 27)	108	6
Total	**1,586**	**2,791**

b) Reconciliation of the income tax expenses

	Year Ended December 31,	
	2020	**2019**
	BAM '000	**BAM '000**
Profit before tax	**17,764**	**32,372**
Income tax at the rate of 10%	1,776	3,237
Decrease of income tax for tax-exempt income	(820)	(774)
Increase of income tax for impairment losses on loans and other assets which are not deductible for tax purposes	417	298
Increase of income tax for other expenses not deductible for tax purposes	105	24
Loss/gains on deferred taxes	108	6
Income tax expense	**1,586**	**2,791**
Average effective income tax rate	**8.93%**	**8.62%**

The effective tax regulations stipulate expenses and income recognised for the purpose of taxable income calculation, as well as the amount of impairment losses on loans deductible for tax purposes to the maximum amount that is prescribed by the Banking Agency of the Republika Srpska for credit risk levels 2 and 3.

17. CASH AND CASH EQUIVALENTS

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Cash in the local currency	26,984	22,501
Funds held with the Central Bank - gyro account	130,879	115,101
Cash in foreign currencies	6,800	6,291
	164,663	**143,893**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a) Financial assets at fair value through other comprehensive income by type

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Equity securities		
Other domestic companies	240	234
Foreign companies	8	8
	248	**242**
Unquoted	248	242
	248	**242**
Debt securities		
Bonds of the Republika Srpska	240,100	218,646
	240,100	**218,646**
Quoted	240,100	218,646
	240,100	**218,646**
Total financial assets at fair value through other comprehensive income	**240,348**	**218,888**

b) Breakdown of the financial assets at fair value through other comprehensive income by level of fair value

	Level 1	Level 2	Level 3	Total
	'000 BAM	**'000 BAM**	**'000 BAM**	**'000 BAM**
December 31, 2020				
Equity securities	-	-	248	248
Bonds of the Republika Srpska	-	240,100	-	240,100
Total	**-**	**240,100**	**248**	**240,348**
December 31, 2019				
Equity securities	-	-	242	242
Bonds of the Republika Srpska	-	218,646	-	218,646
Total	**-**	**218,646**	**242**	**218,888**

Even though the bonds of the Republika Srpska are listed on the Stock Exchange, based on the information on trading volumes they do now qualify for Level 1 hierarchy, but are rather classified into hierarchy Level 2.

c) External rating of debt securities

As for the external rating of debt securities, the external credit rating of the state of Bosnia and Herzegovina was applied. Based on their analysis from August of 2020, the Agency for Credit Rating Standard & Poor's confirmed the sovereign credit rating for Bosnia and Herzegovina as "B with Stable Outlook". In August of 2020, Moody's Investors Service confimed the sovereign credit rating for Bosnia and Herzegovina as "B 3 / Stable Outlook".

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

c) External rating of debt securities (continued)

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

	December 31, 2020				December 31, 2019
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Internal valuation level					
Performing					
Low risk	240,100			240,100	218,646
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default exposure	-	-	-	-	-
Total	**240,100**			**240,100**	**218,646**

Gross exposure movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Gross book value on January 1, 2020	**218,646**	**-**	**-**	**218,646**
New funding	36,141	-	-	36,141
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	(32)	-	-	(32)
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(14,507)	-	-	(14,507)
Amounts written-off	-	-	-	-
Other changes	(148)	-	-	(148)
On December 31, 2020	**240,100**	**-**	**-**	240,100

ECL movements				
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Reduction in value due to ECL on January 1, 2020	**2,032**	**-**	**-**	**2,032**
Effects of the first application of the BARS Decision on January 1, 2020	-	-	-	-
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 18)	491	-	-	491
On December 31, 2020	**2,523**	**-**	**-**	**2,523**

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

c) External rating of debt securities (continued)

Debt instruments at fair value through other comprehensive income (FVOCI) (Continued)

Gross exposure movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Gross book value on January 1, 2019	**197,148**	**-**	**-**	**197,148**
New funding	43,134	-	-	43,134
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	649	-	-	649
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(20,891)	-	-	(20,891)
Amounts written-off	-	-	-	-
Other changes	(1,394)	-	-	(1,394)
On December 31, 2019	**218,646**	**-**	**-**	**218,646**

ECL movements				
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Reduction in value due to ECL on January 1, 2019	**3,005**	**-**	**-**	**3,005**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 18)	(973)	-	-	(973)
On December 31, 2019	**2,032**	**-**	**-**	**2,032**

19. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	December 31, 2020 BAM ’000	**December 31, 2019 BAM ’000**
Obligatory reserve with the Central Bank in domestic currency	125,443	127,484
Cash impairment	(646)	(468)
	124,797	**127,016**

The Central Bank of Bosnia and Herzegovina (the “Central Bank”) has prescribed a method for calculating and maintaining obligatory reserves, as well as the amount and manner of payment of fees for the amount of obligatory reserve and on the amount of funds in excess of the obligatory reserve held on the account with the Central Bank.

The basis for the calculation of the obligatory reserve is the average amount of deposits and borrowed funds in BAM and foreign currencies (denominated in BAM, at the exchange rate of the Central Bank effective over the calculation period). The basis for calculation of the obligatory reserve excludes deposits placed with the Bank by domestic banks and domestic banks in bankruptcy.

Obligatory reserve rate of 10% is applied to the above said basis amount. From 1 July 2016 on, the Central Bank did not calculate the fee on the amount of obligatory reserve funds.

The Central Bank calculated the fee on the amount of funds in excess of the obligatory reserve at the rate applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate).

The rate of this fee throughout 2020 equated to: 0.5%.

19. OBLIGATORY RESERVE WITH THE CENTRAL BANK (CONTINUED)

	December 31, 2020				December 31, 2019
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Internal valuation level					
Performing					
Low risk	125,443	-	-	125,443	127,484
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default exposure	-	-	-	-	-
Total	**125,443**			**125,443**	**127,484**

Gross exposure movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Gross book value on January 1, 2020	127,484	**-**	**-**	127,484
New funding	2,971,482	-	-	2,971,482
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(2,973,523)			(2,973,523)
Amounts written-off	-	-	-	-
FX differences	-	-	-	-
Other changes	-	-	-	-
On December 31, 2020	**125,443**			**125,443**

ECL movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Reduction in value due to ECL on January 1, 2020	**468**	**-**	**-**	**468**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 14)	178	-	-	178
On December 31, 2020	**646**	**-**	**-**	**646**

19. OBLIGATORY RESERVE WITH THE CENTRAL BANK (CONTINUED)

Gross exposure movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Gross book value on January 1, 2019	127,181	**-**	**-**	127,181
New funding	1,260,820	-	-	1,260,820
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(1,260,517)			(1,260,517)
Amounts written-off	-	-	-	-
Other changes	-	-	-	-
On December 31, 2019	**127,484**			**127,484**

ECL movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Reduction in value due to ECL on January 1, 2019	**1.304**	**-**	**-**	**1.304**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 14)	(836)	-	-	(836)
On December 31, 2019	**468**	**-**	**-**	**468**

20. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2020 BAM '000	**December 31, 2019 BAM '000**
Loans to foreign banks	135,722	88,239
Loans to domestic banks	16,040	16,009
Impairment allowance of cash at other banks	(108)	(30)
Impairment allowance of placements to banks	(174)	(103)
	151,480	**104,115**

Of loans and receivables due from banks totalling BAM 151,480 thousand as of December 31, 2020, the amount of BAM 36,022 thousand relates to loans and receivables due from related banks (December 31, 2019: BAM 28,476 thousand).

20. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2020				December 31, 2019
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Internal valuation level					
Performing					
Low risk	151,762	-	-	151,762	104,248
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default exposure	-	-	-	-	-
Total	**151,762**	**-**	**-**	**151,762**	**104,248**

Gross exposure movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Gross book value on January 1, 2020	**104,248**	**-**	**-**	**104,248**
New funding	11,444,297	-	-	11,444,297
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(11,396,783)	-	-	(11,396,783)
Amounts written-off	-	-	-	-
Other changes	-	-	-	-
On December 31, 2020	**151,762**	**-**	**-**	**151,762**

ECL movements				
	Level 1	**Level 2**	**Level 3**	**Total**
Reduction in value due to ECL on January 1, 2020	**133**	**-**	**-**	**133**
Effects of the first application of the BARS Decision on January 1, 2020	50	-	-	50
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 14)	99	-	-	99
On December 31, 2020	**282**	-	-	**282**

20. LOANS AND RECEIVABLES DUE FROM BANKS (CONTINUED)

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2019	**144,180**	**-**	**-**	**144,180**
New funding	9,147,992	-	-	9,147,992
Assets no longer recognised (excluding write-offs)	-	-	-	-
Changes in fair value	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Repaid assets	(9,187,924)	-	-	(9,187,924)
Amounts written-off	-	-	-	-
Other changes	-	-	-	-
On December 31, 2019	**104,248**	-	-	**104,248**

ECL movements	Stage 1	Stage 2	Stage 3	Total
Reduction in value due to ECL on January 1, 2019	**165**	**-**	**-**	**165**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	-	-	-	-
Transfers to Level 2	-	-	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 13)	(32)	-	-	(32)
On December 31, 2019	**133**	**-**	**-**	**133**

21. LOANS AND RECEIVABLES DUE FROM CLIENTS

a) Breakdown by product

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Corporate customers		
- in BAM	294,108	316,891
- in foreign currencies	25,411	38,440
- with foreign currency clause	199,378	201,271
Total gross	**518,897**	**556,602**
Impairment allowance of loans	(18,263)	(13,301)
	500,634	**543,301**
Retail customers		
- in BAM	250,585	245,208
- in foreign currencies	-	13
- with foreign currency clause	212,613	259,294
Total gross	**463,198**	**504,515**
Impairment allowance of loans	(28,712)	(21,698)
	434,486	**482,817**
Total gross loans	**982,095**	**1,061,117**
Total net loans	**935,120**	**1,026,118**

b) Movements on impairment allowance of loans and interest

	Loans Corporate	Loans Retail	Interest Corporate	Interest Retail	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance at January 1, 2019	**38,241**	**32,849**	**1,455**	**782**	**73,327**
Net losses/(recoveries) recognised in the statement of profit or loss (Note 14)	(115)	2,823	(4)	(3)	2,701
Accounting write offs	(17,096)	(14,198)	(770)	-	(32,064)
Write-offs - NPE sales	(6,687)	-	(580)	-	(7,267)
Write-offs - other	(1,143)	(13)	-	(542)	(1,698)
Balance at December 31, 2019	**13,200**	**21,461**	**101**	**237**	**34,999**
First adoption of BARS decision (Note 2.1)	3,199	1,149	6	1	4,355
Net losses/(recoveries) recognised in the statement of profit or loss (Note 14)	2,601	8,231	107	(42)	10,897
Accounting write offs	(973)	(2,383)	-	-	(3,356)
Permanent write offs	1	(23)	21	81	80
Balance at December 31, 2020	**18,028**	**28,435**	**235**	**277**	**46,975**

21. LOANS AND RECEIVABLES DUE FROM CLIENTS (CONTINUED)

Loans and receivables due from clients at amortised cost

a) Legal entities

Gross exposure

	December 31, 2020				December 31, 2019
	Level 1	Level 2	Level 3	Total	Total
Internal valuation level					
Performing	429,272	82,956	-	512,228	548,633
Low risk	429,272	-	-	429,272	477,810
Medium risk	-	82,956	-	82,956	70,823
High risk	-	-	-	-	-
Non-performing			6,669	6,669	7,969
Default exposure			6,669	6,669	7,969
Total	**429,272**	**82,956**	**6,669**	**518,897**	**556,602**

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2020	**477,810**	**70,823**	**7,969**	**556,602**
New funding	119,982	44,390	-	164,372
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	8,458	(8,458)	-	-
Transfers to Level 2	(22,650)	22,650	-	-
Transfers to Level 3	-	(81)	81	-
Repaid assets	(154,328)	(46,368)	(430)	(201,126)
Amounts written-off	-	-	(951)	(951)
Other changes	-	-	-	-
On December 31, 2020	**429,272**	**82,956**	**6,669**	**518,897**

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2020	**570**	**4,783**	**7,948**	**13,301**
Effects of the first application of the BARS Decision on January 1, 2020	1,358	1,845	-	3,203
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	34	(34)	-	-
Transfers to Level 2	(2,880)	2,880	-	-
Transfers to Level 3	-	(81)	81	-
Reduction in value (Note 14)	3,173	203	(666)	2,710
Amounts written-off	-	-	(951)	(951)
On December 31, 2020	**2,255**	**9,596**	**6,412**	**18,263**

21. LOANS AND RECEIVABLES DUE FROM CLIENTS (CONTINUED)

Loans and receivables due from clients at amortised cost (Continued)

a) Legal entities (Continued)

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2019	**384,124**	**112,285**	**38,705**	**535,114**
New funding	227,766	20,850	-	248,616
Assets no longer recognised (excluding write-offs)	-	-	(7,267)	(7,267)
Transfers to Level 1	-	-	-	-
Transfers to Level 2	18,780	(18,780)	-	-
Transfers to Level 3	(5,668)	5,668	-	-
Repaid assets	(147,193)	(49,200)	(4,460)	(200,852)
Amounts written-off	-	-	(19,009)	(19,009)
Other changes				
On December 31, 2019	**477,810**	**70,823**	**7,969**	**556,602**

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2020	**1,148**	**2,502**	**36,046**	**39,696**
Assets no longer recognised (excluding write-offs)	-	-	(7,267)	(7,267)
Transfers to Level 1	30	(30)	-	-
Transfers to Level 2	(270)	270	-	-
Transfers to Level 3	-	-	-	-
Reduction in value (Note 14)	(570)	2,273	(1,822)	(119)
Amounts written-off	-	-	(19,009)	(19,009)
On December 31, 2020	**338**	**5,015**	**7,948**	**13,301**

b) Retail customers - private individuals

Gross exposure

	December 31, 2020				December 31, 2019
	Level 1	**Level 2**	**Level 3**	**Total**	**Total**
Internal valuation level					
Performing	**402,498**	**42,564**	-	**445,062**	**488,260**
Low risk	402,498	-	-	402,498	442,245
Medium risk	-	42,564	-	42,564	46,015
High risk	-	-	-	-	-
Non-performing	**-**	**-**	**18,136**	**18,136**	**16,255**
Default exposure	-	-	18,136	18,136	16,255
Total	**402,498**	**42,564**	**18,136**	**463,198**	**504,515**

21. LOANS AND RECEIVABLES DUE FROM CLIENTS (CONTINUED)

Loans and receivables due from clients at amortised cost (Continued)

b) Retail customers - private individuals (Continued)

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2020	**442,245**	**46,015**	**16,255**	**504,515**
New funding	69,206	5,294	-	74,500
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	11,795	(11,794)	(1)	-
Transfers to Level 2	(16,240)	17,322	(1,082)	-
Transfers to Level 3	(9,408)	(3,659)	7,126	(5,941)
Repaid assets	(95,100)	(10,614)	(1,781)	(107,495)
Amounts written-off	-	-	(2,381)	(2,381)
Other changes	-	-	-	-
On December 31, 2020	**402,498**	**42,564**	**18,136**	**463,198**

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2020	**3,744**	**4,384**	**13,570**	**21,698**
Effects of the first application of the BARS Decision on January 1, 2020	430	469	250	1,149
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	248	(248)	-	-
Transfers to Level 2	(1,920)	2,013	(93)	-
Transfers to Level 3	(2,926)	(3,187)	6,113	-
Reduction in value (Note 14)	7,555	1,711	(1,020)	8,246
Amounts written-off	-	-	(2,381)	(2,381)
On December 31, 2020	**7,131**	**5,142**	**16,439**	**28,712**

21. LOANS AND RECEIVABLES DUE FROM CLIENTS (CONTINUED)

Loans and receivables due from clients at amortised cost (Continued)

Loans and receivables from clients at amortised costs analysed by industry are presented in the following table:

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2020	**406,038**	**39,885**	**29,664**	**475,587**
New funding	159,453	13,419	-	172,872
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	10,193	(10,193)	-	-
Transfers to Level 2	(16,019)	17,676	(1,657)	-
Transfers to Level 3	(2,802)	(2,681)	5,483	-
Repaid assets	(114,618)	(12,092)	(2,482)	(129,192)
Amounts written-off	-	-	(14,753)	(14,753)
Other changes	-	-	-	-
On December 31, 2020	**442,245**	**46,015**	**16,255**	**504,515**

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2020	**4,202**	**2,907**	**26,522**	**33,631**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	108	(108)	-	-
Transfers to Level 2	(1,402)	1,402	-	-
Transfers to Level 3	(2,007)	(2,052)	4,059	-
Reduction in value (Note 14)	2,856	2,215	(2,251)	2,820
Amounts written-off	-	-	(14,753)	(14,753)
On December 31, 2020	**3,757**	**4,364**	**13,577**	**21,698**

22. TANGIBLE ASSETS

Tangible assets comprise:

	December 31, 2020	December 31, 2019
	BAM '000	BAM '000
Property used for own business purposes	**22,802**	**23,843**
- Land and buildings	14.338	14,755
- Equipment and other assets	3,026	3,626
- Investment in progress	2,233	1,359
- Leasehold improvements	843	1,050
- Assets with right of usage	2,362	3,052
Property acquired in process of receivable collection intended for sale	**923**	**923**
Total tangible assets	**23,725**	**24,765**

Changes in property used for own business purposes are provided in the table below:

	Land and buildings	Equipment and other assets	Assets in progress	Leasehold improve-ments	Assets with right of usage	Total tangible assets
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Cost						
Balance at January 1, 2019	**26,338**	**16,720**	**1,552**	**2,785**	**3,077**	**48,271**
Fair value estimate	2,628	-	-	-	-	2,628
Additions	-	-	1,792	433	602	2,732
Transfers	92	1,893	(1,985)	(92)	-	-
Sales, write-offs and rounding	(467)	(493)	-		-	(960)
Balance at December 31, 2019	**28,591**	**18,120**	**1,359**	**3,126**	**3,679**	**52,875**
Balance at January 1, 2020	**28,591**	**18,120**	**1,359**	**3,126**	**3,679**	**52, 875**
Fair value estimate	251	-	-		-	251
Additions	-	-	1,442		-	1,442
Transfers	5	563	(568)		-	-
Sales, write-offs and rounding	(321)	(388)	-	(148)	(58)	(765)
Balance at December 31, 2020	**28,526**	**18,295**	**2,233**	**2,978**	**3,621**	**53,653**
Accumulated depreciation						
Balance at January 1, 2019	**13,613**	**13,820**	**-**	**1,942**	**-**	**29,375**
Charge for the year	558	1,094	-	**134**	**627**	2,413
Sales, write-offs and rounding	(335)	(420)	-	**-**	-	(755)
Balance at December 31, 2019	**13,836**	**14,494**	**-**	**2,076**	**627**	**31,033**
Balance at January 1, 2020	**13,836**	**14,494**	**-**	**2,076**	**627**	**31,033**
Charge for the year	519	1,163	-	207	649	2,538
Sales, write-offs and rounding	(167)	(388)	-	(148)	(17)	(720)
Balance at December 31, 2020	**14,188**	**15,269**	**-**	**2,135**	**1,259**	**32,851**
Net book value:						
Balance at December 31, 2020	**14,755**	**3,626**	**1,359**	**1,050**	**3,052**	**23,842**
Balance at December 31, 2019	**14,338**	**3,026**	**2,233**	**843**	**2,362**	**22,802**

22. TANGIBLE ASSETS (CONTINUED)

The carrying value of non-depreciable land within the class of land and buildings amounted to BAM 3,308 thousand (2019: BAM 3,393 thousand).

Assets in progress in the amount of BAM 2,233 thousand as of December 31, 2020 (December 31, 2019: BAM 1,359 thousand) relate to real estate reconstruction and equipment not yet placed into use.

As at December 31, 2020 the Bank has registered one pledge in favour of the pledgee of the Government of Republika Srpska on the basis of the loan "IFAD 449 BA PROJECT_IFAD 772-BA". Liabilities under this loan amounted to BAM 244 thousand as of December 31, 2020 (December 31, 2019: BAM 262 thousand).

Except for the above pledge the Bank had no other mortgages assigned on property and equipment as at December 31, 2020.

As at December 31, 2019, the Bank changed its real estate valuation policy by moving from the cost model to the fair value model, as described in Note 2 section *Change in the Valuation Model of Property used for the Bank's own Business.*

Property acquired in the process of loan collection

Property acquired in the process of loan collection comprises real estate and equipment. The manner of valuation of this property is described in point 3.7.

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Real estate	923	923

23. INTANGIBLE ASSETS

	Software	Other	Investments in progress	Total intangible assets
	BAM '000	BAM '000	BAM '000	BAM '000
Cost				
Balance as at January 1, 2019	**20,555**	**5,216**	**4,170**	**29,941**
Additions	-	-	3,762	3,762
Transfers	1,962	311	(2,273)	-
Sales, write-offs and rounding	-	-	(1)	(1)
Balance as at December 31, 2019	22,517	**5,527**	**5,658**	**33,702**
Balance as at January 1, 2020	**22,517**	**5,527**	**5,658**	**33,702**
Additions			2,722	2,722
Transfers	3,932	678	(4,610)	-
Sales, write-offs and rounding	(2,906)	(4,682)		(7,588)
Balance as at December 31, 2020	**23,543**	**1,523**	**3,770**	**28,836**
Accumulated amortisation				
Balance as at January 1, 2019	**17,060**	**4,766**	**-**	**21,826**
Charge for the year	1,032	315	-	1,347
Sales, write-offs and rounding	(1)	-	-	(1)
Balance as at December 31, 2019	**18,091**	**5,081**	**-**	**23,172**
Balance as at January 1, 2020	**18,091**	**5,081**	**-**	**23,172**
Charge for the year	1,388	314		1,702
Sales, write-offs and rounding	(2,906)	(4,683)		**(7,589)**
Balance as at December 31, 2020	**16,573**	**712**	**-**	**17,285**
Net book value:				
Balance as at December 31, 2019	**4,426**	**446**	**5,658**	**10,530**
Balance as at December 31, 2020	**6,970**	**811**	**3,770**	**11,551**

Intangible assets - investments in progress amounting to BAM 3,770 thousand as of December 31, 2020 (December 31, 2019: BAM 5,658 thousand) relate to the software and other intangible assets not yet placed into use.

As at December 31, 2020, the Bank had no internally generated intangible assets.

24. OTHER ASSETS

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Fee receivables in the local currency	132	135
Receivables for employee salaries	1,283	1,565
Receivables from card operations	2,508	3,567
Receivables per cheque payments	-	7
Receivables from operating activities	297	714
Other receivables	1,348	1,089
	5,568	7,077
Impairment allowance	(495)	(1,022)
Total other assets	**5,073**	**6,055**

Movements of impairment allowance for other assets

	Total BAM '000
Balance as at January 1, 2019	**1,436**
Net losses / (recoveries) recognised in the statement of profit or loss (Note 14)	(355)
Write-offs, transfers and rounding	(59)
Balance as at December 31, 2019	**1,022**
First application of BARS decision	4
Net losses / (recoveries) recognized in the statement of profit or loss (Note 14)	(51)
Accounting write-offs	(438)
Write-offs, transfers and rounding	(42)
Balance as at December 31, 2020	**(495)**

25. DEPOSITS AND BORROWINGS DUE TO BANKS

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Demand deposits		
- in BAM	13	3
- in foreign currencies	-	392
	13	**395**
Term deposits		
- in BAM	16,309	16,421
- in foreign currencies	208,577	296,362
	224,886	**312,783**
Total deposits	**224,899**	**313,178**
Borrowings		
- in foreign currencies	34,548	40,679
Total borrowings	**34,548**	**40,679**
Total deposits and borrowings due to banks	**259,447**	**353,857**

Deposits and borrowings due to banks include the amount of BAM 224,889 thousand (December 31, 2019: BAM 312,786 thousand), which pertains to the deposits and borrowings due to related parties.

26. DEPOSITS AND BORROWINGS DUE TO CUSTOMERS

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
LEGAL ENTITIES (CORPORATE CUSTOMERS) AND ENTREPRENEURS		
Demand deposits		
- in BAM	309,237	280,803
- in foreign currencies	60,072	50,646
	369,309	**331,449**
Term deposits		
- in BAM	33,526	67,328
- with foreign currency clause	139,240	110,626
- in foreign currencies	17,677	14,101
	190,443	**192,055**
Total deposits due to legal entities and entrepreneurs	**559,752**	**523,504**
RETAIL CUSTOMERS - PRIVATE INDIVIDUALS		
Demand deposits		
- in BAM	196,209	178,752
- with foreign currency clause	67	45
- in foreign currencies	99,241	95,618
	295,517	**274,415**
Term deposits		
- in BAM	77,271	67,857
- with foreign currency clause	39	54
- in foreign currencies	122,296	125,154
	199,606	**193,065**
Total deposits due to private individuals	**495,123**	**467,480**
TOTAL DEPOSITS	**1,054,875**	**990,984**
Borrowings due to customers		
- in BAM	-	-
- with foreign currency clause	55,436	41,673
- in foreign currencies	-	3,008
Total borrowings due to customers	**55,436**	**44,681**
Total deposits and borrowings due to customers	**1,110,311**	**1,035,665**

26. A) LEASE LIABILITIES

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Lease liabilities to legal entities	1,048	1,271
Lease liabilities to private individuals	1,358	1,805
Total lease liabilities	**2,406**	**3,076**

27. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities, net of tax

Deferred taxes are calculated for temporary differences according to the balance sheet liability method using the legally prescribed income tax rate of 10% (2019: 10%).

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Deferred tax assets		
Deferred tax assets from re-allocation of CPI fees from previous years	160	-
Deferred tax assets from differences in methods of depreciation calculation and depreciation rates	-	6
	160	**6**
Deferred tax liabilities		
Deferred tax liabilities from differences in methods of depreciation calculation and depreciation rates	273	-
Deferred tax liabilities based on change of real estate fair value	284	263
	557	**263**
Deferred tax liabilities - net	**397**	**257**

Movements of deferred taxes

	Deferred tax assets	Deferred tax liabilities
	BAM '000	BAM '000
Balance at January 1, 2019	**77**	**-**
Gains on the increase in deferred tax assets and decrease in deferred tax liabilities in respect of the differences in the depreciation method and different depreciation rates in the profit or loss	(5)	-
(Decrease) / increase in deferred tax liabilities in respect of the calculation of the fair value changes through the other comprehensive income	(66)	263
Balance at December 31, 2019	**6**	**263**
Balance at January 1, 2020		
Gains / (Losses) on the decrease in deferred tax assets in respect of the differences in the depreciation method and different depreciation rates in the profit or loss	(6)	273
Gains from increase in deferred tax assets in respect of allocation of CPI fees from previous years	160	-
Increase in deferred tax assets/liabilities in respect of changes in fair value	-	21
Balance at December 31, 2020	**160**	**557**

28. OTHER LIABILITIES

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Liabilities based on exit from business relationship	6,128	-
Liabilities to employees	4,374	4,441
Liabilities to suppliers	3,847	2,884
Liabilities per litigation	2,972	2,962
Liabilities for realisation of payment orders in the country	2,131	1,689
Accruals and deferred income	1,489	308
Liabilities from card operations	1,243	2,333
Liabilities for insured unpaid deposits	1,038	1,044
Liabilities for non-nominated deposits	657	657
VAT payable	530	596
Advances received for foreclosure of assets - NPLs	35	115
Other liabilities	1,665	1,333
	26,109	**18,362**

29. PROVISIONS FOR LIABILITIES AND EXPENSES

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Provisions for credit risk on commitments and financial guarantees given	2,713	2,959
Long-term provisions for employees	366	415
Provisions for litigations	1,486	1,857
	4,565	**5,231**

Movements of provisions for risks and expenses

	Long-term provisions for employees BAM '000	Litigations BAM '000	Contingent liabilities and guarantees BAM '000	Total BAM '000
Balance as at January 1, 2019	**454**	**2,037**	**1,032**	**3,523**
Net gains/(losses) recognised in the statement of profit or loss (Notes 12 and 15)	(39)	-	1,927	1,888
Provisions released during the period and transfers	-	(180)	-	(180)
Balance as at December 31, 2019	**415**	**1,857**	**2,959**	**5,231**
First adoption of BARS decision	-	-	671	671
Net gains/(losses) recognised in the statement of profit or loss (Notes 12 and 15)	(49)	-	(917)	(966)
Provisions released during the period and transfers	-	(371)	-	(371)
Balance as at December 31, 2020	**366**	**1,486**	**2,713**	**4,565**

30. SHARE CAPITAL

	Ordinary shares
	BAM '000
Balance as at January 1, 2019	**97,055**
Changes	-
Balance as at December 31, 2019	**97,055**
Changes	-
Balance as at December 31, 2020	**97,055**
Nominal value per share (BAM)	700
Share count	138,650

As at December 31, 2020, the shareholders of the Bank comprised of a single major and 61 minority shareholders; both domestic and foreign legal entities and individuals with the following equity interests:

	% of equity interest
UniCredit S.p.A. Italy	**99.4252%**
Minority shareholders	0,5748%

As at December 31, 2020, members of the Bank's Supervisory Board, Audit Committee and Management Board were not in possession of any shares of the Bank.

All the Bank's shares were quoted on Banja Luka Stock Exchange. In 2020, the price per share on the last trading day amounted to BAM 1,462.50 (December 31, 2019: BAM 1,462.50).

31. EARNINGS PER SHARE

	2020	2019
Total number of shares	138,650	138,650
Weighted average number of shares outstanding	138,650	138,650
Total result (profit) in BAM '000	16,178	29,581
Earnings per share in BAM	**116.68**	**213.35**

In Q2 2019 the Bank paid dividend to the shareholders in the amount of BAM 5,553 thousand from the net profit realized in 2018. The total of 66 shareholders were entitled to dividend payment, and dividend per share amounted to BAM 40.05.

In accordance with the Decision on temporary measures of banks to mitigate the negative economic consequences caused by the viral disease "Covid-19", which has been in force since March 25, 2020 and continues to be at the time of preparation of this report, the payment of dividends from profits of 2019 has been postponed and it should be paid within one month of the expiry of this Decision.

32. COMMITMENTS AND GIVEN FINANCIAL GUARANTEES

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Payment guarantees:		
- in BAM	14,090	13,162
- in foreign currencies	16,373	21,896
Performance guarantees:		
- in BAM	59,907	40,063
- in foreign currencies	16,829	20,027
Contingent liabilities for undrawn loans and guarantees:		
- in BAM	131,558	121,929
- in foreign currencies	50	50
Letters of credit in foreign currencies	2,229	4,051
Total	**241,036**	**221,178**

As at December 31, 2020, provisions for credit risk on commitments and financial guarantees issued amounted to BAM 2,713 thousand (December 31, 2019: BAM 2,959 thousand). Movements on these provisions are presented in Note 29.

Gross exposure

	December 31, 2020				December 31, 2019
	Level 1	Level 2	Level 3	Total	Total
Internal valuation level					
Performing	**221,841**	**19,108**	**-**	**240,949**	**221,127**
Low risk	221,841	-	-	221,841	184,594
Medium risk	-	19,108	-	19,108	36,533
High risk	-	-	-	-	-
Non-performing	**-**	**-**	**87**	**87**	**51**
Default exposure	-	-	87	87	51
Total	**221,841**	**19,108**	**87**	**241,036**	**221,178**

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2020	**184,594**	**36,533**	**51**	**221,178**
New funding	115,087	12,076	50	127,213
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	15,163	(15,163)	-	-
Transfers to Level 2	(2,251)	2,265	(14)	-
Transfers to Level 3	(18)	(14)	32	-
Repaid assets	(90,734)	(16,589)	(32)	(107,355)
Amounts written-off	-	-	-	-
Other changes	-	-	-	-
On December 31, 2020	**221,841**	**19,108**	**87**	**241,036**

32. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2020	**103**	**2,834**	**22**	**2,959**
Effects of the first application of the BARS Decision on January 1, 2020	292	379	-	671
Assets no longer recognised (excluding write-offs)				-
Transfers to Level 1	43	(43)	-	-
Transfers to Level 2	(135)	135	-	-
Transfers to Level 3	(10)	(5)	15	-
Reduction in value (Note 29)	286	(1,195)	(8)	(917)
Amounts written-off	-	-	-	-
On December 31, 2020	**579**	**2,105**	**29**	**2,713**

Gross exposure movements	Level 1	Level 2	Level 3	Total
Gross book value on January 1, 2019	**172,359**	**49,366**	**166**	**221,891**
New funding	117,807	12,198	-	130,005
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	1,285	(1,285)	-	-
Transfers to Level 2	(2,113)	2,141	(25)	-
Transfers to Level 3	(8)	(20)	28	-
Repaid assets	(104,736)	(25,867)	(115)	(130,718)
Amounts written-off	-	-	-	-
Other changes	-	-	-	-
On December 31, 2019	**184,594**	**36,533**	**51**	**221,178**

ECL movements	Level 1	Level 2	Level 3	Total
Reduction in value due to ECL on January 1, 2019	**172**	**777**	**83**	**1,032**
Assets no longer recognised (excluding write-offs)	-	-	-	-
Transfers to Level 1	1	(1)	-	-
Transfers to Level 2	(160)	160	-	-
Transfers to Level 3	(3)	(4)	7	-
Reduction in value (Note 15)	93	1,901	(67)	1,927
Amounts written-off	-	-	-	-
On December 31, 2019	**103**	**2,833**	**23**	**2,959**

33. TRANSACTIONS WITH RELATED PARTIES

In compliance with International Accounting Standard (IAS) 24, parties related to the Bank and the Bank's key management members are as follows:

IAS 24.19	Name	Description
IAS 24.19 (a),(b)	Parent company and entities with joint control or significant impact on the Bank	UniCredit S.p.A. Italy
IAS 24.19 (c)	Subsidiaries and other entities within the same Group	Related banks and other legal entities within UniCredit Group
IAS 24.19 (c), (e)	Associates and joint ventures	The Bank did not have associates or joint ventures in 2020
IAS 24.19 (f)	Key management of the institution or its parent entity	Members of the Supervisory Board and Management Board; members of the Supervisory Board and Management Board of the parent entity, key Bank management personnel and persons related to the specified members
IAS 24.19 (g)	Other related parties	The Bank did not have other related parties in 2020

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Balances of assets and liabilities arising from transactions performed with members of UniCredit Group were as follows:

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Assets		
Foreign currency demand deposits:		
- UniCredit Bank Austria AG Vienna, Austria	2,759	4,412
- UniCredit Bank Serbia a.d. Belgrade, Serbia	3,414	3,761
- Zagrebačka Banka d.d. Zagreb, Croatia	443	414
- UniCredit Bank AG Munich, Germany	1,148	3,061
- UniCredit S.p.A. Milano, Italy	12,256	826
- UniCredit Bank d.d. Mostar, BiH	2	2
	20,022	**12,476**
Term deposits:		
- UniCredit Bank d.d. Mostar, BiH	16,000	16,000
	16,000	**16,000**
Other receivables		
- UniCredit Bank AG Munich, Germany	397	516
- UniCredit S.p.A. Milano, Italy	669	554
- UniCredit Bank d.d. Mostar, BiH	6	7
- UniCredit Services GmbH Austria	92	-
- UniCredit Bank Serbia a.d. Belgrade, Serbia	71	155
	1,144	**1,232**
Total assets	**37,257**	**29,708**
Liabilities		
Sight deposits:		
- UniCredit Bank Austria AG Vienna, Austria	13	3
	13	**3**
Received term deposits:		
- UniCredit Bank d.d. Mostar, BiH	16,309	16,421
- UniCredit S.p.A. Milano, Italy	208,577	296,362
	224,886	**312,783**
Other liabilities		
- UniCredit Bank d.d. Mostar, BiH	10	344
- UniCredit S.p.A Milano, Italy	35	121
- UniCredit Services GmbH Austria	1,748	643
- Zagrebačka Banka d.d. Zagreb, Croatia	149	199
- UniCredit Bulbank AD Sofia, Bulgaria	44	43
	1,986	**1,350**
Total liabilities	**226,885**	**314,136**
Liabilities, net	**(189,628)**	**(284,428)**

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Income and expenses from related party transactions were as follows

	Year Ended December 31,	
	2020 BAM '000	**2019 BAM '000**
Items included in the statement of comprehensive income:		
Interest income:		
- UniCredit Bank Austria AG Vienna, Austria	-	6
- UniCredit Bank d.d. Mostar, BiH	252	365
- Zagrebačka banka d.d. Zagreb, Croatia	1	-
- UniCredit S.p.A. Milano, Italy	84	99
Total interest income	**337**	**470**
Fee and commission income:		
- UniCredit Bank Austria AG Vienna, Austria	2	3
- UniCredit Bank Moscow AO, Russia	38	-
- UniCredit S.p.A. Milano, Italy	3	6
- UniCredit Banka Slovenija d.d., Ljubljana, Slovenia	-	22
Total fee and commission income	**43**	**31**
Interest expenses:		
- UniCredit Bank d.d. Mostar, BiH	913	415
- UniCredit S.p.A. Milano, Italy	404	666
Total interest expenses	**1,317**	**1,081**
Fee and commission expenses:		
- UniCredit Bank Austria AG Vienna, Austria	7	2
- UniCredit Bank Serbia a.d. Belgrade, Serbia	8	-
- UniCredit S.p.A. Milano, Italy	59	63
- Zagrebačka Banka d.d. Zagreb, Croatia	259	204
- UniCredit Bank AG Munich, Germany	4	1
- UniCredit Services S.C.p.A Italy	6	78
Total fee and commission expenses	**343**	**348**
Operating expenses		
- UniCredit Services GmbH Austria	1,337	1,099
- UniCredit Bank d.d. Mostar, BiH	315	314
- Zagrebačka Banka d.d. Zagreb, Croatia	21	30
- UniCredit S.p.A. Milano, Italy	215	148
Total operating expenses	**1,888**	**1,591**
Expenses, net	**(3,168)**	**(2,519)**

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Salaries and remunerations paid to the members of the Bank's Supervisory Board, Management Board, and other key management personnel are presented below:

	Year Ended December 31,	
	2020 BAM'000	2019 BAM'000
Supervisory Board	70	69
	70	**69**
Management Board		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	954	1,015
Bonuses disbursed in the current year for the previous year - gross	187	173
Long-term remuneration		
Insurance policies paid in the current year - gross	28	28
Disbursements in the current year for prior years - gross	166	163
Total Management Board	**1,335**	**1,379**
Other key management personnel		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	717	636
Bonuses disbursed in the current year for the previous year - gross	120	131
Long-term remuneration		
Insurance policies paid in the current year - gross	15	15
Total other key management personnel	**851**	**782**

The Supervisory Board consists of 5 members, 2 of which are employed within the Group, 1 is a former employee of the Group and 2 are independent members. The remunerations were paid only to those members that are not employed with the Group. Members of the Supervisory Board do not exercise the right to a variable remuneration in accordance with the Remuneration Policy.

During 2020 the Bank's Management Board consisted of 5 members (on December 31, 2020: 4 members). Amount in score of long term remunerations to Board members, for gross salaries during the current year based on earlier periods does not include payouts to former Board members.

Since August 2020, other key management personnel comprised of 8 employees of the Bank, whereas in 2019 and all through July 2020 there were 7 members.

The amount of salaries and remuneration disbursed to the members of the Management Board and key management includes the amount of BAM 378 thousand (2019: BAM 400 thousand) of contributions for pension and disability insurance with the prescribed amounts of contributions, payable to the mandatory pension funds at the prescribed rates.

Within the regular transactions, transactions with related parties are performed under fair market terms, which are deemed to be arm's length transactions, and our estimate is that the Bank bears no risk in respect of transfer prices.

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Loans and deposits, and income and expenses per loans and deposits of the members of the Bank's Supervisory Board, Management Board and other key management personnel and their related parties were as follows:

	2020 BAM '000	2019 BAM '000
Supervisory Board:		
- Loans as at December 31	10	-
- Interest income for the year	*1*	-
- Deposits as at December 31	101	43
- Interest expense for the year	*1*	-
Management Board:		
- Loans as at December 31	55	71
- Interest income for the year	*2*	*3*
- Deposits as at December 31	782	621
- Interest expense for the year	*1*	*12*
Other key management:		
- Loans as at December 31	231	118
- Interest income for the year	*9*	*8*
- Deposits as at December 31	657	625
- Interest expense for the year	*1*	*2*
Total key management		
- Loans as at December 31	***296***	***189***
- Interest income for the year	***12***	***11***
- Deposits as at December 31	***1.540***	***1.289***
- Interest expense for the year	***3***	***14***

34. RISK MANAGEMENT

The Bank's management of risks assumed in operating activities is conducted through a system of strategies, policies, programs, work procedures and defined limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of Group. The Group has in place a comprehensive risk management system based on defined risk appetite, risk strategies and operating policies and procedures and set risk limits.
The Supervisory Board and Management Board of the Bank prescribe overall risk management principles and adopt risk strategies covering this area. The Risk Management Board considers, and reports to the Supervisory Board, on the strategy implementation, adequacy and manner of implementation of the adopted policies and other risk management procedures, as well as adequacy and reliability of the overall risk management system.
In accordance with the Group's policies, the Bank has implemented a standard approach to credit risk according to the Basel III Accord, through an IT platform, which is aligned with the requirements of these standards.
Risk management is within the competence of the Chief Risk Officer, who is a member of the Management Board, and is organised into the following organisational units:

- Underwriting,
- Credit Risk Monitoring and Special Credit Management, and
- Strategic, Market and Operational Risk Management.

34. RISK MANAGEMENT (CONTINUED)

Within the Special Credit Management there are two departments: Corporate Special Credit Management and Retail Special Credit Management. Within Strategic, Market and Operational Risk Management, there are also two departments: Credit Risk Control and Basel II and Market and Operational Risk Management. The function of collateral management, policies and procedures is the function that operates within the Strategic, Market and Operational Risk Management.

The most significant types of risks the Bank is exposed to are:

- credit risk,
- market risk and
- operational risk.

34.1. Credit Risk

The Bank is exposed to credit risk, which can be defined as a possibility that a borrower may fail to perform the obligations defined in the respective loan agreements, resulting in a financial loss for the Bank. Assumption of credit risk is managed in accordance with the specific rules and principles defined by the Group and the local regulator for areas of credit strategies, policies, modelling, risk concentration, collateral management, new product introduction, monitoring and reporting. Credit risk exposure is managed in accordance with the Bank's strategies and policies in force, as well as other internal bylaws prescribed by the Supervisory Board and the Management Board. Credit risk strategies define the main strategic goals, and determine the limits of credit risk assumption within business operations with all customer segments.

General principles and rules of credit risk management have been established by the Group through a General crediting policy, which the Bank applies in its business operations in accordance with the requirements of the local regulator, Group standards and best practices.

a) Credit Risk Measurement

The following factors are taken into account in credit risk measurement: risk of loss resulting from insolvency of the borrower and risk of loss resulting from a change in the customer risk rating. Factors that are also taken into account are overall credit risk exposure including the balance sheet and off-balance-sheet items of the Bank and the quality and value of collaterals.

Credit risk is measured at the level of individual borrower/transaction and at the level of the total portfolio.

With the support of the Group, the Bank is developing and establishing both a system of credit risk measurement on the portfolio basis applying the Basel III basic parameters of credit risk for calculation of expected loss from the loan portfolio, and the calculation of the internal capital requirements to cover potential losses due to the credit risk on the basis of calculation of loan value at risk (VaR). As the measure of economic/internal capital, loan VaR is also the basic input for defining crediting strategies, analysis of credit limits and risk concentration.

The established system of reporting analyses the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and on time. Reports contain the information about changes in the size and quality of the loan portfolio at the customer segment level and for the Bank.

b) Risk Control Policies

The Bank manages, limits and controls credit risk concentrations, wherever such risk concentrations have been identified, particularly with regard to specific clients and/or groups of clients, and industry sectors.

The Bank sets the credit risk level, which it assumes by setting limits for the amount of risk accepted in relation to one borrower or group of borrowers, or industry segments. Such risks are monitored on a regular quarterly basis via a report to the Credit Committee of the Bank on credit risk concentration per industry and compliance with the adopted industry strategy. Additionally, through regular monthly Report for the Credit Committee, the Risk Management reports to the Credit Committee on defined limits on the Bank level.

The Credit Committee, Management Board and the Supervisory Board of the Bank are regularly informed of all significant changes in the value and quality of the portfolio.

Credit risk is also managed through the regular analysis of the ability of borrowers and potential borrowers to settle liabilities for principal repayment and interest payment, and change in credit limits where necessary.

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit risk (Continued)

b) Risk Control Policies (Continued)

In order to minimise the risks from lending activities, the Bank has set up a system with policies for definition, assessment and treatment of collaterals serving as security for collection of receivables, where it demands acceptable collaterals for collection of its receivables. Acceptable collateral is a pledge over an asset which has a known active market and stable price, whose value is satisfactory relative to the Bank's receivables and which is sufficient to protect the Bank from possible loss of principal, interest, fees and collection costs.

34.1.2. Maximum exposure to credit risk for on and off-balance sheet items

	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Balance sheet assets		
Cash held on the Bank's gyro-account in Central Bank (Note 17)	130,879	115,101
Financial assets at fair value through other comprehensive income – debt securities (Note 18)	240,100	218,646
Financial assets at amortised cost	1,211,397	1,257,249
a) Obligatory reserve with the Central Bank (Note 19)	124,797	127,016
b) Loans and receivables due from banks (Note 20)	151,480	104,115
c) Loans and receivables due from customers (Note 21)	935,120	1,026,118
Other assets (Note 24)	5,073	6,055
Total balance sheet items exposed to credit risk	**1,587,449**	**1,597,051**
Off-balance sheet items		
Guarantees and other sureties	109,428	99,199
Approved overdraft, framework loans and guarantees	131,608	121,979
Total off-balance-sheet exposure to credit risk	**241,036**	**221,178**
Balance as at December 31	**1,828,485**	**1,818,229**

The Bank obtains collaterals securitising loans and receivables in the form of cash deposits, guarantees, mortgages assigned over real estate, and other forms of security over the assets and guarantees. Initial appraisals of the value of collaterals, or real estate, are performed already upon loan approval, i.e. they are an integral part of the process of customer loan request approval.

Revaluations are performed in accordance with the principles and rules of the collateral management system.

For properties to be recognized as collateral, they need to be regularly monitored and their values revised as follows: housing properties once in three years and business properties once a year. More frequent monitoring and reassessment is necessary in case of significant changes in market conditions.

For the purpose of alignment with the Group's techniques for credit risk mitigation, the Bank has implemented functional automatic monitoring of the expired insurance policies for real estate and introduced adjusting factors in cases of currency mismatch of collaterals and loans. The adjusting factors are not applied if the collateral is an item of property or movable assets with the value stated in EUR/BAM currency during the effectiveness of the Currency Board regime.

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit risk (Continued)

34.1.1. Maximum exposure to credit risk for on and off-balance sheet items (Continued)

December 31, 2020	Maximum credit risk exposure	Allocated value of obtained collateral instruments					
		Deposits	Received guarantees	Mortgages	Other	Total collateral	Net exposure
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance sheet assets							
Cash and cash equivalents	164,663	-	-	-	-	-	164,663
Financial assets held for trading	-	-	-	-	-	-	-
Financial assets through other comprehensive income	240,348	-	-	-	-	-	240,348
Financial assets at amortized cost	1,211,397	21,121	91,020	218,280	15,406	345,827	865,570
- Obligatory reserve with the CBBiH	124,797	-	-	-	-	-	124,797
- Loans and receivables from banks	151,480	-	-	-	-	-	151,480
- Loans and receivables from customers	935,120	21,121	91,020	218,280	15,406	345,827	589,293
Other assets	5,073	-	-	-	-	-	5,073
Total balance sheet assets exposed to credit risk	**1,621,481**	**21,121**	**91,020**	**218,280**	**15,406**	**345,827**	**1,275,654**
Off-balance sheet assets							
Guarantees and other warranties	109,428	4,500	18,340	17,050	3,209	43,099	66,329
Overdrafts, framework loans and guarantees	131,608	469	19,720	14,893	373	-	131,608
Total off-balance sheet assets exposed to credit risk	**241,036**	**4,969**	**38,060**	**31,943**	**3,582**	**43,099**	**197,937**
Balance as at December 31	**1,862,517**	**26,090**	**129,080**	**250,223**	**18,988**	**388,926**	**1,473,591**

December 31, 2019	Maximum credit risk exposure	Allocated value of obtained collateral instruments					
		Deposits	December 31, 2020	Maximum credit risk exposure	Deposits	December 31, 2020	Maximum credit risk exposure
	BAM '000	BAM '000		BAM '000	BAM '000		BAM '000
Balance sheet assets							
Cash and cash equivalents	143,893	-	-	-	-	-	143,893
Financial assets held for trading	244	-	-	-	-	-	244
Financial assets through other comprehensive income	218,888	-	-	-	-	-	218,888
Financial assets at amortized cost	1,257,249	21,944	70,853	227,072	21,070	340,939	916,310
- Obligatory reserve with the CBBiH	127,016	-	-	-	-	-	127,016
- Loans and receivables from banks	104,115	-	-	-	-	-	104,115
- Loans and receivables from customers	1,026,118	21,944	70,853	227,072	21,070	340,939	685,179
Other assets	6,055	-	-	-	-	-	6,055
Total balance sheet assets exposed to credit risk	**1,626,329**	**21,944**	**70,853**	**227,072**	**21,070**	**340,939**	**1,285,146**
Off-balance sheet assets							
Guarantees and other warranties	99,199	2,961	9,638	14,608	3,232	30,440	68,759
Overdrafts, framework loans and guarantees	121,979	1,088	12,589	14,205	2,694	-	121,979
Total off-balance sheet assets exposed to credit risk	**221,178**	**4,049**	**22,227**	**28,813**	**5,927**	**30,440**	**190,738**
Balance as at December 31	**1,847,507**	**25,993**	**93,080**	**255,885**	**26,997**	**371,378**	**1,475,885**

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions

Impairment

At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 2.7. For the purpose of credit monitoring and credit risk management, the Bank divides its credit portfolio into the following groups:

- Stages 1 and 2: Performing loans and
- Stage 3: Non-performing loans.

Financial assets consisting of securities are classified in Level 1 credit risk, in accordance with BARS regulations, which define that all placements to central governments are assigned to Level 1, while in accordance with the group approach, in reports to the Group, the Bank classified them in Level 2, since they do not have an investment grade ("non-investment grade").

For the purpose of determining impairment of loans and receivables, the Bank distinguishes two approaches:

- loans assessed on an individual basis,
- loans assessed on a portfolio basis.

Loans assessed on an individual basis

Individually significant loans are assessed on an individual basis in order to determine the existence of objective evidence of impairment. Factors that can influence the ability and readiness of each individual debtor to fulfil their obligations toward the Bank, are as follows:

- failure to settle or a delay in payment of interest or principal;
- failure to comply with the contractual terms and conditions;
- instigation of bankruptcy proceedings;
- any specific information about business difficulties (e.g. reflected in the insufficient liquidity of the borrower);
- significant changes in the customer's market environment; and
- global economic situation.

Detailed overview and description of the UTP terms is defined through the Guidelines on defining default cases.

Loans assessed on a portfolio basis

In order to assess the impairment of loans that are not individually significant, such loans are grouped based on the similar credit risk characteristics. The Bank has segmented the loan portfolio into the risk groups based on the credit rating for legal entities and based on the number of days past due for private individuals and, accordingly, applying credit risk parameters (probability of default, loss given default, amount that the Bank requires in instances of non-performance of obligations) determined by Basel III and in conformity with IFRS requirements and the BARS Decision, it impairs loans.

Manual adjustments for clients with significantly increased credit risk

For clients for which a significant increase in credit risk has been identified, i.e. clients classified in Stage 2, in particular cases where it has been determined that calculation based on portfolio does not reflect the identified level of credit risk, the Bank keeps the right of individual assessment of necessary provisions. This is particularly valid for clients identified as Watch List (WL) clients (Performance Status CODE - PSC 600 and 601) and clients classified as Restructuring (PSC 651) which are still in the performing portfolio.

Proposed level of necessary provisions is determined by the Credit risk monitoring and special credit, where the amount of provisions cannot be higher than the minimum defined amount of provisions for non-performing exposures for which the provision calculation is determined on an individual basis. Approval of the provision level is in the Bank's Credit board competence.
If, in accordance with the internal methodology, the determined amount of expected credit losses is higher than those arising from the provisions defined by the Decision, the Bank is obliged to apply the higher amount thus determined.

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

Breakdown of the loan portfolio according to the above listed categories is provided below:

Financial assets at amortised cost - Loans and receivables due from customers	December 31, 2020 BAM '000			December 31, 2019 BAM '000		
	Loans	Impairment	%	Loans	Impairment	%
Stage 1 and 2						
- Legal entities' loans	512,228	11,851	2.3%	548,633	5,353	1.0%
- Private individuals' loans	445,062	12,273	2.8%	488,260	8,121	1.7%
	957,290	**24,124**	**2.5%**	**1,036,893**	**13,474**	**1.3%**
Stage 3						
- Legal entities' loans	6,669	6,412	96.2%	7,969	7,948	99.7%
- Private individuals' loans	18,136	16,439	90.6%	16,255	13,577	83.5%
	24,805	**22,852**	**92.1%**	**24,224**	**21,525**	**88.9%**
Total loans	**982,095**	**46,975**	**4.8%**	**1,061,117**	**34,999**	**3.3%**

Provision coverage of the non-performing portfolio amounts to 92.1% (2019: 88.9%).

The table below presents the breakdown of gross and net loans and receivables due from customers:

Financial assets at amortised cost - Loans and receivables due from customers	December 31, 2020	December 31, 2019
	'000 BAM	'000 BAM
Legal entities - corporate customers		
Stage 1 and 2: Performing undue loans	509,843	546,837
Stage 1 and 2: Performing due loans	2,385	1,796
Stage 3: Non-performing loans	6,669	7,969
Gross exposure (Stage 1, 2 and 3)	**518,897**	**556,602**
Impairment (Stage 1, 2 and 3)	(18,623)	(13,301)
Net exposure (Stage 1, 2 and 3)	**500,960**	**543,301**
Private individuals - retail customers		
Stage 1 and 2: Performing undue loans	444,650	487,882
Stage 1 and 2: Performing due loans	411	378
Stage 3: Non-performing loans	18,137	16,255
Gross exposure (Stage 1, 2 and 3)	**463,198**	**504,515**
Impairment (Stage 1, 2 and 3)	(28,712)	(21,698)
Net exposure (Stage 1, 2 and 3)	**434,486**	**482,817**
Total gross exposure (corporate and retail)	**982,096**	**1,061,117**
Stage 1 and 2: Performing loans – impairment	(24,124)	(13,474)
Stage 3: Non-performing loans – impairment	(22,851)	(21,525)
Net exposure (corporate and retail)	**935,120**	**1,026,118**

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

a) Stages 1 and 2: Performing undue loans

The quality of the portfolio of undue loans to customers can be estimated through the internal standard monitoring system. Loans to customers are regularly monitored and systematically reviewed in order to identify any irregularities or warning signals. These loans are subject to constant monitoring with the aim of taking timely action based on improvement/deterioration of the client risk profile.

Breakdown of gross exposure of undue loans to customers according to the type of loan is as follows:

	Loans to private individuals				Loans to legal entities			
	Consumer loans	Housing loans	Credit card loans and approved account overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entre-preneurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2020								
Stages 1 and 2								
Standard monitoring	**293,635**	**126,746**	**24,680**	**445,062**	**333,405**	**143,003**	**35,820**	**512,228**
December 31, 2019								
Stages 1 and 2								
Standard monitoring	**327,716**	**134,198**	**25,968**	**487,882**	**341,325**	**162,443**	**43,069**	**546,837**

b) Stages 1 and 2: Performing due loans

The gross amount of loans and receivables due from customers that were past due were as follows:

	Loans to private individuals				Loans to legal entities			
	Consumer loans	Housing loans	Credit card loans and approved account overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entre-preneurial loans	Total
December 31, 2020	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Matured Stages 1 and 2:								
- up to 30 dpd	133	1	206	340	7	1,233	376	1,616
- 30 - 60 dpd	26	-	25	51	-	-	100	100
- 60 - 90 dpd	12	-	9	21	652	18	-	670
- over 90 dpd	-	-	-	-	-	-	-	-
Total	**171**	**1**	**240**	**411**	**659**	**1,251**	**476**	**2,385**
Collateral value	-	-	-	-	-	11	130	141
December 31, 2019								
Matured Stages 1 and 2:								
- up to 30 dpd	59	-	170	229	6	1,216	145	1,367
- 30 - 60 dpd	47	-	29	76	-	-	11	11
- 60 - 90 dpd	13	-	60	73	252	166	-	418
- over 90 dpd	-	-	-	-	-	-	-	-
Total	**119**	**-**	**259**	**378**	**258**	**1,382**	**156**	**1,796**

Collateral value	-	-	-	-	-	218	28	246

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

c) Stage 3: Non-performing loans

The classification of non-performing loans to customers, together with the allocated value of associated collateral instruments, is as follows:

	Loans to private individuals				Loans to legal entities			
	Consumer loans	**Housing loans**	**Credit card loans and approved account overdrafts**	**Total**	**Public and financial sector and international client loans**	**Domestic corporate client loans**	**Entre-preneurial loans**	**Total**
	BAM '000	**BAM '000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**
December 31, 2020								
Non-performing loans-Stage 3	13,797	3,335	1,005	**18,137**	2,122	1,864	2,682	6,668
Collateral value	1	317	-	**318**	-	-	-	**-**
December 31, 2019								
Non-performing loans-Stage 3	12,187	3,038	1,030	**16,255**	2,434	2,245	3,290	**7,969**
Collateral value	12	1,930	-	**1,942**	1,405	207	713	**2,325**

The data shown in the table above is presented in gross amounts.
As at December 31, 2020, assets acquired in lieu of debt collection per loans amounted to BAM 913 thousand (December 31, 2019: BAM 922 thousand).

d) Restructured loans and receivables

During the year, the Bank restructured certain loans to customers in order to improve their ultimate recoverability. Restructuring is mainly performed in response to deterioration or for the prevention of further deterioration of the customer financial situation based on an analysis of the possibility of successful restructuring in order to remove difficulties in the client's operations within a defined time limit and return the client to the performing portfolio.

Restructured loans (exposure per all restructured loans irrespective of whether they belong to the remit of the Business Segments or Special Credit Management) amounted to a total of BAM 5,682 thousand as at December 31, 2020 (December 31, 2019: BAM 8,091 thousand).

Decrease in total amount of exposure to restructured loans is a result of the collection and the accounting write-offs.

	December 31, 2020	**December 31, 2019**
	BAM'000	**BAM '000**
Restructured loans	5,682	8,091
Loan portfolio - gross	982,096	1,061,117
Share of restructured loans in the gross loan portfolio	0.6%	0.8%

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

d) Restructured loans and receivables (Continued)

Restructured exposures by level of credit risk are presented in the table below:

	Restructured exposures (credit risk level)					
	Level 1		Level 2		Level 3	
	restructured exposure-gross	impairment	restructured exposure-gross	impairment	restructured exposure-gross	impairment
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2020						
Retail	10	1	725	34	1,471	1,271
Corporate	-	-	197	2	3,279	3,022
Total	**10**	**1**	**922**	**36**	**4,750**	**4,293**

	Restructured exposures (credit risk level)					
	Level 1		Level 2		Level 3	
	restructured exposure-gross	impairment	restructured exposure-gross	impairment	restructured exposure-gross	impairment
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2019						
Retail	15	-	1,173	122	966	780
Corporate	-	-	1,713	183	4,224	4,224
Total	**15**	**-**	**2,886**	**305**	**5,190**	**5,004**

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit Risk (Continued)

34.1.3. Credit risk concentration

a) ***Geographic concentration of credit risk***

Geographic credit risk concentration of the loan portfolio relates entirely to the corporate clients, individuals and other entities located in Bosnia and Herzegovina.

b) ***Concentration of credit risk by industry***

Breakdown of the Bank's loan portfolio as at December 31, 2020 and December 31, 2019 per industry is provided in the table below:

	December 31, 2020	**December 31, 2019**
	'000 BAM	**'000 BAM**
Legal entities - corporate customers		
Agriculture, forestry and fishing	8,255	6,900
Mining and quarrying	959	918
Manufacturing	107,269	100,634
Electricity, gas, steam and air conditioning supply	9,180	19,510
Water supply and remediation activities	1,319	1,819
Construction	30,512	39,791
Wholesale and retail trade	80,751	117,846
Transporting and storage	14,207	10,366
Accommodation and food service activities	6,520	631
Information and communication	45,295	48,791
Financial and insurance activities	10,043	5,710
Real estate activities	532	641
Professional, scientific and technical activities	2,752	2,687
Administrative and support service activities	6	17
Public administration and defence; compulsory social security	170,359	169,536
Education	103	129
Human health and social work activities	30,800	30,542
Arts, entertainment and recreation	16	22
Other services activities	19	112
	518,897	**556,602**
Private individuals - retail customers	463,198	504,515
Total gross loans	**982,095**	**1,061,117**
Impairment	(46,975)	(34,999)
Total net loans	**935,120**	**1,026,118**

The structure of the loan portfolio is regularly monitored by the Risk Management in order to recognise potential events that could have a significant impact on the loan portfolio (usual risk factors) and, if needed, to mitigate the Bank's exposure to certain industry sectors.

34. RISK MANAGEMENT (CONTINUED)

34.1. Credit Risk (Continued)

34.1.3. Credit risk concentration (Continued)

c) ***Large credit risk exposures***

Large credit risk exposures	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Number of clients with exposure over 10% of eligible capital	5	3
Balance and off-balance credit exposure - gross	273,679	91,047
Impairment and provision for off-balance credit exposure	(1,931)	(71)
Balance and off-balance credit exposure - net	**271,748**	**90,976**

Exposure to the Public Sector (Central Institutions)	December 31, 2020 BAM '000	December 31, 2019 BAM '000
Balance and off-balance credit exposure - gross	76,776	136,409
Impairment and provision for off-balance credit exposure	(967)	(249)
Balance and off-balance credit exposure - net	**75,809**	**136,160**
Balance exposure - Securities	**240,100**	**218,646**

34.1.4 Loans with approved moratorium or a different special measures due to Covid-19 effects

	Legal entities			Private individuals			Total		
	Loans in moratorium	ECL		Loans in moratorium	ECL		Loans in moratorium	ECL	
	BAM '000	BAM '000	%	BAM '000	BAM '000	%	BAM '000	BAM '000	%
December 31, 2020									
Level 1	4,720	23	0.5%	124	2	1.6%	4,844	25	0.5%
Level 2	23,505	2,067	8.8%	483	71	14.7%	23,988	2,138	8.9%
Level 3	5,940	1,481	24.9%	60	48	80.0%	6,000	1,529	25.5%
Total	**34,165**	**3,571**	**10.5%**	**667**	**121**	**18.1%**	**34,832**	**3,692**	**10.6%**

	Gross amount of loans as per remaining period until expiration of special measures						
	Up to 3 months	From 3 to 6 months	From 6 to 9 months	From 9 to 12 months	Total	Total gross loans	
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	%
December 31, 2020							
Legal entities	23,485	4,740	5,940	-	**34,165**	**518,897**	**6.6%**
Private individuals	506	161	-	**-**	**667**	**463,198**	**0.1%**
Total	**23,991**	**4,901**	**5,940**	**-**	**34,832**	**982,095**	**3.5%**

34. RISK MANAGEMENT (CONTINUED)

34.2. Liquidity Risk

Liquidity risk represents a risk that the Bank will not be able to settle its financial liabilities fully and without any delay. In this respect, the main target of the Bank, when managing liquidity risk as a central risk inherent in banking operations, is to align its business activities and ensure optimal liquidity in accordance with the minimum standards and limits prescribed by the Banking Agency of the Republika Srpska, BH Central Bank and the Group.

The Bank has access to various sources of financing, which include different types of deposits of retail and corporate customers, banks (within and out of the Group), and lines of credit. The aforesaid sources enable flexibility of funding sources and limit the dependence on any single source, thus providing a high level of their own sustainability in possible crises.

The Bank has implemented the liquidity policies of the Group, by which methods and procedures of liquidity parameter analysis have been defined which cover managing and control of liquidity risk, both in terms of regular business and in crisis situations. In accordance with the Group guidelines and local regulatory requirements, exposure to the liquidity risk is held at the level at which the Bank is able to fulfil its payment obligations on a regular basis, and in the crisis periods as well.

Regular business involves the usual daily activities for which it is usual for any phase from the Liquidity Policy in crisis situations not to be activated.

The most important activities are aimed at carrying out normal market transactions within the prescribed risk exposure limits in accordance with the defined financing plan, as well as decisions of the competent authorities and operational functions.

These activities are mainly focused on managing short-term and long-term liquidity, managing the execution of the financing plan, regular monitoring and analysis of the results of the testing of the liquidity risk stress resistance as well as the consistent application of the principle of determining internal prices.

Short-term liquidity risk is measured through operational buckets of maturities of up to one year, through net cash flows (inflows/outflows) and through the liquidity coverage ratio (LCR) where the Bank is required to provide an adequate level of liquidity buffer to meet the scenario's liquidity stress test of 30 calendar days.

Short-term liquidity limits the exposures to all currencies as well as the total exposure. Structural liquidity measures seek to ensure an appropriate balance between assets and liabilities in the medium to long term (over a year), in order to ensure structural stability and limit the dependence on short-term and less stable financing.

The short-term liquidity stress testing measures whether the available liquidity reserves can ensure that the Bank endures a hypothetical shortage of short-term funds. The scenarios are based on the concept of maturity buckets of assets and their renewal. The relevant scenarios are defined in order to present possible events with a potentially negative impact on liquidity. Considering the nature of the liquidity stress test, as the tool for assessing different liquidity risks, the combined scenario is acceptable.

The Bank had defined liquidity management in crisis in the Liquidity Management Policy in Emergency Situations, Annex 1 Liquidity management plan for unforeseen cases of disorders in liquidity of UniCredit bank a.d. Banja Luka.

The Bank is required to maintain liquidity within the ranges prescribed by the Banking Agency of the Republika Srpska and the Central Bank of Bosnia and Herzegovina:

- maintenance of the obligatory reserve,
- maintenance of ten-day and daily liquidity,
- maturity matching of financial assets and liabilities,
- liquidity coverage ratio (LCR).

The Bank is obliged to inform the Banking agency of Republika Srpska about Liquidity coverage ratio on a monthly basis.

Year-end liquidity coverage ratio was as follows:

	December 31, 2020	December 31, 2019
Liquidity coverage ratio (LCR) %	218%	143%

34. RISK MANAGEMENT (CONTINUED)

34.2. Liquidity Risk (Continued)

Structural liquidity management aims to ensure the financial stability of the Bank. The main goal is to avoid excessive and unexpected pressures on the financing needs of the short-term liquidity position and to ensure optimal sources of financing and associated costs. This can be achieved by striking a balance between medium- and long-term stable assets, and appropriate stable sources of funding.

The adjusted NSFR ratio monitors structural liquidity by time baskets over three and over five years.

ADJUSTED NSFR	(in BAM million)			
	December 31, 2020		December 31, 2019	
	>3Y	>5Y	>3Y	>5Y
Items that provide stable sources of funding	371	346	334	294
Items that require stable sources of funding	473	276	504	288
NET STL	546	546	471	471
Items that provide stable sources of funding + NET STL	917	893	804	765
Warning level	124%	124%	126	126
Value	**194%**	**324%**	**160%**	**266%**

Items that provide stable sources of funding and net short-term liabilities are sufficient to cover items that require stable sources of funding in the relevant time baskets.

Structural FX Gap monitors maturity adjustment by materially significant currencies (EUR, other) in time baskets over one year.

EUR FX GAP >1Y	(in BAM million)	
	December 31, 2020	December 31, 2019
Liabilities in baskets >1Y	123	188
NET STL	208	207
Receivables in baskets >1Y	352	407
Warning level (max)	(156)	(156)
Value	**(21)**	**(13)**

OTHEROSTALO FX GAP >1G	(in BAM million)	
	December 31, 2020	December 31, 2019
Liabilities in baskets >1Y	-	-
NET STL	16	16
Receivables in baskets >1Y	-	-
Warning level (max)	(78)	(78)
Value	**16**	**16**

Items that provide stable sources of funding and net short-term liabilities in material currencies other than the domestic currency (EUR and other currencies) are sufficient to cover items that require stable sources of funding in classes over one year.

The Net Stable Funding Ratio (NSFR) is the ratio of the amount of stable funding sources to the required funding sources. It aims to ensure a minimum acceptable level of long-term funding sources for the current level and structure of the bank's assets, and to limit the possibility of relying on short-term funding sources, especially during periods of stress.

NSFR	(in BAM million)	
	December 31, 2020	December 31, 2019
Items that provide stable sources of funding	784	892
Items that require stable sources of funding	1,132	1,132
Warning level	105%	106%
Limit	102%	101%
Requirement for stable funding source (%)	**144%**	**127%**

34. RISK MANAGEMENT (CONTINUED)

34.2. Liquidity Risk (Continued)

The following tables show the structure of the assets and liabilities at December 31, 2020 and December 31, 2019, which represents a breakdown of assets and liabilities by appropriate maturity buckets, based on the remaining period of agreed maturity, with the following exceptions:

1. current and demand savings accounts and overdrafts per current accounts of legal entities and private individuals are mapped based on their estimated stability;
2. non-performing loans, tangible assets, equity and reserves are also mapped according to the Group's standard rules to the longest maturity term.

December 31, 2020	Up to a month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Assets						
Cash and cash equivalents	164,663	-	-	-	-	164,663
Financial assets held for trading	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	9,450	-	29,878	174,691	26,329	240,348
Financial assets at amortised cost						
a) Obligatory reserve with the Central Bank	124,797	-	-	-	-	124,797
b) Loans and receivables due from banks	135,480	-	-	16,000	-	151,480
c) Loans and receivables due from customers	43,024	67,960	174,228	431,860	218,048	935,120
Tangible assets	-	-	-	-	23,725	23,725
Intangible assets	-	-	-	-	11,551	11,551
Current tax assets – prepaid income tax	123	246	720	-	-	1,089
Deferred tax assets	-	-	160	-	-	160
Other assets	-	-	5,073	-	-	5,073
Total assets	**477,537**	**68,206**	**210,059**	**622,551**	**279,653**	**1,658,006**
Liabilities, equity and reserves						
Financial liabilities at amortised cost						
a) Deposits and borrowings due to banks	48,009	35,205	9,779	130,817	35,637	259,447
b) Deposits and borrowings due to customers	473,485	75,830	304,830	223,599	32,567	1,110,311
c) Lease liabilities	53	107	480	1,552	214	2,406
Deferred tax liabilities	-	-	557	-	-	557
Other liabilities	-	-	26,109	-	-	26,109
Provisions for risks and expenses	-	-	4,565	-	-	4,565
Equity and reserves	-	-	-	-	254,611	254,611
Total liabilities, equity and reserves	**521,547**	**111,142**	**346,320**	**355,968**	**323,029**	**1,658,006**
Liquidity gap	**(44,010)**	**(42,935)**	**(136,261)**	**266,583**	**(43,377)**	**-**

34. RISK MANAGEMENT (CONTINUED)

34.2. Liquidity Risk (Continued)

December 31, 2019	Up to a month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Assets						
Cash and cash equivalents	143,893	-	-	-	-	143,893
Financial assets held for trading	244	-	-	-	-	244
Financial assets at fair value through other comprehensive income	9,963	183	5,018	192,810	10,914	218,888
Financial assets at amortised cost						
a) Obligatory reserve with the Central Bank	127,016	-	-	-	-	127,016
b) Loans and receivables due from banks	88,115	-	-	16,000	-	104,115
c) Loans and receivables due from customers	66,940	41,218	158,168	493,390	266,402	1,026,118
Tangible assets	-	-	-	-	24,765	24,765
Intangible assets	-	-	-	-	10,530	10,530
Deferred tax assets			6			6
Other assets	-	-	6,055	-	-	6,055
Total assets	**436,171**	**41,401**	**169,247**	**702,200**	**312,611**	**1,661,630**
Liabilities, equity and reserves						
Financial liabilities at amortised cost						
a) Deposits and borrowings due to banks	41,603	85,009	114,193	110,723	2,329	353,857
b) Deposits and borrowings due to customers	206,714	65,916	184,325	327,755	250,955	1,035,665
c) Lease liabilities	52	111	498	2,030	385	3,076
Income tax payable	-	-	381	-	-	381
Deferred tax liabilities	-	-	263			263
Other liabilities	-	-	18,362	-	-	18,362
Provisions for risks and expenses	-	-	5,231	-	-	5,231
Equity and reserves	-	-	-	-	244,795	244,795
Total liabilities, equity and reserves	**248,369**	**151,036**	**323,253**	**440,508**	**498,464**	**1,661,630**
Liquidity gap	**187,802**	**(109,635)**	**(154,006)**	**261,692**	**(185,853)**	**-**

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management

Market risks arise from general and specific trends and changes of certain market variables (interest rates, prices of securities, exchange rate changes), which can affect the economic value the portfolio in the trading book and in the banking book. The Bank is exposed to market risks mainly because of items and business activities from the banking book.

Market risk exposure management includes the activities related to the operations of the Markets and Assets and Liabilities Management function, and it has been organised through a system of internal bylaws and the setting of defined limits and warning signals that are supervised on a daily basis. Market risk measuring is based on the VaR ("Value at Risk") methodology. VaR is the estimated potential overnight loss which occurs in the overall and in particular items of the balance sheet structure in a defined time period, based on numerous assumptions of changes in market conditions with a confidence level of 99%. The Group uses historic volatility simulation as an assessment model based on the last 250 daily return observations. VaR model quality is continuously monitored by back testing. Beside the VaR methodology, the Market Risk Management also uses open FX position limits and base point calculation as a supplement to the set VaR limits.

Factors, which are also of importance for assessment of the market risk impact on the Banks' portfolio, are stress-oriented warning levels and limits and the results are included in regular ALCO reports (reports presented to the Assets and Liabilities Management Committee of the Bank).

The Bank performs activities on market risk limit review closely cooperating with UniCredit Group. These activities are performed at least annually, and more frequently if necessary in accordance with business changes as a result of changes in legislation, development of business strategy goals as well as targeted risk profile.

The set of documents with rules for operations performed by the Markets and Market Risk Management is made in the form of a Financial Markets Rulebook and Market Risk Strategy. Only the permitted risk holders are enabled to enter into the risk-weighted items.

Overview of the Bank's aggregate VaR position:

	2020	2019
	BAM '000	BAM '000
- average for the period	696	679
- maximum for the period	3,638	794
- minimum for the period	2,894	611

In addition to implementing the Group market risk techniques, methods and measuring models, the Bank is continuously working on the improvement of the business processes and data quality.

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.1. Currency Risk

Currency risk is the risk of a possible occurrence of adverse effects on the Bank's financial result and equity due to volatility in exchange rates. The exposure to foreign currency risk results from credit, deposit and trading activities and is controlled daily, according to legal and internal Group limits for particular currencies, and in total amount for all assets and liabilities denominated in foreign currencies or indexed to a foreign currency.

Currency risk management includes monitoring and control of individual items in foreign currencies and the total foreign exchange position of the Bank. The open position is determined on the basis of all on-balance and off-balance items. Foreign exchange risk limits restrict the maximum amount of open foreign currency position by currency. The Bank continuously monitors foreign exchange risk through the limits prescribed by local regulations and by the Group.

In accordance with the decision of the local regulator, which regulates the minimum standards for managing foreign currency risk, the Bank is required to maintain the relationship between assets and liabilities in each single currency so that its total open foreign currency position at the end of each working day does not exceed 40% of its recognised (regulatory) capital.

The Bank directs its business activities so as to minimize a mismatch between items of assets and liabilities in foreign currencies or with a contracted currency clause, maintaining daily operations within the range of the set limits.

All sensitivities arising from items in or linked to foreign currencies are also covered by the general daily VaR limit, which among other risks, limits the maximum permitted loss of open positions in the foreign currencies.

	2020	2019
Currency risk ratios:		
- as at December 31	7.24%	4.33%
- maximum for the period - month of December	32.71%	25.93%
- minimum for the period - month of December	5.15%	0.38%

With regards to the presence of the Currency Board (regime of the Central Bank of Bosnia and Herzegovina) according to which the rate of the national currency to the euro is fixed, it can be considered that the Bank is not exposed to the currency risk related to EUR/BAM exchange rate.

The Bank protects itself from exposure to the currency risk per foreign currencies other than EUR by managing foreign currency position, within the Markets' strategy, in such a manner that the items opened through operations with customers are closed by opposite transactions, so that the open position of the Bank is reduced to the minimum.

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.1. Currency Risk (Continued)

The analysis of assets and liabilities stated in foreign currency amounts, as at December 31, 2020 and December 31, 2019 is presented in the following table.

	EUR	EUR - linked items	USD	Other currencies	Total FX	BAM	Total
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM '000
December 31, 2020							
Assets							
Cash and cash equivalents	3,699	-	789	2,312	**6,800**	157,863	164,663
Financial assets for trading	-	-	-	-	**-**		-
Financial assets at fair value through other comprehensive income	66,498	146,286	-	-	**212,784**	27,564	240,348
Financial assets at amortised cost	**138,395**	**397,508**	**8,678**	**11,154**	**555,735**	**655,662**	**1,211,397**
a) Obligatory reserve with the Central Bank	-	-	-	-	**-**	124,797	124,797
b) Loans and receivables due from banks	115,755	-	8,678	11,154	**135,587**	15,893	151,480
c) Loans and receivables due from customers	22,640	397,508	-	-	**420,148**	514,972	935,120
Tangible assets	-	-	-	-	**-**	23,725	23,725
Intangible assets	-	-	-	-	**-**	11,551	11,551
Current tax assets – prepaid income tax	-	-	-	11,154	**-**	1,089	1,089
Deferred tax assets	-	-	-	-	**-**	160	160
Other assets	400	-	4	3	**407**	4,666	5,073
Total assets	**208,992**	**543,794**	**9,471**	**13,469**	**775,726**	**882,280**	**1,658,006**
Liabilities							
Financial liabilities at amortised cost	**520,280**	**194,782**	**9,399**	**12,732**	**737,193**	**634,971**	**1,372,164**
a) Deposits and borrowings due to banks	243,125	-	-	-	**243,125**	16,322	**259,447**
b) Deposits and borrowings due to customers	277,155	194,782	9,399	12,732	**494,068**	616,243	**1,110,311**
c) Lease liabilities	-	-	-	-	**-**	2,406	**2,406**
Deferred tax liabilities	-	-	-	-	**-**	557	**557**
Other liabilities	4,033	-	116	224	**4,373**	21,736	**26,109**
Provisions for risks and expenses	58	-	-	-	**58**	4,507	**4,565**
Total liabilities	**524,371**	**194,782**	**9,515**	**12,956**	**741,624**	**661,771**	**1,403,395**
Equity and reserves	**450**	**-**	**-**	**-**	**450**	**254,161**	**254,611**
Total liabilities, equity and reserves	**524,821**	**194,782**	**9,515**	**12,956**	**742,074**	**915,932**	**1,658,006**
Net foreign currency position	**(315,829)**	**349,012**	**(44)**	**513**	**33,652**	**(33,652)**	**-**

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.1. Currency Risk (Continued)

	EUR	EUR - linked items	USD	Other currencies	Total FX	BAM	Total
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM '000
December 31, 2019							
Assets							
Cash and cash equivalents	3,839	-	615	1,837	**6,291**	137,602	143,893
Financial assets for trading	-	-	-	-	**-**	244	244
Financial assets at fair value through other comprehensive income	66,520	151,402	-	-	**217,922**	966	218,888
Financial assets at amortised cost	**111,144**	**449,367**	**1,020**	**9,802**	**571,333**	**685,916**	**1,257,249**
a) Obligatory reserve with the Central Bank	-	-	-	-	**-**	127,016	127,016
b) Loans and receivables due from banks	77,375	-	1,020	9,802	**88,197**	15,918	104,115
c) Loans and receivables due from customers	33,769	449,367	-	-	**483,136**	542,982	1,026,118
Tangible assets	-	-	-	-	**-**	24,765	24,765
Intangible assets	-	-	-	-	**-**	10,530	10,530
Deferred tax assets	-	-	-	-	**-**	6	6
Other assets	153	-	4	4	**161**	5,894	6,055
Total assets	**181,656**	**600,769**	**1,639**	**11,643**	**795,707**	**865,923**	**1,661,630**
Liabilities							
Financial liabilities at amortised cost	**605,128**	**141,697**	**9,623**	**11,210**	**767,658**	**624,940**	**1,392,598**
a) Deposits and borrowings due to banks	337,433	-	-	-	**337,433**	16,424	**353,857**
b) Deposits and borrowings due to customers	267,695	141,697	9,623	11,210	**430,225**	605,440	**1,035,665**
c) Lease liabilities	-	-	-	-	**-**	3,076	**3,076**
Current income tax	-	-	-	-	**-**	381	381
Deferred tax liabilities	-	-	-	-	**-**	263	263
Other liabilities	974	20	4	4	**1,002**	17,360	**18,362**
Provisions for risks and expenses	1,277	5	-	-	**1,282**	3,349	**5,231**
Total liabilities	**607,379**	**141,722**	**9,627**	**11,214**	**769,942**	**646,893**	**1,416,835**
Total liabilities, equity and reserves	**607,379**	**141,722**	**9,627**	**11,214**	**769,942**	**891,688**	**1,661,630**
Net foreign currency position	**(425,723)**	**459,047**	**(7,988)**	**429**	**25,765**	**(25,765)**	**-**

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.2. Interest Rate Risk

The Bank is exposed to a risk from interest rate fluctuations with an impact on the financial position of the Bank and its cash flows. The Bank's business operations are influenced by interest rates changes, to the extent that interest bearing assets and liabilities mature or their interest rates change at different times or in different amounts. Interest rate margins may grow as the result of those fluctuations, however, at the same time they may decrease and cause losses in the event of unexpected fluctuations.
The main sources of interest rate risk are as follows:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities during the remaining period until the next interest rate change (items with fixed interest rate are classified according to the remaining maturity);
- risk of change in inclination and shape of the yield curve (yield curve risk);
- risk of different changes in lending and borrowing interest rates (basis risk) of instruments having identical maturities and denominated in identical currencies, where the interest rates are based on different reference rate types (e.g. EURIBOR vs. LIBOR); and
- optionality risk resulting from options, including embedded options in interest sensitive items (e.g. loans with early repayment possibility, deposits with early withdrawal possibility, and alike).

Exposure to the risk of interest rate changes is monitored based on the requirements of the local regulator in accordance with the Group guidelines.

Exposure to the interest rate risk, monitored in accordance with the requirements of the local regulator, is monitored for significant currencies individually and for all other currencies in the aggregate by monitoring the changes in the economic value of the banking book for: items with a fixed interest rate, variable interest rate, total weighted position as well as the impact of interest rate risk on the net interest income.
The methodology used for risk assessment of interest rate changes is based on the gap analysis of time (maturity) differences. Differences between interest-bearing assets and liabilities in different time "buckets" show how two sides of the balance sheet may react differently to the change of interest rates:

- in case of a positive gap difference, the Bank is exposed to a risk of loss in the event that interest rates of given maturities for the relevant currency fall,
- in case of a negative gap difference, the Bank is exposed to a risk of loss in the event that interest rates of the given maturity for the relevant currency grow.

In accordance with the Group's requirements, interest rate risk is measured from the perspective of interest rate change effects on the enterprise value of the Bank (EV metrics) and from the perspective of earnings, i.e. interest rate change effects on the net interest income of the Bank (NII metrics). Additionaly, interest rate risk is measured by calculating the change in the net present value of the portfolio in case of a shift in the reference rate curve by 0.01% (1 basis point) and it is limited by BPV limit (basis point value limit) as a sensitivity measure. Interest risk is also monitored through the specified VaR model.

Demonstration of the impact of reference rate curve shifts by 0.01% (1 basis point) on the net present value of the portfolio (BP01):

	(BAM)	BP01 banking book December 31, 2020					
	0-3M	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**>10Y**	**Sum**	**EUR**
Total BP01	574	3,685	48,974	70,476	15,161	137,651	38,346
Limit	9,779	48,896	58,675	136,908	39,117	176,025	78,233
Limit utilization	**6%**	**8%**	**83%**	**51%**	**39%**	**78%**	**49%**

	(BAM)	BP01 banking book December 31, 2019					
	0-3M	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**>10Y**	**Sum**	**EUR**
Total BP01	776	8,439	37,072	60,656	9,727	115,119	14,690
Limit	7,823	58,675	78,233	156,466	23,470	195,583	-
Limit utilization		**14%**	**47%**	**39%**	**41%**	**59%**	**n/a**

Stress testing conducted by the Bank for interest rate risk category includes scenarios of various shocks on interest curves. Shocks include change in interest rate level (parallel shifts), curve rotations, change in curve inclination and peaks in specific segments of interest curves.

The review of the Bank's exposure to interest rate risk on December 31, 2020, and December 31, 2019 is shown in the following tables.

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.2. Interest Rate Risk (Continued)

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates

Earnings will also be affected by the maturity structure of the Bank's assets and liabilities:

	Up to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2020								
Assets								
Cash and cash equivalents	130,879	-	-	-	-	33,784	**164,663**	-
Financial assets for trading	-	-	-	-	-	-	**-**	-
Financial assets at fair value through other comprehensive income	9,450	-	29,878	174,691	20,160	6,169	**240,348**	240,100
Financial assets at amortised cost	**152,250**	**354,583**	**398,568**	**124,579**	**56,620**	**124,797**	**1,211,397**	**475,058**
a) Obligatory reserve with the Central Bank	-	-	-	-	-	124,797	**124,797**	-
b) Loans and receivables due from banks	135,447	16,033	-	-	-	-	**151,480**	135,508
c) Loans and receivables due from customers	16,803	338,550	398,568	124,579	56,620	-	**935,120**	339,550
Tangible assets	-	-	-	-	-	23,725	**23,725**	-
Intangible assets	-	-	-	-	-	11,551	**11,551**	-
Current tax assets - pre-paid income tax	-	-	-	-	-	1,089	**1,089**	
Deferred tax assets	-	-	-	-	-	160	**160**	-
Other assets	-	-	-	-	-	5,073	**5,073**	-
Total assets	**292,579**	**354,583**	**428,446**	**299,270**	**76,780**	**206,348**	**1,658,006**	**715,158**
Liabilities								
Financial liabilities at amortised cost	**97,584**	**109,989**	**869,788**	**278,678**	**13,719**	**2,406**	**1,372,164**	**1,314,271**
a) Deposits and borrowings due to banks	49,593	36,114	120,045	53,695	-	-	**259,447**	225,046
b) Deposits and borrowings due to customers	47,991	73,875	749,743	224,983	13,719	-	**1,110,311**	1,089,225
c) Lease liabilities	-	-	-	-	-	2,406	**2,406**	-
Deferred tax liabilities	-	-	-	-	-	557	**557**	-
Other liabilities	-	-	-	-	-	26,109	**26,109**	-
Provisions for risks and expenses	-	-	-	-	-	4,565	**4, 565**	-
Total liabilities	**97,584**	**109,989**	**869,788**	**278,678**	**13,719**	**33,637**	**1,403,395**	**1,314,271**
Equity and reserves	**-**	**-**	**-**	**-**	**-**	**254,611**	**254,611**	**-**
Total liabilities, equity and reserves	**97,584**	**109,989**	**869,788**	**278,678**	**13,719**	**288,248**	**1,658,006**	**1,314,271**
Interest rate mismatch	**194,995**	**244,594**	**(441,342)**	**20,592**	**63,061**	**(81,900)**	**-**	**(599,113)**

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.2. Interest Rate Risk (Continued)

a) **Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates (continued)**

	Up to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2019								
Assets								
Cash and cash equivalents	115,101	-	-	-	-	28,792	**143,893**	-
Financial assets for trading	-	-	-	-	-	244	**244**	-
Financial assets at fair value through other comprehensive income	9,963	183	5,018	192,810	10,914	-	**218,888**	218,888
Financial assets at amortised cost	**88,757**	**365,785**	**489,384**	**126,810**	**59,497**	**127,016**	**1,257,249**	**446,982**
a) Obligatory reserve with the Central Bank	-	-	-	-	-	127,016	**127,016**	-
b) Loans and receivables due from banks	88,115	16,000	-	-	-	-	**104,115**	88,115
c) Loans and receivables due from customers	642	349,785	489,384	126,810	59,497	-	**1,026,118**	358,867
Tangible assets	-	-	-	-	-	24,765	**24,765**	-
Intangible assets	-	-	-	-	-	10,530	**10,530**	-
Deferred tax assets	-	-	-	-	-	6	**6**	-
Other assets	-	-	-	-	-	6,055	**6,055**	-
Total assets	**213,821**	**365,968**	**494,402**	**319,620**	**70,411**	**197,408**	**1,661,630**	**665,870**
Liabilities								
Financial liabilities at amortised cost	**109,321**	**129,766**	**833,023**	**299,986**	**17,426**	**3,076**	**1,392,598**	**1,340,868**
a) Deposits and borrowings due to banks	42,717	94,729	131,852	83,581	978	-	**353,857**	316,115
b) Deposits and borrowings due to customers	66,604	35,037	701,171	216,405	16,448	-	**1,035,665**	1,024,753
c) Lease liabilities	-	-	-	-	-	3,076	**3,076**	-
Current income tax	-	-	-	-	-	381	**381**	-
Deferred tax liabilities	-	-	-	-	-	263	**263**	-
Other liabilities	-	-	-	-	-	18,362	**18,362**	-
Provisions for risks and expenses	-	-	-	-	-	5,231	**5,231**	-
Total liabilities	**109,321**	**129,766**	**833,023**	**299,986**	**17,426**	**27,313**	**1,416,835**	**1,340,868**
Equity and reserves	**-**	**-**	**-**	**-**	**-**	**244,795**	**244,795**	**-**
Total liabilities, equity and reserves	**109,321**	**129,766**	**833,023**	**299,986**	**17,426**	**272,108**	**1,661,630**	**1,340,868**
Interest rate mismatch	**104,500**	**236,202**	**(338,621)**	**19,634**	**52,985**	**(74,700)**	**-**	**(674,998)**

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

34.3.2. Interest Rate Risk (Continued)

a) **Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates (continued)**

The estimated future cash flows for the Bank's interest bearing liabilities and non-interest bearing liabilities as at December 31, 2020 and 2010 are shown in the following table:

	Up to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
December 31, 2020						
Liabilities						
Transaction accounts and deposits of banks	49,593	36,114	120,045	53,695	-	259,447
Transaction accounts and deposits of customers	47,991	73,875	749,743	224,983	13,719	1,110,311
Lease liabilities	53	107	480	1,552	214	2,406
Other liabilities	26,109	-	-	-	-	26,109
Total liabilities	**123,746**	**110,096**	**870,268**	**280,230**	**13,933**	**1,398,273**
December 31, 2019						
Transaction accounts and deposits of banks	42,717	94,729	131,852	83,581	978	353,857
Transaction accounts and deposits of customers	66,604	35,037	701,171	216,405	16,448	1,035,665
Lease liabilities	52	111	498	2,030	385	3,076
Other liabilities	18,362	-	-	-	-	18,362
Total liabilities	**127,735**	**129,877**	**833,521**	**302,016**	**17,811**	**1,410,960**

b) **Effective Interest Rates**

The following table presents the effective interest rates for management reporting purposes, calculated as a weighted average of the period: for financial instruments of assets, including interest expense on assets, and financial instruments of liabilities, including interest income on liabilities:

	December 31, 2020	December 31, 2019
	%	%
Assets		
Funds in excess of the obligatory reserve held with the Central Bank	(0.51)	(0.36)
Loans and receivables due from banks	(0.03)	0.14
Loans and receivables due from customers	4.57	4.79
Financial assets at fair value through other comprehensive income	3.25	3.56
Liabilities		
Deposits due to banks	(0.37)	(0.21)
Deposits due to customers	(0.60)	(0.62)

34.3.3. Risk of Changes in Interest Rate Margin

Within market-risk-measuring techniques, the Bank measures the impact of interest rate margin changes in debt securities with fixed yield. The risk of change in debt securities price due to issuer credit risk change (margin perceived by the market) is measured and limited by CPV limit - basis point credit margin value limit (Credit Spread Point Value). This limit is similar to Basis Point Value (BPV) and limits the risk of change in the net present value of debt securities portfolio if the impact of interest margin change shifts by 0.01% (1 basis point). BPV limits the overall sensitivity of the Bank's items to changes in interest rates and CPV additionally limits investments in debt securities with regard to the volume and duration.

34. RISK MANAGEMENT (CONTINUED)

34.3. Market Risk Management (Continued)

33.3.4. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is defined as exposure of the Bank's financial position to undesirable changes in the movement of interest rates arising from assets and liabilities in the banking book.

The limitation system in accordance with the Group's rules is defined by classification of limits and warning levels depending on the type of limitation and the time required for corrective action in case of a limitation violation.

The Bank's management and control of interest rate risk in the banking book is based on the analysis of metrics/indicators from two perspectives:

- economic value and
- earnings.

The main restrictions by means of which the Bank monitors exposure to risk from the perspective of the economic value are:

- BP01 sensitivity - overall sensitivity and sensitivity per time (maturity) buckets - is calculated as a change in the present value of interest sensitive items arising from the current shock for 1 basis point at each step along the curve. The sum of all sensitivities per time buckets along the curve is BP01;
- EV supervisory standardised shocks - for regulatory reasons, in addition to BP01 metrics, the Group calculates the sensitivity of the economic value as the worst of 6 SOT scenarios result ("parallel up", "parallel down", "flattening", "steepening", "short rates up" and "short rates down"). The impact of the economic sensitivity is measured in relation to Tier 1 capital.

From the perspective of earnings, the Bank monitors the risk exposure through the following limit:

- sensitivity of the net interest income - the standard sensitivity of the net interest income is calculated based on the scenario of current parallel shocks at rates above the one-year time horizon and assuming a consistent balance and constant margin.

Interest rate risk in the Banking Book indicators:	2020	2019
Economic value sensitivity (EV sensitivity) u %	(9.04%)	(4.31%)
Net interest income sensitivity (NII sensitivity) u %	(1.58%)	(0.61%)
BP01 in EUR	70,379	58,863

34.4. Operational Risk

The Bank's management and the Group are regularly informed and receive reports on the aforementioned processes and indicators which constitute the operational risk management system and the operational risk management system is aligned with the standards of the Group and local and international regulations.

Operational risk is a risk of adverse effects on the Bank's financial performance and equity due to omissions made by employees during their work, inadequate internal procedures and processes, inadequate management of the Bank's IT and other systems, as well as a result of externally caused unpredictable events including legal risk.

Losses arising from the following events can be considered as operational risk: internal or external fraud, employee relations and safety at work, customer complaints, fines and penalties for regulatory breaches, damage to material assets of the Bank, system interruptions and system malfunctions, process management.

In accordance with the Group methodology as well as regulations of the RS Banking Agency, the Bank has established and is continuously improving the operational risk management system. The system includes tools and mechanisms for continuous monitoring of damages that the Bank bears due to operational risks and its exposure to operational risks, the assessment of operational risks within processes and products, monitoring of the key risk indicators and defining the ways to avoid, control or transfer operational risks to third parties, as well as a reporting system.

34. RISK MANAGEMENT (CONTINUED)

34.4. Operational Risk (Continued)

For operational risk loss data recording, recording and monitoring of risk indicators, the Bank uses Group's ARGO tool, whereas for reporting process and data analyses related to operational risks, the Bank uses Group's BO Tool (Business Object Tool).

In order to further raise awareness of the importance of operational risk management in the Bank, in 2020 an Operational and Reputational Risk Committee was formed whose main goal is to inform members of the Committee on the Bank's exposure to operational and reputational risk (analysis of operational risk events, executed process analysis, identification of risk mitigation measures, trend of operational risk indicators, etc.).

Given that the Bank is exposed to operational risks in all its business activities and in order to raise awareness about the concept, significance of and responsibilities in process of operational risk management, the Bank has developed a system of electronic (online) education for all its employees as well as an education system for operational risk monitors through regular monthly meetings. An online training for all employees was conducted in December 2020.

34.5. Reputation Risk

Taking into account the significance of reputation risk, which is defined as a risk of adverse effects on the Bank's financial performance (result) and equity due to loss of trust in the Bank's integrity triggered by unfavourable public opinion on the Bank's business practices or activities of the members of its bodies, irrespective of whether the grounds for such an opinion does or does not exist, the Bank manages the reputation risk by means of adopted and implemented special policies and procedures governing the area of the reputation risk management and acting with transactions in specific industries (nuclear energy, weapons industry, infrastructure water-dam, electricity production in coal-fired power plants, and mining sector), as well as by ongoing raising of the awareness of its employees of the significance of the reputation risk management using electronic education for staff.

In the area of reputational risk management, the Operational and Reputational Risk Management Committee discusses and makes decisions on reputational risk for transactions related to sensitive sectors and other cases proposed by the business side (other relevant sectors or clients) that are assessed as high-risk transactions.

34.6. Capital Management

The Bank's objectives in capital management are:

- compliance with capital requirements set by regulators of banks and capital markets,
- maintenance of the Bank's ability to continue the business operations so that it could ensure return to shareholders and benefits for other stakeholders; and
- maintenance of a strong capital basis to support the development of its business activities.

BARS decisions prescribe the method of calculating capital requirements for credit, market and operational risk, the method of calculating capital, as well as the level of capital rates, which banks are obliged to maintain continuously, including protective layers of capital.

The minimum prescribed rates and ratios that banks must meet at all times are as follows:

- Common Equity Tier 1 Capital Ratio of 6.75%;
- Common Equity Tier 1 Capital of 9%; and
- the regulatory capital adequacy ratio of 12%.

For each of the above ratios an ongoing maintenance of the capital buffers of 2.5% for the preservation of capital is prescribed.

In addition to the prescribed ratios, requirements are planned (still not prescribed) for other capital buffers, i.e. for the combined capital buffer representing the minimum ratio of the Common Equity Tier 1 Capital increased by the preservation of capital buffer and increased by the following buffers, depending on what is applicable, namely:

- bank-specific countercyclical buffer;
- buffer for a systemically important bank (prescribed in the range from 0% to 2%; it will be prescribed for each bank individually after BARS has ranked the banks according to the systemic importance); and
- buffer for systemic risk.

34. RISK MANAGEMENT (CONTINUED)

34.6. Capital Management (Continued)

The decision on temporary measures of banks to mitigate negative economic consequences caused by the viral disease "COVID-19" stipulates that banks are obliged to, in order to preserve capital, postpone and / or cancel the payment of dividends during the validity of this decision.

As this decision was valid until the end of 2020, the Bank has not paid a dividend from the net profit of 2019. Dividend from 2019 should be paid to the Bank's shareholders in the amount of KM 14,780 thousand within one month from the termination of the said decision, and the amount provided for its payment is not included in the calculation of regulatory capital as at December 31, 2020.

The amount of regulatory core (T 1) and Common Equity Tier 1 Capital (CET 1), as well as their rates calculated in accordance with the BARS regulations are shown in the following table:

Item	December 31, 2020 BAM 000	December 31, 2019 BAM 000
REGULATORY CAPITAL	**219,102**	**213,116**
CORE CAPITAL	**209,279**	**202,262**
COMMON EQUITY TIER 1 CAPITAL	**209,279**	**202,262**
Equity instruments recognized as regular core capital	97,428	97,428
Paid-in equity instruments	97,055	97,055
Share issue premiums	373	373
Retained earnings	68,384	60,695
Other comprehensive income	2,575	2,123
Other reserves	52,603	52,552
(–) Other intangible assets	(11,551)	(10,530)
(–) Deferred tax assets that are dependent on future profitability and do not arise from temporary differences minus related tax liabilities	(160)	(6)
SUPPLEMENTARY CAPITAL	**9,823**	**10,854**
General credit risk provisions in accordance with the standardized approach	9,823	10,854
Common Equity Tier 1 Capital ratio	22.46%	19.74%
Core capital ratio	22.46%	19.74%
Regulatory capital ratio	23.51%	20.80%

Realised capital ratios as at December 31, 2020 are significantly above the prescribed minimums.

In addition to these rates, the banks are required to provide and maintain a leverage coverage ratio, as an additional security and simple protection, of at least 6%.

The leverage coverage ratio is calculated as the ratio of share capital and total risk exposure of the bank on the reporting date, expressed as a percentage, and as at December 31, 2020, it is significantly above the prescribed minimum and amounts 12.08%.

35. FUNDS MANAGED ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES

The Bank manages funds related to transactions for the account and on behalf of third parties; it records these transactions and funds off balance sheet, separated from its own assets. The Bank charges fees for managing funds on behalf of third parties. Income and expenses per these funds are posted as income or expenses of the owner or user.

Investments related to the funds managed on behalf of third parties are presented in the table below:

	December 31 2020 BAM '000	December 31, 2019 BAM '000
Consignment investments	84	193

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. It can also be defined as the value at which it is possible to dispose of assets/liabilities, or the appraised value of the neutralisation of the market risk arising from the assets/liabilities in the appropriate time-frame.

Assumptions used in assessing and measuring the fair values of financial instruments are based on application of centralised calculation developed at the Group level, which uses IFRS 13 as a unique source of guidelines to measure the fair value.

Financial instruments are considered as quoted on an active market if the quoted prices are easily and regularly available and if the prices represent actual and regular market transactions under common market terms.

All financial instruments are classified in accordance with classification criteria into three different hierarchy levels of fair values:

- hierarchy level 1: fair value is determined on the basis of prices for identical assets or liabilities available as at the measurement date, i.e. if the financial instruments are present in an active market;
- hierarchy level 2: fair value is determined based on a valuation model for which input data is obtained from an active market when it is not possible to use inputs used in assessment of Hierarchy Level 1;
- hierarchy level 3: fair value is determined based on a valuation model for which input data is not present in an active market, i.e. when more significant adjustments are needed.

In its methodology, when determining hierarchy levels for performing loans and deposits of banks and customers, the Group uses the following additional criteria:

- hierarchy level 2: (risk-free rate, i.e., FV risk-free - adjusted rate for credit spread for the expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or FV risk-free ≤ 5%;
- hierarchy level 3: (risk-free rate, i.e., FV risk-free - adjusted rate for credit spread for expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or FV risk-free > 5%.

The Bank classifies non-performing loans (NPL) in accordance with the Group Instructions in such a manner that it equals their carrying and fair values. All assets and liabilities of the Bank are classified into hierarchy level 2 and level 3.

The Bank classifies debt securities into Level 2 and the fair value adjustment is performed in accordance with the centralised calculation of the Group.

	December 31, 2020				December 31, 2019			
	Fair value	Carrying value	Variance		Fair value	Carrying value	Variance	
	BAM '000	BAM '000	BAM'000	%	BAM '000	BAM '000	BAM '000	%
Loans and receivables due from banks	276,658	276,277	381	0.14%	231,131	231,131	-	0.00%
Loans and receivables due from customers	971,514	935,120	36,394	3.89%	1,062,734	1,026,118	36,616	3.57%
Total	**1,248,172**	**1,211,397**	**36,775**	**3.04%**	**1,293,865**	**1,257,249**	**36,616**	**2.91%**
Deposits and borrowings due to banks	259,940	259,447	493	0.19%	353,140	353,857	(717)	(0.20%)
Deposits and borrowings due to customers	1,106,353	1,110,311	(3,958)	(0.36%)	1,029,918	1,035,665	(5,747)	(0.55%)
Total	**1,366,293**	**1,369,758**	**(3,465)**	**(0.25%)**	**1,383,058**	**1,389,522**	**(6,464)**	**(0.47%)**

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Levels of fair value of the Bank's assets and liabilities in accordance with IFRS 13 are presented in the table below:

	December 31, 2020			December 31, 2019		
	Fair value levels			Fair value levels		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Loans and receivables due from banks	-	-	276,658	-	-	336,105
Loans and receivables due from customers	-	265,576	705,938	-	430,713	632,022
Total	**-**	**265,576**	**982,596**	**-**	**430,713**	**968,127**
Deposits and borrowings due to banks	-	224,560	35,380	-	312,683	40,458
Deposits and borrowings due to customers	-	-	1,106,353	-	-	1,029,918
Total	**-**	**224,560**	**1,141,733**	**-**	**312,683**	**1,070,376**

37. EVENTS AFTER THE REPORTING PERIOD

After the reporting date, there have been no events that would require additional disclosures in or any adjustments to the financial statements (adjusting events) until the date of their issuance.

38. ABBREVIATIONS

BARS - Banking Agency of Republika Srpska
ALCO - Asset - Liability Committee
Bank - UniCredit Bank a.d. Banja Luka
BPV - Basis Point Value
CET 1 - Common Equity Tier 1 Capital ratio
CPV - Credit Spread Point Value
EAD - Exposure at Default
EBA - European Banking Authority
ECL - Expected Credit Loss
EIR - Effective Interest Rate
EU - European Union
EV - Economic value
FLI - Forward Looking Information
FV - Fair value
Group - UniCredit Group
SE - Securities
ICAAP - Internal Capital Adequacy Assessment Process
IFRIC - International Financial Reporting Interpretations Committee
IT - Information Technology
LGD - Loss Given Default
IAS - International Accounting Standards
IFRS - International Financial Reporting Standards
NPL - Non-Performing Loans
PD - Probability of Default
VAT - Value Added Tax
POCI - Purchased or Originated Credit Impaired
PSC - Performance Status Code
RS - Republika Srpska
RWA - Risk Weighted Asset
SPPI - Solely Payments of Principal and Interest
TTC - Through The Cycle
VaR - Value at Risk
WL - Watch List

Do the right thing!
For Diversity & Inclusion

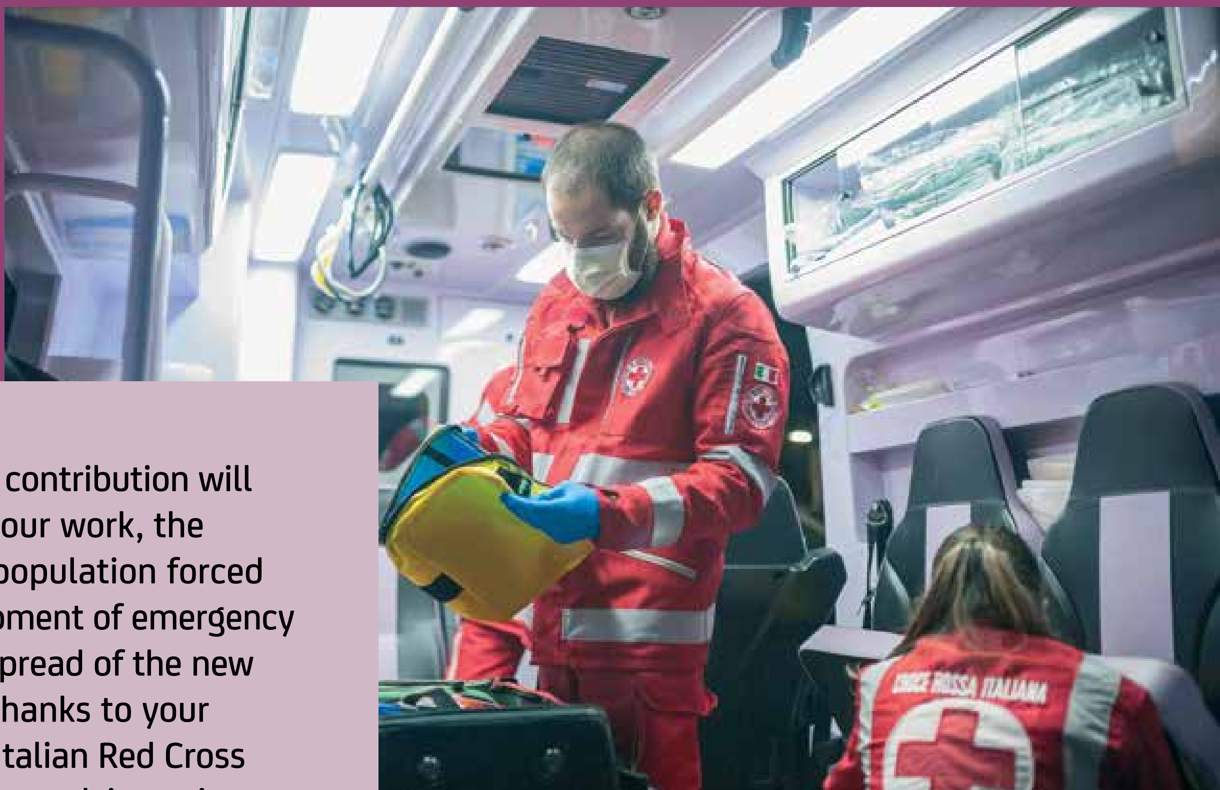
UniCredit is committed to promoting a positive working environment that embraces our core values: Ethics & Respect.

TAKING ACTION AT THE 2020 D&I WEEK

More than 21,000 colleagues joined our 100 events in 15 countries. With 270 external speakers and 145 hours of workshops, coaching sessions and online discussions, we made sure everyone could join UniCredit's second annual Diversity & Inclusion Week.

Do the right thing!
For our Communities

UniCredit is proud to support communities in all of our countries: we launched formal and informal initiatives, with a wide range of volunteering activities and donations, employees and customers raising and donating millions of euros.



> "Your generous contribution will help, through our work, the entire Italian population forced to face this moment of emergency linked to the spread of the new Coronavirus. Thanks to your donation, the Italian Red Cross continues to expand, investing in services, resources and training for volunteers and operators to be alongside those who need it most."
>
> **Francesco Rocca**
> President of the Italian Red Cross

Business Network of UniCredit Bank a.d. Banja Luka as at 31.12.2020.

Branch	Address	City	Phone no:
FREE INFO LINE			**080/051-051**
BANJALUKA-PRIJEDOR REGION			
BRANCH BANJA LUKA	Marije Bursać 7	Banja Luka	051/243-200
BRANCH BANJA LUKA 2	Jevrejska 50	Banja Luka	051/246-662
BRANCH BANJA LUKA 3	Carice Milice 2	Banja Luka	051/246-645
BRANCH BANJA LUKA 4	Bulevar srpske vojske 8	Banja Luka	051/243-441
BRANCH ČELINAC	Kralja Petra I Karađorđevića 65	Čelinac	051/551-144
BRANCH KOTOR VAROŠ	Cara Dušana 28	Kotor Varoš	051/783-260
BRANCH MRKONJIĆ GRAD	Svetog Save 13	Mrkonjić Grad	050/211-190
BRANCH ŠIPOVO	Prve šipovačke brigada 1	Šipovo	050/371-337
BRANCH PRIJEDOR	Vožda Karađorđa 9	Prijedor	052/240-381
BRANCH KOZARAC	Maršala Tita bb	Kozarac	052/346-052
BRANCH NOVI GRAD	Karađorđa Petrovića 33	Novi Grad	052/751-956
BRANCH KOZARSKA DUBICA	Svetosavska 41	Kozarska Dubica	052/416-346
DOBOJ-GRADIŠKA REGION			
BRANCH LAKTAŠI	Karađorđeva 63	Laktaši	051/532-215
BRANCH GRADIŠKA	Vidovdanska bb	Gradiška	051/813-412
BRANCH SRBAC	Mome Vidovića 17	Srbac	051/740-251
BRANCH DOBOJ	Karađorđeva 1	Doboj	053/241-200
BRANCH TESLIĆ	Svetog Save 77	Teslić	053/431-501
BRANCH DERVENTA	Kralja Petra 1 Karađorđevića bb	Derventa	053/312-211
BRANCH ŠAMAC	Svetosavska 9	Šamac	054/611-843
BRANCH BROD	Jovana Raškovića bb	Brod	053/621-491
BRANCH PRNJAVOR	Svetog Save 25	Prnjavor	051/660-295
SARAJEVO-BIJELJINA REGION			
BRANCH BIJELJINA	Patrijarha Pavla 3a	Bijeljina	055/221-280
BRANCH UGLJEVIK	Ulica Ćirila i Metodija bb	Ugljevik	055/771-302
BRANCH ZVORNIK	Karađorđeva bb	Zvornik	056/214-147
BRANCH SREBRENICA	Vase Jovanovića 32	Srebrenica	056/440-269
BRANCH BRATUNAC	Svetog Save bb	Bratunac	056/490-178
BRANCH PALE	Milana Simovića bb	Pale	057/203-022
BRANCH LUKAVICA	Spasovdanska 31	Lukavica	057/318-299
BRANCH SOKOLAC	Cara Lazara bb	Sokolac	057/401 061
BRANCH ROGATICA	Srpski sloge bb	Rogatica	058/420-092
BRANCH VLASENICA	Svetosavska 82	Vlasenica	056/734-318
TREBINJE-FOČA REGION			
BRANCH TREBINJE	Kralja Petra Prvog Oslobodioca br. 22	Trebinje	059/270-628
BRANCH BILEĆA	Kralja Aleksandra 14	Bileća	059/370-066
BRANCH GACKO	Trg Save Vladislavića bb	Gacko	059/490 351
BRANCH NEVESINJE	Nevesinjskih ustanika 27	Nevesinje	059/610-471
BRANCH FOČA	Njegoševa 10	Foča	058/220 972

Do the right thing!
For our Environment

Our new sustainability targets, shared at the end of 2019, encouraged several sustainability-focused initiatives in 2020 focusing on protecting our environment.

CAUSING A BUZZ AT OUR NEW AUSTRIAN HQ

Not only employees moved into UniCredit new Austrian headquarters. They were joined by over one million honeybees, working hard to pollinate the nearby surroundings and make honey which will be harvested by UniCredit employees. What a sweet result!