Do the right thing!

2020

Annual Report

Banking that matters. | UniCredit Bank

Contents

“Guided by our values, ethics and respect, we are committed to Doing the right thing!”

Report of the President of the Board

Amina Mahmutović
President of the Board

Dear clients, shareholders and business partners

It is my pleasure to present to you the business results that UniCredit Bank d.d. (the “Bank”) achieved in 2020. Despite the impacts that the Covid-19 pandemic has brought in all spheres of life and business in the world, we are extremely proud of the efforts and commitment of our employees and achievements in this challenging year.

In 2020, we maintained our leading position in Bosnia and Herzegovina by all the most significant financial criteria. Our work has been recognized, and our success confirmed by numerous worldly relevant and respectable awards, of which we single out the recognition of Global Finance magazine for the best bank in Bosnia and Herzegovina, which confirms our commitment to supporting the local economy and the title of best bank in Bosnia and Herzegovina awarded by Euromoney magazine as a clear proof of the continuous work of our team and the provision of quality services to our clients. We crowned the year with the "Bank of the Year" award in Bosnia and Herzegovina, which is awarded by The Banker magazine, and which is considered the standard for banking excellence. In addition, we highlight the titles of market leader in Bosnia and Herzegovina for financing trade in 2020, as well as the recognition for the best provider of transaction business services in 2020 by Euromoney magazine, and the Golden BAM award for the largest assets and largest total capital we receive for the seventh year in a row. In the circumstances brought to us by the pandemic and the conditions in which the banking sector had to provide simple solutions that will provide superior service, but also security to customers, the Bank presented to the Bosnian market a new version of mobile banking application, m-ba, in modern design, with more functionality and additional benefits for users. Consequently, we were awarded the Golden BAM plaque for the best mobile application in banking in Bosnia and Herzegovina, as a confirmation of our commitment to digitalization. It is very important to point out that even in such a difficult year, we have not neglected the satisfaction of our employees, and for 12 years in a row we are among the 10 most desirable employers in Bosnia and Herzegovina, according to a survey by the MojPosao.ba portal.

Although the impact of the Covid-19 virus pandemic could not have bypassed us, our achievements show that the market continuously recognizes us as a reliable partner. The Bank ended the business year with total income and net profit, which are expected to be lower, and a net profit of KM 74.2 million was realized, which is KM 26.8 million less compared to the previous 2019. The profit was significantly affected by increased provisioning costs, which are in line with our conservative approach to risk assessment and macroeconomic forecasts, and which has resulted in a quality portfolio for years.

In 2020, the net loan-to-deposit ratio was 62.6%, and the bank confirmed its high capitalization through a capital adequacy ratio of 20.1%, which confirms the stability and security of operations with the Bank.

We are aware that being a market leader carries a special obligation towards the society in which we operate. Although 2020 has had immeasurable consequences for society, the Bank has launched various activities during this challenging year to provide support and assistance to communities and individuals in difficult times. We donated over 200,000 KM for the purpose of fighting the Covid-19 virus, procuring the necessary protective equipment for 6 cantonal hospitals, donating protective masks to fellow citizens, and in cooperation with the Association of Banks we participated in the procurement of necessary respirators and medical equipment. We provided technical equipment to educational institutions, students and pupils who needed it for the smooth running of the teaching process. Through the "Childhood Support" call together with the UniCredit Foundation, the Bank has supported the work of non-governmental organizations working with children and youth. We believe in our young people and their ability to achieve great results in spite of all challenges, and we are happy that we can help their efforts to achieve new successes. I would also like to emphasize the solidarity of our employees, who, through an internal donation program, raised funds and provided 2,000 meals for socially disadvantaged families in the "Meal for All" project.

Ethics & Respect

Do the right thing!

The past year has brought many challenges, but we have managed to maintain the positive trend of the Bank's main business indicators. The way we achieve results is just as important as the results themselves. Guided by our values, ethics and respect, we are committed to Doing the right thing! As the world around us continues to change, we must ensure that we are all safe, but also adapt to the new business circumstances that surraound us. With digitalization and further development of services, we will monitor the new life needs of our clients. We know that customer care, along with dedicated employees and responsible risk management are the recipe for top results, so we continuously invest in the education of our employees, who are the most valuable resource of the Bank. Regardless of the challenges ahead, we firmly believe that as a leading bank we should be an example of support to customers and the economy, and drivers of recovery.

The special strength of our Bank lies in its affiliation with the UniCredit Group, which, in addition to professional knowledge and experience, provides our clients with a unique international reach. In line with our Group's strategic plan, we will continue to prioritize long-term sustainability over short-term results, positioning ourselves as a stable and long-term partner.

On behalf of the Bank's Management Board and on my personal behalf, I would like to thank all clients and business partners for their trust. We owe our sincere gratitude to our employees, who have shown the highest level of commitment and flexibility during the very challenging times we have all faced, as well as the hard work and effort to further improve each segment of the Bank's business.

I hope that our activities will justify your confidence in the year ahead.

Sincerely yours,

Amina Mahmutović

President of the 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.

Economic Environment in Bosnia and Herzegovina

Macroeconomic review of the year 2020

The global health crisis marked 2020. In every area of life, both private and business and scientific, there have been sudden and significant changes all over the world. At the beginning, 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 the 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 has been remarkable knowledge 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 conclusion that the whole process should be completed within 18 months. As early as the end of 2020, certain countries started the vaccination process, which is an extremely large advance 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 for the next few years, and strong lockdown measures are still in force in most European countries even in 1Q 2021. Since the beginning of 2020, the 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 whether a new wave would occur, especially after the summer, which unfortunately happened.

The situation in Bosnia and Herzegovina's economy deteriorated rapidly amid special circumstances caused by the COVID-19 pandemic in April and May. GDP forecasts changed many times during 2020, from more optimistic to pessimistic, but in the end the last estimate for the end of the year was kept at -5.2% y / y. The recovery after the lifting of the COVID-19 restriction at the end of May was not very pronounced, indicating a weak recovery in the second half of 2020. However, although the pandemic situation deteriorated significantly during October, only relatively mild restrictive measures were introduced, suggesting that the economic recovery continued in 4Q20. Other high-frequency indicators in 2020 also recorded large deteriorations. Foreign trade has already reached major negative trends at the first close. The largest annual decrease compared to the previous year was recorded in exports and imports in May (-16% and -19.2%, respectively), followed by a slight improvement, but with the fact that 2020 ended with a large lag in compared to 2019 (-8.5% and -13.4%, respectively). The slow recovery in the second half of 2020 reflects the general increase in COVID-19 cases in Europe and the associated uncertainty.

Industrial production, despite a slight improvement after the "lockdown", remained below pre-COVID-19 pandemic levels of (-6.2%). The results of the manufacturing industry were even worse. Production in this category decreased by (-7.6%) compared to the previous year. The labor market has been severely affected by the impact of the COVID-19 event, which has further exacerbated the certainly poor situation of 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 a significant lag compared to the year before the pandemic. All this leads to a steady rise in the unemployment rate, and it will take a long time for BH to regain the positive trend it was in the previous year.

In 2020, the retail index decreased by (-8.3%) compared to 2019, reflecting a further significant decline in household consumption, despite a slight improvement over 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 GDP in 2020 at the end of 2020. The deterioration is due to a sharp decline in export earnings and remittance inflows 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 and Herzegovina's GDP. 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 budget surpluses and moderate debt levels, and thanks to financing from foreign financial institutions. Confirmation of the sustainability of the fiscal position was also given by the agencies S&P and Moody's, which in 2020 confirmed the credit ratings of Bosnia and Herzegovina (B with a stable outlook and B3 with a stable outlook, respectively).

Expectations

The economic recovery is expected to begin in the second quarter of 2021, supported by vaccination and treatment with COVID-19. This should allow GDP growth of around 4% throughout the year. The main drivers of acceleration are also expected to 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 labor 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.

Macroeconomic review of the year 2020 (CONTINUED)

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, which was expected, stability remained in the 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.

In the year before the COVID-19 pandemic, the banking sector's operations were also challenging given 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 submit by moratorium request until the end of 2020.

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

The banking sector for the period I-IX 2020 made a profit before tax in the amount of 213 million BAM.The worsening trend is reflected in all categories of profit and loss accounts. The decrease compared to the same period last year was also recorded in non-interest income due to the reduced volume of operations and payment transactions. The costs of the banking system have increased due to additional investments and adjustments to the new way of doing business at the time of the pandemic.

Loan volumes have been reduced by 2% compared to the end of 2019, but given the one-time effect of the change in reporting methodology in 2020. For the year related to write-offs of non-performing loans, the decrease is much smaller than the originally expected negative effects. Banks based in the FBH recorded a more pronounced decline than those based in the RS entity.

Deposits continued with a growing trend of 4.9% in 2020 compared to 2019, which is still a lower growth rate before COVID-19. The structure of deposits is on the side of transaction deposits, while time deposits decreased. This is also a result of the impact of low interest rates under the influence of market prices.

Expectations

Considering the macroeconomic projections, which predict a recovery from 2Q 2020, a moderate recovery is expected in loans, but also deposits and remittances from abroad. The banking sector will continue to reduce profitability in the next year, but the goal is to maintain stability and sufficient provisions for loans, especially due to the beginning of repayment of loans that were under a moratorium during 2020.

Financial Overview and Business Performance

UniCredit Bank d.d. (hereinafter the “Bank”) is a licensed commercial bank headquartered in Bosnia and Herzegovina, and it is a part of UniCredit Group.

The Bank provides the full set of banking and financial services, including corporate banking, retail banking, financial institutions, international operations, investment banking services, and financial leasing services.

The Bank's associate as of 31 December 2020 are presented in the table below:

Associate consolidated using equity method

Legal entity	Address	Headquarters country	Area of operations	Equity owned by the Bank %
UniCredit Broker d.o.o. Sarajevo – in liqudation	Obala Kulina bana 15 Sarajevo	Bosnia and Herzegovina	Brokering companies in insurance	49%

Map of the Branch Network

Retail Segment

Organisation

The retail segment offers a wide range of products and services to individual clients and small business banking clients, and manages the branch network and direct channels of distribution.

The business network is divided into 10 regions, which are further split into branches located throughout Bosnia and Herzegovina, and as of the end of 2020, there were 71 branches.

Business in 2020

The Bank's special focus is on managing the customer experience that customers have recognized and confirmed by the increased level of satisfaction expressed in the 2020 survey.

In the area of credit operations, the Bank was primarily focused on approving special measures for the Bank's clients, whose creditworthiness has deteriorated, ie whose sources of repayment have been reduced due to the negative impact of the COVID-19 pandemic.

As a part of the card business, the year was marked by activities related to the increase in the number of debit card users, with the highest security standards and modern payment solutions. We remained focused on the development of new benefits for our cardholders and paid special attention to contracting, advertising and offering benefits to customers at points of sale.

In 2020, the Bank completed the project of migration of all card products to contactless technology, and the growth trend of the number of contactless EFT POS devices is continued.

Annual growth in the acceptance of card transactions continues to record an upward trend in merchants who have agreed to accept cards with the Bank. A special focus in 2020 is dedicated to support in increasing the number of Internet stores that offer the possibility of card payments, and accordingly there has been an increase in card traffic with Internet merchants, who have enabled card acceptance at UniCredit Bank.

During the pandemic period, the bank found solutions so that clients had access to funds without having to come to the branches, relieving clients of the cost of issuing their first debit card.

Throughout 2020, the growth in sales and use of MODULA product and service packages, the first package on the BH market, continues to allow its customers the freedom to choose the package, depending on the client's needs and habits.

In addition to the basic set of products and services (current account, contactless Debit Mastercard and m-ba mobile banking), the client selects and adds the remaining products and services, thus achieving considerable annual savings over the prices of their individual use.

In line with the Bank's long-term strategy in the field of development and improvement of digital business channels, in 6/2020 we published a new, redesigned version of mobile banking (m-ba) which provided customers with an even simpler, better and more affordable application for use with many innovative solutions. We strive to provide our clients with the highest quality services for digital business, and to continuously educate them about their benefits. The focus on raising awareness of our customers about the benefits of doing business through Mobile and Internet banking services in 2020, realized through continuous sales and promotional activities, resulted at the end of the year with over 188,000 active users of electronic services, which is a significant increase compared to the previous year. In accordance with the needs and habits of its clients, the Bank will continue to develop and improve electronic services in the next period.

Through the continuous process of optimization and improvement of the Bank's website, which has been continued throughout the past year, we strive to provide our customers with comfortable and easy navigation, that is, searching for desired information and content.

The Bank's ATM network has a total of 271 ATMs, of which at the end of the year we have 82 deposit-withdrawal ATMs in production. At these ATMs, in addition to the basic functionality of cash withdrawals and the purchase of prepaid top-ups for mobile phones (! Hej and ULTRA), it is also possible to make payments to the account 24 hours a day, regardless of the opening hours of the branches.

In line with the trend from previous years, the modernization of Bank's business network was continued in accordance with modern standards of functionality and design, with the aim of providing our clients with efficient and ultimately comfortable business.

Corporate and Investment Banking Segment

The business environment in 2020 was extremely demanding and challenging due to the impact of the unprecedented COVID-19 pandemic, which marked the entire economic trends both in Bosnia and Herzegovina and globally. UniCredit Bank recognized complex market conditions on time and successfully adapted to them throughout the year.

Total loans to legal entities at the end of 2020 amounted to KM 1,462 million. Although they recorded a decline compared to 2019, the Bank managed to confirm its position as the leading bank in the market as the most important partner in financing the state and private companies in significant investments in the energy, manufacturing and trade sectors, while maintaining a high quality loan portfolio. application of quality risk management methods. In line with the gradual recovery of the economy, credit activity also grew, culminating in 4Q when there was a significant increase in credit activity in the area of investment loans.

Deposits of corporate clients at the end of 2020 amounted to KM 1,838 million and recorded a slight decrease compared to 2019, mostly due to a decrease in time deposits. By maintaining the deposit activity, we confirm the trust of our clients, to whom we guarantee security and stability in further business.

In extremely complex economic conditions, the Bank continuously provided business support to corporate clients through continuous monitoring of clients and placements whose business is endangered by the pandemic and the adoption of a number of measures to overcome the negative consequences of the pandemic: moratorium on loan repayment, grace period, extension of maturity, approval of additional exposure and other measures. As the largest partner to the Government of the Federation BH from the banking system, we have provided support in the form of participation in the credit line of the Guarantee Fund, which is of special importance for our businessmen. We continued to be committed to supporting the local economy, and through this Fund, we have simplified the provision of liquidity to our clients and the preservation of healthy capital. In addition, a contract was signed with the Ministry of Economy of Tuzla Canton on the placement of loans worth a total of 60.5 million KM, which is planned to support legal entities from the Tuzla Canton, which perform production, trade or service activities.

For many years, we have been maintaining the quality of business recognized by the profession and clients, and thus have been proclaimed Euromoney the market leader and best provider in cash management, and the market leader and best provider of Trade Finance services in BH.

We want to continue to support our private and public sector clients as a market leader through a deeper knowledge and understanding of clients, identifying their needs, leveraging the expertise and global presence of UniCredit Group in the areas of all financial products and services. We will continue to be at the service of our clients and our community, and always do the right thing.

Overview of business operations of the Bank

In 2020, the Bank made a profit before tax in the amount of KM 82.7 million, which is KM 31.7 million less compared to the previous year (-27.7%).

During 2020, a pandemic caused by the Covid-19 virus affected the Bank's business activities and its profitability. The slowdown in economic activity has led to a reduction in all categories of income.

Income and expenses

The realized revenues of the Bank for 2020 amount to KM 237.2 million and compared to the previous year they record a decrease of KM 12.7 million (-5.1%).

Total net interest income amounts to KM 149.2 million, and accounting for 62.9% of total income.

Net income from fees and commissions amounts to KM 71.4 million, accounting for 30.1% of total income. Net gains from the purchase and sale of currencies and exchange rate differences and other revenues amount to KM 16.56 million and account for 7% of total revenues.

Net interest income

Realized net interest income in 2020 amounts to KM 149.2 million, which is a decrease (-8.0%) compared to the previous year. Interest income decreased for (-7.2%),and interest expenses for (-1.5%).

Net fee and commission Income

Net income from fees and commissions amounts to KM 71.4 million and recorded an annual growth of KM 1 million (+ 1.4%).

The increase in income from fees and commissions was achieved mainly through the growth of income from product packages.

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities

Net gains from the purchase and sale of currencies and exchange rate differences after the translation of monetary assets and liabilities revenues in 2020 amount to KM 11.6 million and recorded a decrease of KM 3.5 million compared to last year.

Other income

Other revenues amount to KM 4.95 million and are higher by KM 3 million compared to the previous yeardue to the collection of written-off receivables.

Operating expenses

Total operating costs in 2020 amount to KM 128.9 million and are higher by KM 1.4 million (+ 1.1%) compared to the previous year (increase in depreciation costs and deposit insurance costs with a decrease in more functional costs).

The share of operating expenses in operating income is 54.3%.

Impairment losses and provisions

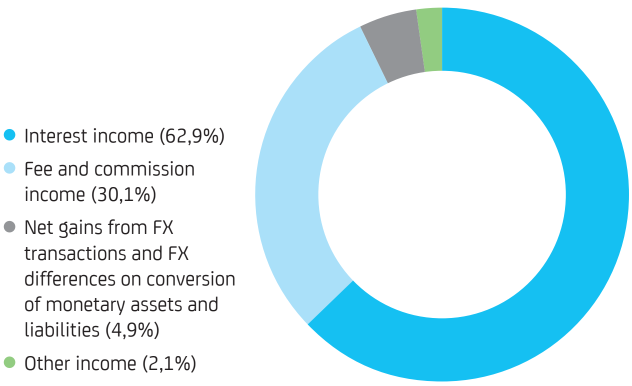
Total impairments and provisions for 2020 amount to KM 25.6 million.

Impairment losses and provisions for loans and receivables amount to KM 31.1 million. The net cost of impairment of loans and receivables is the result of KM 25.3 million of the cost of provisions for Phase 1 and Phase 2, and the cost of provisions for the non-performing portfolio of KM 5.8 million (of which KM 3.6 million relates to legal entities revoked, and to citizens 9.4 million KM of reservation costs).

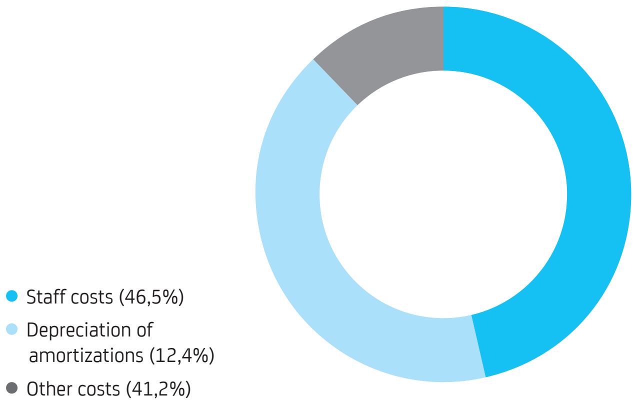
Other impairments and provisions amount to KM 5.5 million of release of provisions and are the result of release of provisions on off-balance sheet KM 9.6 million, cost of provisions on litigation KM 1.7 million, release on other assets KM 0.7 million, release of material value assets KM 0.1 million, the cost of provisions for assets taken over for outstanding receivables KM 1.3 million and provisions for securities 1.5 million KM and the cost of provisions for banks KM 0.4 million.

Income and expenses structure for 2020

STRUCTURE OF INCOME



STRUCTURE OF EXPENSES

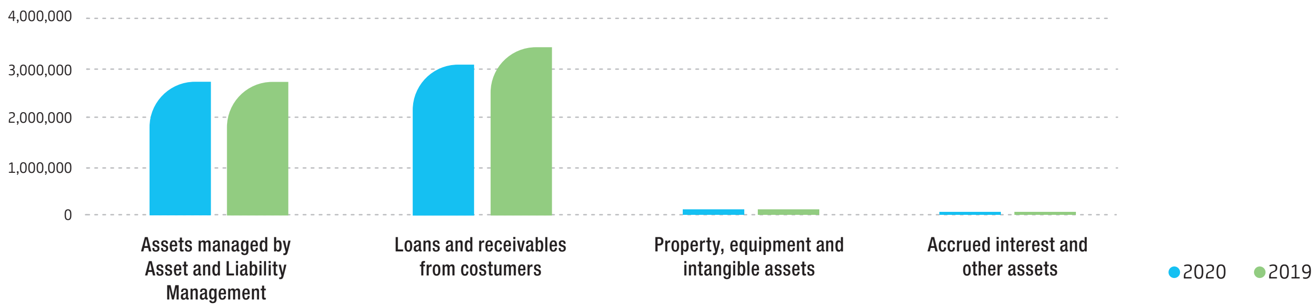


Bank's assets and liabilities

Bank's assets

The Bank's assets as at 31 December 2020 amount to KM 6,099.7 million and record a decrease of KM 471.1 million (-7.2%) compared to the previous year. The significant decline in assets is mainly the result of the decline in assets and liabilities management (-24.5 million KM / -0.9%) and the decline in loans and receivables from customers, which recorded a decline of KM 440.9 million (-12.4%), compared to the previous year, due to the slowdown in economic activity caused by the COVID-19 virus.

Structure of Bank's assets – comparison to the previous year in KM '000



Assets managed by Asset and Liability Management

Assets of the Assets and Liabilities Management sector consist of: cash and cash equivalents, required reserves and free funds with the Central Bank of Bosnia and Herzegovina, loans and receivables from banks, and securities.

These assets account for 46.7% of the Bank's total assets, and compared to the previous year it decreased by KM 24.9 million (-0.9%) and amounts to KM 2,847.7 million..

Overview of business operations of the Bank (CONTINUED)

Bank's assets and liabilities (CONTINUED)

Bank's assets (CONTINUED)

Assets managed by Asset and Liability Management

The structure of these assets is as follows:

Bank (in KM '000)	31 December 2020	31 December 2019.	Change
Cash and cash equivalents	807,911	760,047	6.3%
Obligatory reserve with CBBH	494,406	535,483	-7.7%
Placements and loans to other banks	922,463	1.049,855	-12.1%
Financial assets at FVOCI	622,935	527,263	18.2%
	2,847,715	**2,872,648**	**-0.9%**

Despite the COVID 19 pandemic, the Bank's liquidity was not endangered at any time, ie the Bank maintained liquidity significantly above the required limits of the Banking Agency of the Federation of Bosnia and Herzegovina and the Central Bank of Bosnia and Herzegovina throughout the year.

Loans and receivables from clients

The structure of loans and receivables from Bank's clients is as follows:

Bank (in KM '000)	**31 December 2020**	**31 December 2019**	**Change**	**Change %**
Gross loans				
Corporate	1,463,927	1,737,434	-273,507	-15.7%
Retail	1,861,171	2,105,625	-244,454	-11.6%
Total	**3,325,098**	**3,843,059**	**-517,961**	**-13.5%**
Impairment				
Corporate	117,309	164,245	-46,936	-28.6%
Retail	**95,743**	**125,901**	**-30,158**	**-24.0%**
Total	**213,052**	**290,146**	**-77,094**	**-26.6%**
Net loans				
Corporate	1,346,618	1,573,189	-226,571	-14.4%
Retail	1,765,428	1,979,724	-214,296	-10.8%
Total	**3,112,046**	**3,552,913**	**-440,867**	**-12.4%**

Gross loans from customers, including receivables from financial lease (KM 64.7 million) recorded a decrease of -518 million KM (-13.5%) on an annual basis, as a result of a decrease in overall lending activity caused by the viral disease pandemic "COVID -19 "and at the end of 2020 amount to 3,325.1 million KM.

Gross loans to legal entities (including state and public institutions) at the end of 2020 amount to KM 1,463.9 million. Their share in the total portfolio is 44.0%.

Overview of business operations of the Bank (CONTINUED)

Bank’s assets and liabilities (CONTINUED)

Bank’s assets (CONTINUED)

Loans and receivables from clients (continued)

Gross loans of citizens at the end of 2020 amount to KM 1,861.2 million and decreased by 244.5 million (-11.6%).

Their share in the total portfolio is 56.0%.

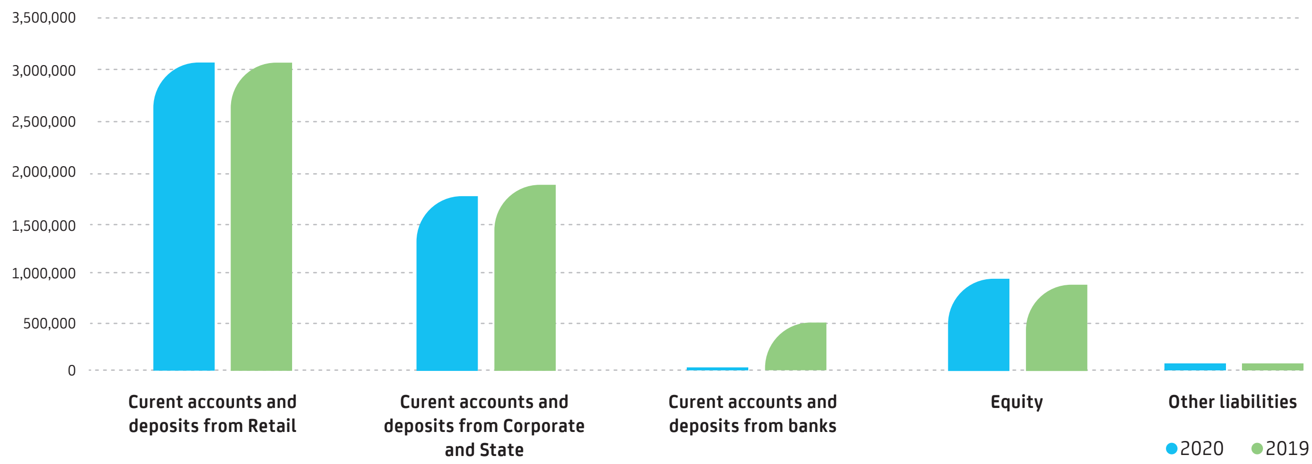
In the entire portfolio of loans to individuals, the largest part refers to long-term non-purpose loans (66.0%), long-term housing loans (23.3%), and receivables based on current accounts (5.9%) and card loans (2, 2%).

Long-term corporate loans participate with 62.7%, while short-term loans participate with 32.3% in total gross corporate loans.

Net loans to customers amount to KM 3,112.0 million and recorded a decrease of KM 440.9 million (-12.4%) compared to the previous year and they account for 51.0% of the Bank's total assets, which include finance lease receivables in the amount of KM 48.2 million.

The Bank is continuously focused on preserving the quality of the loan portfolio, therefore non-performing loans are adequately monitored and covered by provisions

Structure of Bank’s liabilities, equity and reserves – comparison to the previous year in KM ‘000



Current accounts and deposits from clients

Current accounts and customer deposits at the end of 2020 amount to KM 4,974.8 million and are lower by KM 72.1 million (-1.4%) compared to the previous year. This position represents 81.6% of the Bank's total liabilities.

Current accounts and deposits of legal entities (including state and public institutions) amount to KM 1,838.6 million and are lower by KM 98.6 million (-5.1%) compared to the previous year. Their share in total current accounts and customer deposits is 37.0%.

Current accounts, savings and time deposits of citizens at the end of 2020 amount to KM 3,136.2 million and are higher than in the previous year by KM 26.5 million (+ 0.9%). Their share in total current accounts and customer deposits is 63.0%.

Bank's assets and liabilities (CONTINUED)
Bank's liabilities (CONTINUED)

Current accounts and deposits with banks, and borrowings

Current accounts and bank deposits at the end of 2020 amounted to KM 29.5 million, and decreased by KM 440.8 million (-93.7%) compared to the previous year.

Borrowings of the Bank at the end of 2020 amount to KM 29.3 million and decreased by KM 13.7 million compared to the previous year due to servicing regular loan obligations.

The loans taken are liabilities to UniCredit SPA, UniCredit Bank Austria AG, EBRD[1], KfW[2], IFC[3].

The share of bank deposits in the total liabilities of the Bank amounts to and the share of borrowings amounts to 0.5%.

Equity and reserves

The Bank's capital amounts to KM 917.3 million, which is an increase of KM 65.2 million compared to the end of the previous year and is the result of including the realized profit for the current year in the Bank's capital, and recording the negative effects of the FBA Decision in the amount of KM 9.3 million KM.

In total sources of financing, capital and reserves participate with 15.1%, which is an increase compared to last year (+ 2.0%).

Capital adequacy ratio according to the methodology of the local regulator is 20.1%.

Key performance indicators

The ROE profitability ratio is 8.4% and the ROA is 1.3%.

The efficiency indicator (cost / revenue) is 54.3%.

The net loan-to-deposit ratio is 62.6% and continuously confirms the ability to maintain a high level of self-sustainability, ie loan financing through own sources.

Profitability per employee (gross operating profit per number of employees) amounts to 89.7 thousand KM.

1 European Bank for Reconstruction and Development
2 Kreditanstalt fuer Wiederaufbau
3 International Finance Corporation

Management and Corporate governance

Management and Corporate governance in 2020

Pursuant to the provisions of the Law on Banks, Companies Act, and the Statute of the Bank, managing bodies of the Bank are: General Assembly, Supervisory Board and Management Board.

General Assembly

The Assembly of the Bank is the highest body of the Bank. The General Meeting of the Bank consists of the Bank's shareholders.

The manner of work and decision-making of the Assembly is regulated by the Rules of Procedure of the Bank's Assembly.

As at 31 December 2020, the Bank had 38 shareholders. The largest shareholder is Zagrebačka banka d.d. Zagreb, Croatia with 118,189 ordinary shares and 176 preference cumulative shares representing 99.3% of the Bank's share capital.

The share capital of the Bank is determined in the amount of KM 119,195,000, and is divided into: 119,011 ordinary shares of series "A", with a nominal value of 1,000 KM per share and 184 priority cumulative shares of series "D" with a nominal value of 1,000 KM per share.

Ordinary Series A shares give the right to one vote in the Bank's Assembly, the right to manage the Bank in the manner determined by the Articles of Association, the right to participate in the Bank's profit in proportion to the nominal value of the share and other rights determined by the Articles of Association and applicable regulations.

The priority cumulative share of series "D" gives the right of priority collection of dividends and a proportional part of the rest of the assets after liquidation or bankruptcy, with limited voting rights. Priority cumulative shares of series "D" exercise the right to vote in cases and in the manner prescribed by the Companies Act when each priority cumulative share of series "D" gives the right to one vote..

Supervisory Board

The Supervisory Board performs a supervisory function in the Bank, and supervises the Bank's operations and the work of the Management Board. The Supervisory Board is competent to decide on issues determined by the Law on Banks, other relevant regulations, this Statute and other acts of the Bank. The Supervisory Board consists of 7 members, including one chairman, deputy chairman and at least 2 independent members, elected by the shareholders at the General Meeting of the Bank for a term not exceeding 4 years.

The manner of work and decision-making of the Supervisory Board is regulated by the Rules of Procedure of the Supervisory Board of the Bank.

Members of the Supervisory Board of the Bank in 2020 are:

			Shareholder
1.	Chairman	Miljenko Živaljić - until 18 February 2020. (Member since 18 Februray until 6 April 2020.)	Zagrebačka banka d.d., Zagreb, Hrvatska
		Helmut Franz Haller – since 18 February until 23 September 2020. (Member since 18 February 2020.)	Zagrebačka banka d.d., Zagreb, Hrvatska
		Spas Blagovestov Vidarkinsky* - since 23 September 2020. (Member since 4 September do 23 September 2020.)	Zagrebačka banka d.d., Zagreb, Hrvatska
2.	Deputy Chairman	Claudio Cesario - until 21 August 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
		Helmut Franz Haller* - since 23 September 2020	Zagrebačka banka d.d., Zagreb, Hrvatska
3.	Member	Nikolaus Maximilian Linarić - until 3 September 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
		Pierre-Yves Guegan* - since 22 August 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
4.	Member	Eugen Paić Karega - unti 21 August 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
		Laurence Fraissinet-Dubois* - since 22. August 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
5.	Member	Graziano Cameli* - since 21. August 2020.	Zagrebačka banka d.d., Zagreb, Hrvatska
6.	Member	Dražena Gašpar*	Independet Member
7.	Member	Danimir Gulin*	Independet Member

* Members of the Supervisory Board on 31 December 2020.

Management and Corporate governance

Management Board

The Management Board organizes the work and manages the operations of the Bank.

The Management Board of the Bank consists of the President and members of the Management Board in accordance with the Law on Banks, appointed by the Supervisory Board, with the previously obtained consent of the Banking Agency of the Federation of BH. The term of office of the President of the Management Board is 4 years.

The manner of work and decision-making of the Management Board is regulated by the Rules of Procedure of the Management Board of the Bank.

Members of the Bank's Management Board in 2020 are:

1.	President of Board	Amina Mahmutović*
2.	Board Member for Retail - until 29 February 2020.	Slaven Rukavina*
	Board Member for Retail – since 1 May 2020	Dragan Ćavar*
3.	Board Member for Corporate and Investment Banking - until 31 May 2020	Igor Bilandžija
	Board Member for Corporate and Investment Banking - since 14 July 2020	Siniša Adžić*
4.	Board Member for Risk Management	Željka Zubčević*
5.	Board Member for Finance Management	Matteo Consalvi*

* Members of the Management Board on 31 December 2020

Audit Committee

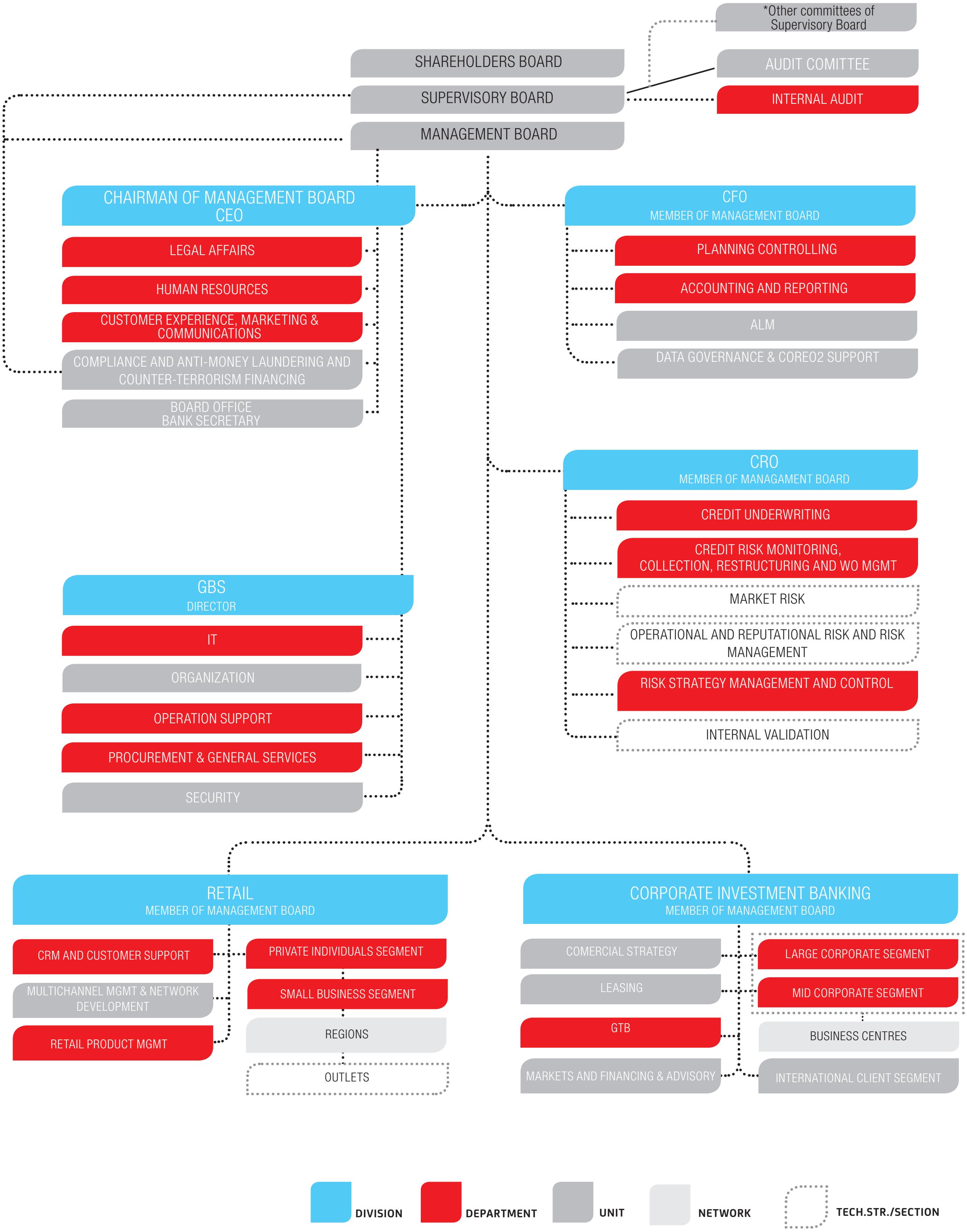
The Audit Committee provides expert assistance to the Bank's Supervisory Board in performing supervision over the Bank's operations and the work of the Bank's Management Board. The Audit Committee has 3 or 5 members appointed by the Supervisory Board for a period of 4 years.

The manner of work of the Audit Committee is regulated by the Rules of Procedure of the Audit Committee.

In 2020, members of the Audit Committee are as follows:

1.	Mirjana Hladika	Chairman
2.	Antonija Matošin	Member
3.	Ante Križan	Member

Bank's Organisational structure as of 31 of December 2020 – division into key organizational units of the Bank:



Employees

As of December 31, 2020, the Bank has 1,207 employees.

Caring for workers is a priority in the human resource management process. Through various programs, the Bank monitors and improves activities that significantly affect the experience of employees.

The Bank pursues a policy of continuous training and internal mobility of employees with the aim of adapting the Bank to the requirements of regulators, as well as the economic environment, new competition and technological innovations, which affect the Bank's operations. Today's challenging business environment and increased complexity require a proactive approach and dynamic organization of the Bank, which puts employees first, as well as care for their development and benefits. To this end, the Bank is continuously working to simplify the performance management process, and to encourage a culture of timely feedback.

The Bank invests in development programs to improve the professional skills of employees, as well as the quality and responsibilities of managers, and believes that diversity at all levels of the organization is essential to generating value for employees, customers, community and owners. A diverse workforce provides a better understanding of different cultures, business opportunities and customer needs. Therefore, the Bank continues to invest in building a culture of inclusion by promoting gender equality and respecting the age difference.

According to the results of the organizational climate research, employees continuously express high job satisfaction, and a high rate of commitment and dedication to work. Solutions that positively affect workers' job satisfaction, motivation and loyalty are continuously and dedicatedly found. Improving the knowledge and skills of workers and strengthening their competencies always come first.

Rewarding employee performance

Supporting the Bank's strategy is also rewarding employees. Through the system of variable remuneration, the right to variable remuneration can be exercised by every employee of the Bank, whereby remuneration is realized depending on: individual performance of employees, performance of organizational unit, and finally the success of the Bank and UniCredit Group as a whole.

In order to ensure sustainable variable remuneration, with the key objective of motivating and retaining employees, clear and transparent guidelines for determining variable remuneration have been defined.

The remuneration system is continuously revised and improved and harmonized with the applicable regulatory requirements that limit the risk-taking to a level that does not exceed the level acceptable to the Bank.

Top shareholders

As at 31 December 2020, the Bank had the following shareholder structure:

	Shareholders	% Participation of all owned shares	Amount of equity in KM '000
1.	Zagrebačka banka d.d., Zagreb, Hrvatska	99.30%	118,365
2.	Other shareholders	0.70%	830
	TOTAL	**100.00%**	**119,195**

Responsibility for the separate and consolidated Financial Statements

The Management Board is responsible for ensuring that separate and consolidated financial statements are prepared for each financial period in accordance with International Financial Reporting Standards ("IFRS") which give a true and fair view of the state of affairs and results of UniCredit Bank d.d. Mostar (the "Bank") and its associate (together the "Group") for that period. IFRS are published by the International Accounting Standards Board.

After making enquiries, the Management Board has a reasonable expectation that the Bank and Group have 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 separate and consolidated financial statements.

In preparing those separate and consolidated 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 separate and consolidated financial statements; and
- the separate and consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank and Group 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 Group and must also ensure that the separate and consolidated financial statements comply with the Accounting and Auditing Law in the Federation of Bosnia and Herzegovina. Moreover, the Management Board is also responsible for safeguarding the assets of the Bank and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Signed on behalf of the Management Board

UniCredit Bank dioničko društvo

President of the Board	Member of the Board for Finance Management
Amina Mahmutović	Matteo Consalvi

UniCredit Bank dd Mostar

Kardinala Stepinca b.b.

88000 Mostar

Bosnia and Herzegovina

18 February 2021

Independent Auditor’s Report

Opinion

We have audited the separate annual financial statements of UniCredit Bank d.d. (“The Bank”) and the consolidated annual financial statements of the Bank and its subsidiaries (collectively the “Group”), which include separate and consolidated statements of financial position of the Bank and the Group as at 31 December 2020, separate and consolidated income statement or loss and other comprehensive income, separate and consolidated statements of cash flows and separate and consolidated statements of changes in equity and reserves of the Bank and the Group for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that were, in our professional judgment, of paramount importance to our audit of the separate and consolidated annual financial statements for the current period and include the identified significant risks of material misstatement due to error or fraud having the greatest effect on our audit strategy. of our available resources and the time spent by the engagement audit team. We have dealt with these matters in the context of our audit of the separate and consolidated annual financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on these matters.

We have determined that the issue below is a key audit issue to be disclosed in our Independent Auditor's Report.

Key audit matters (continued)

Key Audit matter	How the Matter Was Addressed in Our Audit
Credit risk is one of the most important financial risks to which the Bank is exposed in its operations. The establishment of appropriate methods and models for measuring and managing credit risk by the Management Board is therefore one of the most important areas in preserving the Bank's capital. As part of the credit risk management process, the recognition of appropriate impairment provisions for expected credit losses on loans and receivables from customers are key considerations for the Management Board. In determining the timing and amount of impairment for expected credit losses on loans and receivables from customers, the Bank's Management Board uses significant judgment in the following areas: • Use of historical data in the process of determining risk parameters; • Exposure-related credit risk assessment; • Assessment of the level of credit risk; • Assessing subsequent changes in credit risk for the purpose of determining the status of a significant increase in credit risk, resulting in a change in the level of credit risk and the necessary measurement of expected credit losses over the life of the credit; • Expected future cash flows from operating activities; • Evaluation of collateral and assessment of the realization period In Note 2.11 - Financial instruments, Note 20 - Loans and receivables from customers at amortized cost, Note 13 - Impairment and provisions, net in the financial statements provided additional information on impairment of loans and receivables from customers. provisions for expected credit losses on loans and receivables requires the use of complex models (depending on the elements of the information system) and significant management judgment, the process of measuring expected credit losses may be exposed to potential management bias. These facts have led us to conclude that impairment of expected credit losses on loans and receivables from customers, which is recognized in accordance with legal requirements, should be a key audit issue during our audit of the financial statements for the year ended 31 December 2020.	In order to address the risks associated with impairment provisions for expected credit losses on loans and receivables from customers, identified as a key audit issue, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion on this issue. We conducted the following audit procedures with respect to loans and receivables from customers: • Review and review of the Bank's methodology for recognizing impairment provisions for expected credit losses and compare the reviewed methodology with the requirements of IFRS 9 and the legal reporting framework; • Gaining an understanding of the control environment and internal controls established by the Management Board in the process of measuring impairment for expected credit losses; • Assess the adequacy of the design and verify the implementation of the identified internal controls relevant to the impairment measurement process for expected credit losses; • Testing the operational effectiveness of identified and relevant internal controls; • disaggregation of the item of loans and receivables from customers for the purpose of sampling into individual groups based on the determined level of credit risk and relevant segments - for Level 3, the criteria for selecting individually assessed loans and receivables included, but were not limited to, , client industry risk, days of delay, etc .; • Conducting evidence-based testing on the recognition and measurement of impairment for expected credit losses on a selected sample of loans and receivables classified in Level 1 and Level 2 credit risk, with emphasis on: • i. models applied in the phase of determining the level of credit risk and the transition between levels of credit risk; • ii. assumptions used by the Management Board in models for measuring expected credit loss; • iii. the criteria used to determine significant credit risk deterioration; • iv. the assumptions used to calculate the probability of default; • v. the methods used to calculate the loss in the event of default; • vi. applied methods for including information on future trends, models applied in phased distribution

Key Audit matter	How the Matter Was Addressed in Our Audit
	• Conducting evidence-based testing of the recognition and measurement of impairment for expected credit losses on a sample of individually assessed non-performing loans and receivables assigned to Level 3 credit risk clients, which included: i. Assessment of the borrower's financial position and performance based on the latest credit reports and available information, ii. A critical assessment of the judgments and assumptions applied in calculating and measuring the expected future cash flows from operating activities, taking into account the financial position and performance of the borrower, iii. Review and critical analysis of the estimated value of collateral and the estimated period of realization, as well as review of accompanying, legal and other documentation in order to determine the existence of collateral and lien on collateral; iv. A critical estimate of the discount rates used to estimate expected cash flows from operating activities and / or collateral, v. Recalculation of expected credit losses using our own independent judgment and assumptions, based on industry experience, and comparison of the calculation with the calculation obtained by the Management Board.

Other questions

The audit of the annual separate and consolidated financial statements of the Bank and the Company for the year ended 31 December 2019 was performed by the auditing company Deloitte d.o.o. for Audit, Sarajevo, which in its Independent Auditor's Report dated 14 February 2020 expressed an unmodified opinion on these annual financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the other information, and therefore we express no conclusion with expressing assurance on the other information.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Annual Report, we have also performed the procedures prescribed by the Law on Accounting and auditing in Federation of Bosnia and Herzegovina. If, based on the work we have done, we conclude that there is a material misstatement of this other information, we are required to report that fact. In that sense, we have nothing to report.Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the separate and consolidated financial statements.
2. Annual Report has been prepared, in all material respects, in accordance with the requirements of the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina.

Based on the knowledge and understanding of the Bank and the Group and their environment, which we gained during our audit of the separate and consolidated financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect..

Responsibilities of the Management and Supervisory Boards for the Separate and Consolidated Financial Statements

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

In preparing the separate and consolidated financial statements, the Management Board is responsible for assessing the Bank's and the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group'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 separate and consolidated 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group

to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Other reporting and regulatory obligations

As required by the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Article 44, the Bank submits its annual consolidated and separate financial statements to the Financial–intelligence Agency ("FIA") in the form prescribed per Rulebook on content and form of financial statements for banks and financial organizations ("Official Gazette of Federation of Bosnia and Herzegovina", no. 82/10).

The Management Board of the Bank created forms disclosed as an appendix to these separate and consolidated financial statements on pages 168 till 177, and they contain the separate and consolidated statement of financial position as at 31 December 2020, and the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended, and they do not represent an integral part of the separate and consolidated financial statements presented on pages 32 to 38. The financial information presented in the accompanying forms have been derived from the basic financial statements of the Bank and the Group.

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

____

Mario Filipović,
director and licensed auditor

BDO BH d.o.o.
Sarajevo
Društvo za reviziju

____

Aldijana Gabela, licensed auditor

BDO BH d.o.o.

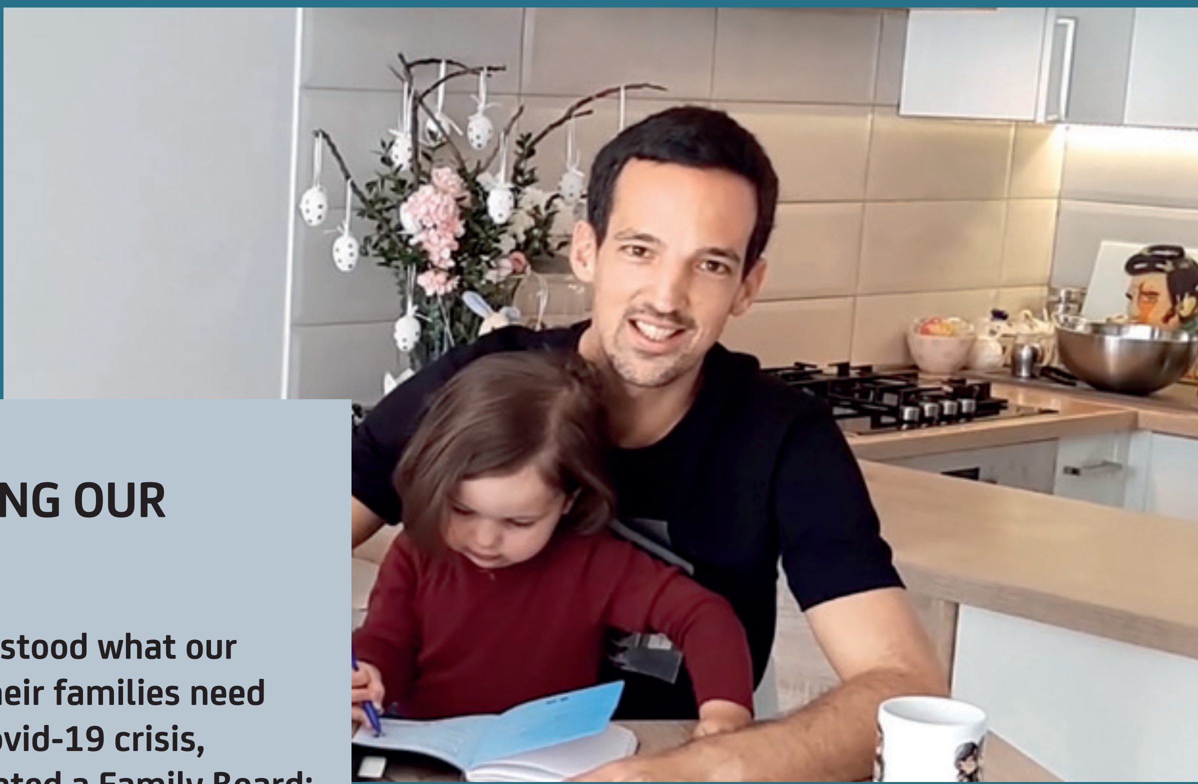
Fra Anđela Zvizdovića 1

Sarajevo, Bosnia and Herzegovina

17 February 2021

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).

Separate and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020

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

	Notes	Group 2020	Bank 2020	Group 2019	Bank 2019
Interest income	6	172,931	172,931	186,280	186,280
Interest expense	7	(23,746)	(23,746)	(24,098)	(24,098)
Net interest income		**149,185**	**149,185**	**162,182**	**162,182**
Fee and commission income	8	76,600	76,600	74,671	74,671
Fee and commission expenses	9	(5,152)	(5,152)	(4,224)	(4,224)
Net fee and commission income		**71,448**	**71,448**	**70,447**	**70,447**
Dividend income		31	31	198	198
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	11,616	11,616	15,104	15,104
Other income	11	4,949	4,949	1,975	1,975
Operating income		**237,229**	**237,229**	**249,906**	**249,906**
Depreciation and amortization	24,25,26	(15,941)	(15,941)	(14,921)	(14,921)
Operating expenses	12	(112,985)	(112,985)	(112,594)	(112,594)
Profit before impairment losses and income tax		**108,303**	**108,303**	**122,391**	**122,391**
Impairment losses and provisions, net	13	(25,630)	(25,630)	(8,002)	(8,002)
Share in profit of associates	22	(42)	-	8	-
Profit before taxation		**82,631**	**82,673**	**114,397**	**114,389**
Income tax expense	14	(8,431)	(8,431)	(13,318)	(13,318)
NET PROFIT		**74,200**	**74,242**	**101,079**	**101,071**

Separate and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 (CONTINUED)

	Notes	Group 2020	Bank 2020	Group 2019	Bank 2019
Profit for the year		**74,200**	**74,242**	**101,079**	**101,071**
Other comprehensive income:					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Gross change in fair value of financial assets through other comprehensive income		1,094	1,094	5,316	5,316
Deffered taxes	14	(81)	(81)	(532)	(532)
Changes in impairment of financial assets at fair value through other comprehensive income	18	1,482	1,482	(34)	(34)
Changes in fair value of property and equipment	24	(3)	(3)	2,405	2,405
Deferred tax on changes in fair value of property and equipment	-	-	-	(241)	(241)
Items that may be reclassified subsequently to profit or loss:		-	-	-	-
FX differences on fair value of financial assets at fair value through other comprehensive income		(288)	(288)	6	6
Total other comprehensive income / (loss)		***2,204***	***2,204***	***6,920***	***6,920***
TOTAL COMPREHENSIVE INCOME		**76,404**	**76,446**	**107,999**	**107,991**
Basic and diluted earnings per share (KM)	34	623.87	624.22	849.87	849.80

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

Separate and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020(CONTINUED)

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

	Notes	31 December 2020	31 December 2020	31 December 2019	31 December 2019
ASSETS					
Cash and cash equivalents	15	807.911	807.911	760.047	760.047
Obligatory reserve at the CBBH	16	494.406	494.406	535.483	535.483
Loans and receivables from banks at amortized cost	17	922.463	922.463	1.049.855	1.049.855
Financial assets at fair value through other comprehensive income	18	622.935	622.935	527.263	527.263
Financial assets at fair value through profit or loss	19	215	215	-	-
Loans and receivables from clients at amortized cost	20	3.112.046	3.112.046	3.552.913	3.552.913
Other assets and receivables	21	44.375	44.375	51.597	51.597
Prepaid tax		2.664	2.664	-	-
Investments in associates	22	821	460	863	460
Investment property	23	-	-	491	491
Property and equipment	24	66.864	66.864	63.917	63.917
Right to use assets	25	7.496	7.496	9.064	9.064
Intangible assets	26	17.818	17.818	19.621	19.621
TOTAL ASSETS		**6.100.014**	**6.099.653**	**6.571.114**	**6.570.711**
LIABILITIES					
Current accounts and deposits from banks at amortized cost	27	29.457	29.457	470.272	470.272
Current accounts and deposits from clients at amortized cost	28	4.974.836	4.974.836	5.046.943	5.046.943
Financial liabilities at fair value through profit or loss	19	179	179	-	-
Borrowings	29	29.341	29.341	43.130	43.130
Other liabilities	30	110.406	110.406	109.579	109.579
Lease liabilities	31	7.520	7.520	9.100	9.100
Provisions for liabilities and charges	32	30.467	30.467	36.706	36.706
Current tax liability		-	-	859	859
Deferred tax liability	14	159	159	2.006	2.006
TOTAL LIABILITIES		**5.182.365**	**5.182.365**	**5.718.595**	**5.718.595**
EQUITY					
Share capital	33	119.195	119.195	119.195	119.195
Treasury shares		(81)	(81)	(81)	(81)
Share premium		48.317	48.317	48.317	48.317
Revaluation reserve for investments		9.844	9.844	7.161	7.161
Revaluation reserve for actuarial gain/loss		(297)	(297)	(3)	(3)
Fair value reserve for tangible assets		2.140	2.140	2.164	2.164
Regulatory reserves for credit losses		-	-	20.682	20.682
Retained earnings		738.531	738.170	655.084	654.681
TOTAL EQUITY		**917.649**	**917.288**	**852.519**	**852.116**
TOTAL LIABILITIES AND EQUITY		**6.100.014**	**6.099.653**	**6.571.114**	**6.570.711**

The accompanying notes form an integral part of these separate and consolidated financial statements.
Signed on behalf of the Management Board on 18 February 2021:

President of the Board
Amina Mahmutović

UniCredit Bank dioničko društvo

Board Member for Finance Management
Matteo Consalvi

	Bank and Group 2020	Bank and Group 2019
Cash flow from operating activities		
Interest received	178,649	188,151
Fee and commission received	76,014	74,499
Interest paid	(24,121)	(28,467)
Fee and commission paid	(5,152)	(4,224)
Operating expenses paid	(112,051)	(114,327)
Net proceeds from trading activities	11,616	15,104
Other proceeds	4,912	1,921
Net cash from operating activities before changes in operating assets and liabilities	***129,867***	***132,657***
(Increase) / decrease in operating assets:		
Obligatory reserve with Central Bank of BH	41,116	(51,359)
Loans and receivables from banks at amortized cost	123,145	(329,682)
Loans and receivables from clients and finance lease at amortized cost	402,805	(173,767)
Other assets	6,849	(74)
Net increase in operating assets	***573,915***	***(554,882)***
Increase / (decrease) in operating liabilities:		
Current accounts and deposits in banks	(440,597)	(68,994)
Current accounts and deposits from clients	(60,000)	600,278
Other liabilities	(983)	10,249
Net increase in operating liabilities	***(501,580)***	***541,533***
Net increase in cash from operating activities before corporate income tax	***202,202***	***119,308***
Corporate income tax paid	(11,954)	(13,486)
Directly paid tax	(2,068)	-
Net cash from operating activities	**188,180**	**105,822**
Cash flow from investing activities		
Acquisition of property and equipment	(8,301)	(11,478)
Proceeds from sale of property and equipment	172	123
Acquisition of intangible assets	(4,743)	(8,697)
Proceeds from the purchase of available-for-sale financial assets	133,062	119,608
Acquisition of available-for-sale financial assets	(238,456)	(149,767)
Dividend paid	-	(48,604)
Dividend receipts	31	198
Net cash (used in) investing activities	**(118,235)**	**(98,617)**

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

	Bank and Group	Bank and Group
	2020	**2019**
Cash flows from financing activities		
Repayment of long-term lease	(4,329)	(3,532)
Proceeds from interest-bearing borrowings	-	21,514
Repayment of interest-bearing borrowings	(13,708)	(13,447)
Net cash from / (used in) financing activities	**(18,037)**	**4,535**
Net cash inflow / (outflow)	**51,908**	**11,740**
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(3,680)	1,868
Net (decrease) / increase in cash and cash equivalents	48,228	13,608
Cash and cash equivalents at the beginning of the year	**760,176**	**746,568**
Cash and cash equivalents at the end of the year	**808,404**	**760,176**

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

Separate and consolidated statement of changes in equity for the year ended 31 December 2020

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

Bank	Share capital	Treasury shares	Share premium	Revaluation reserve for securities	Fair value reserve at actuarial gain/ loss	Fair value reserve for tangible assets at fair value	Regulatory reserves for credit losses	Retained earnings	Total
Balance as at 31 December 2018	**119,195**	**(81)**	**48,317**	**2,344**	**58**	**-**	**20,682**	**605,570**	**796,085**
Net profit for the year	-	-	-	-	-	-	-	101.071	101,071
First application of IFRS 9	-	-	-	-	-	-	-	-	-
Changes in fair value by tangible assets (Note 2.3.1.2)	-	-	-	-	-	2.405	-	-	2,405
Deferred tax at fair value through property, plant and equipment (Note 13)	-	-	-	-	-	(241)	-	-	(241)
Cost of provisions for financial assets at fair value through profit or loss (Note 18)	-	-	-	(34)	-	-	-	-	(34)
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	2	-	-	-	-	2
Change in financial assets at fair value through other comprehensive income	-	-	-	5.384	-	-	-	-	5,384
Exchange differences on fair value of financial assets	-	-	-	4	-	-	-	-	4
Change in fair value at actuarial gain / loss	-	-	-		(68)	-	-	-	(68)
Deferred tax on rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	7	-	-	-	7
Deferred tax on financial assets through other comprehensive income (Note 14)	-	-	-	(539)	-	-	-	-	(539)
Other comprehensive income	-	-	-	4,817	(61)	2,164	-	-	6,920
Changes directly in equity	-	-	-	-	-	-	-	-	-
Total changes	-	-	-	4,817	(61)	2,164	-	101,071	107,991
Dividend payment for the year	-	-	-	-	-	-	-	(48,004)	(48,004)
Balance as at 31 December 2019	**119,195**	**(81)**	**48,317**	**7,161**	**(3)**	**2,164**	**20,682**	**654,681**	**852,116**
Net profit for the year	-	-	-	-	-	-	-	74,242	74,242
Transfer to retained earnings	-	-	-	-	-	(21)	(20,682)	20,703	-
Effects of the FBA decision	-	-	-	182	-	-	-	(9,388)	(9,206)
Tax paid	-	-	-	-	-	-	-	(2,068)	(2,068)
Cost of provisions for securities for the period	-	-	-	1,482	-	-	-	-	1482
Exchange differences on provisions for securities	-	-	-	(4)	-	-	-	-	(4)
Changes in fair value by tangible assets	-	-	-	-	-	(3)	-	-	(3)
Deferred tax at fair value through property, plant and equipment	-	-	-	-	-	-	-	-	-
Change in financial assets at fair value through other comprehensive income	-	-	-	1,421	-	-	-	-	1,421
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	(284)	-	-	-	-	(284)
Change in fair value at actuarial gain / loss	-	-	-	-	(327)	-	-	-	(327)
Deferred tax per rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	33	-	-	-	33
Deferred tax on financial assets through other comprehensive income (Note 14)	-	-	-	(114)	-	-	-	-	(114)
Other comprehensive income	-	-	-	2,501	(294)	(3)	-	-	2,204
Dividend payment for the year	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	**119,195**	**(81)**	**48,317**	**9,844**	**(297)**	**2,140**	**-**	**738,170**	**917,288**

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

Group	Share capital	Treasury shares	Share premium	Revaluation reserve for securities	Fair value reserve at actuarial gain/ loss	Fair value reserve for tangible assets at fair value	Regulatory reserves for credit losses	Retained earnings	Total
Balance as at 1 January 2018	**119,195**	**(81)**	**48,317**	**2,344**	**58**	**-**	**20,682**	**605,965**	**796,480**
Net profit for the year	-	-	-	-	-	-	-	101,079	101,079
First application of IFRS 9	-	-	-	-	-	-	-	-	-
Changes in fair value by tangible assets	-	-	-		-	2,405	-	-	2,405
Deferred tax at fair value through property, plant and equipment	-	-	-	-	-	(241)	-	-	(241)
Cost of provisions for financial assets at fair value through profit or loss	-	-	-	(34)	-	-	-	-	(34)
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	2	-	-	-	-	2
Change in financial assets at fair value through other comprehensive income	-	-	-	5,384	-	-	-	-	5,384
Change in fair value at actuarial gain / loss	-	-	-	-	(68)	-	-	-	(68)
Deferred tax on rev. reserves for actuarial profit / loss	-	-	-	-	7	-	-	-	7
Deferred tax on financial assets through other comprehensive income	-	-	-	(539)	-	-	-	-	(539)
Other comprehensive income	-	-	-	4,817	(61)	2,164	-	-	6,920
Total changes	**-**	**-**	**-**	***4,817***	***(61)***	***2,164***	**-**	***101,079***	***107,999***
Changes directly in equity	-	-	-	-	-	-	-	(3,356)	(3,356)
Dividend payment for the year	-	-	-	-	-	-	-	(48,604)	(48,604)
Balance as at 31 December 2019	**119,195**	**(81)**	**48,317**	**7,161**	**(3)**	**2,164**	**20,682**	**655,084**	**852,519**
Net profit for the year								74,200	74,200
Transfer to retained earnings	-	-	-	-	-	21	(20,682)	20,703	-
Effects of the FBA decision	--	-	-	182	-	-	-	(9,388)	(9,206)
Tax paid								(2,068)	(2,068)
Cost of provisions for securities for the period	-	-	-	1,482	-	-	-	-	1,482
Exchange differences on provisions for securities	-	-	-	(4)	-	-	-	-	(4)
Cost of provisions for financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Changes in fair value by tangible assets						(3)			(3)
Deferred tax at fair value through property, plant and equipment	-	-	-	-	-	-	-	--	-
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	(284)	-	-	-	-	(284)
Change in financial assets at fair value through other comprehensive income	-	-	-	1,421	-	-	-	-	1,421
Change in fair value at actuarial gain / loss	-	-	-	-	(327)	-	-	-	(327)
Deferred tax per rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	33	-	-	-	33
Deferred tax on financial assets through other comprehensive income (Note 14)	-	-	-	(114)	-	-	-	-	114
Other comprehensive income	-	-	-	2,501	(294)	(3)	-	-	2,204
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**		**-**	
Dividend payment for the year	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	**119,195**	**(81)**	**48,317**	**9,844**	**(297)**	**2,140**	**-**	**738,531**	**917,649**

The accompanying notes form an integral part of these separate and consolidated financial statements

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.

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

1. REPORTING ENTITY

UniCredit Bank d.d. (the Bank) is a joint stock company incorporated and headquartered in Bosnia and Herzegovina. The registered office is at Kardinala Stepinca bb, Mostar. The Bank provides a full range of services including retail and corporate banking, treasury operations, and finance lease operations. The Bank is a member of Zagrebačka banka Group (Zagrebačka banka d.d., a bank headquartered in Zagreb, Republic of Croatia, is its immediate parent company) and UniCredit Group. The ultimate parent company is UniCredit Bank SpA., a bank headquartered in Milan, Italy.

For 2020, the Bank consolidated the Statement of profit or loss and Statement of financial position of the associate UniCredit Broker d.o.o. Sarajevo – u likvidaciji using equity method (Group).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

2.2 Going concern

The separate and consolidated financial statements have been prepared on the going concern basis, which assumes continuity of Bank and Group's normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

2.3 Basis of presentation

The Bank and Group's separate and consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss and debt securities available-for-sale which are stated at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank and Group take into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liabilty at the measurement date. Fair value for measurement and/or disclosure purposes in these separate and consolidated financial statements is determined on such basis, except for measurement that have some similiarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of presentation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank and Group can access at the measurement date;
- Level 2 inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The separate and consolidated separate and consolidated separate and consolidated financial statements are presented in Convertible marks since that are the functional currency of the Bank and Group. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

The preparation of separate and consolidated separate and consolidated financial statements in compliance with IFRS requires Management to make estimates and assumptions that affect the application of accounting policies and disclosed assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

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

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most significant impact on the amounts disclosed in these separate and consolidated separate and consolidated financial statements are disclosed in Note 4.

The accounting policies set out below have been applied consistently to all periods presented in these separate and consolidated separate and consolidated financial statements.

2.3.1 Change of the accounting policy

2.3.1.1 IFRS 9

The Bank and the Group adopted the International Financial Reporting Standard 9: “Financial Instruments” (“IFRS 9”) on the date of transition on 1 January 2018, resulting in changes in accounting policies and adjustments to the amounts previously disclosed in the separate and consolidated financial statements. The Bank and the Group did not use the early application of this standard.

As prohibited by the transitional measures of IFRS 9, the Bank and the Group have not changed comparative amounts. On the transition date, all adjustments to the net carrying amount of financial assets and liabilities are recognized initially through retained earnings and other reserves in the current period.

In accordance with the foregoing, for disclosure notes, subsequent amendments to IFRS 7 disclosures have also been adopted in the current period. Disclosure notes for comparative periods are repeated as disclosed in the previous period.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of presentation (continued)

2.3.1 Change of the accounting policy (continued)

2.3.1.1 IFRS 9 (continued)

Adoption of IFRS 9 has resulted in changes in accounting policies for the recognition, classification and measurement of financial assets and financial liabilities as well as impairment of financial assets. IFRS 9 also has a significant impact on changes in other standards that define financial instruments such as IFRS 7.

For 2019, the Bank and the Group presented financial data in accordance with IFRS 9.

2.3.1.2 New regulatory requirements in force from 1 January 2020

On 20 June 2019, the Banking Agency of Federation of Bosnia and Herzegovina adopted the Decision on credit risk management and determining expected credit losses. This Decision shall apply for periods beginning on or after 1 January 2020. When this Decision is implemented, the Decision on minimum standards for credit risk management and classification of banks' assets shall be repealed.

The Decision on credit risk management and determining expected credit losses stipulates:

a) rules for managing credit risk,

b) how to allocate exposures to credit risk levels and determine expected credit losses,

c) acceptable collateral for the purpose of determining expected credit losses,

d) acceptable collateral for the purpose of limiting the maximum exposure to recognized capital,

e) treatment of tangible assets acquired in the process of collection of receivables,

f) manner of reporting to the Banking Agency of the Federation of Bosnia and Herzegovina.

The requirements of the new impairment Decision are based on the IFRS 9 expected credit losses model, with certain specifics (prescribed minimum expected credit loss rates for credit risk levels) for which the Bank and the Group are required to report the effects on 1 January 2020 and record them in equity accounts and state in ordinary share capital.

The effects of the first application represent the difference between the expected credit losses determined in accordance with the provisions of this Decision and those identified and accounted for by the bank in accordance with its internal methodology.

The decision prescribes rules in the local regulation for "Accounting write-offs" under which the Bank and the Group are required to make an accounting write-off of balance sheet exposures two years after the bank has recorded the expected credit losses in the amount of 100% of its gross book value and declared them fully due.

The decision prescribes the treatment of tangible assets acquired in the process of collection of receivables under which the Bank and the Group recognize the assets taken over at the lower of the following values:

a) The amount of the net book value of the bank's receivables. In case the amount of accounting expected credit losses is equal to the amount of receivables, the bank will record the acquired tangible assets at technical value in the amount of KM 1.

b) The estimated fair value by an independent appraiser less the estimated cost of the sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of presentation (continued)

2.3.1 Change of the accounting policy (continued)

2.3.1.2 New regulatory requirements in force from 1 January 2020 (continued)

If the Bank and the Group do not sell the repossessed tangible assets, the value of those shall be reduced to KM 1 within three years after the date of initial recognition, and for the assets registered before 1 January 2019, it shall be reduced to KM 1 in period of two years after the date of application of this Decision.

The table below shows the effects of the difference between impairments calculated in accordance with IFRS and impairments recognized in accordance with the rules of the Federal Banking Agency, ie the Decision on credit risk management and determination of expected credit losses (FBA Decision):

	31 December 2020	**1 January 2020**
Reservations in accordance with FBA rules	*242,175 KM*	*233,194 KM*
Provisions in accordance with IFRS requirements	*219,953 KM*	*328,136 KM*

2.3.1.3 Change of the accounting policy IAS 16 and IAS 40

In order to reconcile the carrying amounts of properties with the market values and to provide more relevant information on the overall financial position and results, the Bank and the Group have decided to change the existing measurement model at cost and apply the revaluation model / fair value model for land and buildings measured under IAS 16 (Property, Plant and Equipment – properties used for operations) and IAS 40 (Investment Property – properties used for investments). Informations for 2020 are presented in accordance with the revaluation model.

The effects of positive revaluation under IAS 16 are recognized in the revaluation reserve account within other comprehensive income, while the effects of positive revaluation that offset previously accumulated impairment losses as well as the effects of negative revaluation are recognized in the separate and consolidated statement of profit or loss and other comprehensive income.

The effects of positive and negative revaluation under IAS 40 are recognized in the separate and consolidated statement of profit or loss.

2.3.1.4 Change of the accounting policy IFRS 16

The Bank and the Group have adopted the International Financial Reporting Standard 16 that sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties in contract, i.e. a buyer ("lessee") and a supplier ("lessor") with a transition date on 1 January 2019, which resulted in changes in accounting policies and changes in presentation in the separate and consolidated financial statements.

This standard requires that lessees account for all leases under a single balance sheet model in a similar manner to lease financing in accordance with IAS 17, with certain exceptions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of presentation (continued)

2.3.1.4 Change of the accounting policy IFRS 16 (continued)

The changes refer to the presentation method, where it is required to present for leases the item “Assets with right to use” and the presentation of long-term lease liabilities, calculating the present value of future lease payments.

Lessor’s accounting remained largely unchanged.

Informations for 2020 are presented in accordance with the accounting policy of IFRS 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Consolidation

Consolidated financial statements for 2020 include financial statements of the Bank and entities controlled by the Bank and its subsidiaries, including the financial statements of the associate (UniCredit Broker d.o.o. Sarajevo – in liquidation) consolidated using equity method (Group).

Associates

Associates are all companies in which the Bank Group has significant influence, but no control over them. Investments in associates are initially recognised at acquisition cost basis, and are subsequently valued in consolidated financial statements applying share method basis. Bank's investments in associates also include goodwill (reduced for accumulated impairment loss) identified during acquisition. In separate financial statements of the Bank, investments in associates are valued at acquisition cost basis reduced for potential impairments.

Bank's share in profit or losses of its associates after acquisition is recognised in the separate statement of profit or loss, and its share in reserve changes after acquisition is recognised in reserves.

Carrying value of investment is corrected for total movements after acquisition. When the Bank's share in losses of the associate is equal or higher than its share in the associate, including any uncollateralised receivables, the Bank ceases to recognise further losses, except when it has further liabilities toward the associate or it completed payments to the benefit of the associate. The dividend received from associates is recognised as the decrease of investment in associaties in the consolidated statement of financial position of the Bank, and as revenue from dividends in the separate statement of profit or loss of the Bank.

Non-performed gains from transactions between the Bank and its associates are eliminated up to the size of Bank's share in the associate.

Non-performed losses are also eliminated, except when the transaction offers evidence of impairment of transferred assets. Accounting policies of associate are revised as necessary to be adjusted to Bank's policies.

2.5 Interest income and expense

Interest income and expense are recognised in the separate and consolidated statement profit or loss and other comprehensive income for the accounting period to which they refer using effective interest rate for all interest-bearing instruments, including those accrued at amortized cost at FVTPL, i.e. accrued at FVOCI. Effective interest rate is the rate that discounts estimated future cash flows (including all paid or received transaction costs, fees and points that form an integral part of the effective interest rate) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Interest income and expense (continued)

Interest income and expense also includes fees and commission income and expense relating to loans and receivables from customers and banks, borrowings, finance leases, subordinated debt and debt securities issued, premium or discount amortization, as well as other differences between initial the carrying amount of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method.

Interest income will be calculated using the effective interest method. This will be calculated by applying the effective interest rate to the gross carrying amount of financial assets except for:

- purchased or originated credit-impaired financial assets. For such financial asset, the entity applies an effective interest rate adjusted for credit risk to the amortized cost of financial assets from initial recognition.
- financial assets that are neither purchased nor originated credit-impaired financial assets, but subsequently become credit-impaired financial assets. For such financial assets, an entity applies the effective interest rate in the following reporting periods to the amortized cost of financial assets.

If, in the reporting period, interest income is calculated using the effective interest method at amortized cost of financial assets in accordance with the aforementioned, in the future reporting periods, the interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial instrument is improved so that the value financial assets no longer diminishes for credit losses, whereby improvement can be objectively linked to an event that has arisen following the application of the above (such as improving the credit rating of the borrower).

In some cases, when it comes to initial recognition, financial assets are reduced by credit losses because credit risk is very high, and in the case of a purchase, financial assets are acquired with a large discount. The Bank and Group are required to include initial expected credit losses in estimated cash flows when calculating the effective interest rate adjusted for the credit risk for financial assets for which, at initial recognition, it is considered that the financial asset will be purchased or originated credit-impaired. This does not mean, however, that the effective interest rate adjusted for credit risk should be applied only because of the high credit risk at initial recognition of financial assets.

2.6 Fee and commission income and expense

Fees and commissions that are an integral part of effective interest rates on financial assets and financial liabilities are included in interest income and interest expense.

Other fee and commission income includes fees which relate to credit card business, the issue of guarantees, letters of credit, domestic and foreign payments and other services, and are recognised in the separate and consolidated separate and consolidated statement of profit or loss and other comprehensive incomeof profit or loss and comprehensive income upon performance of the relevant service.

Other fee and commission expense, mainly service and transaction fees, are recognised as an expense upon incurrence of services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases

A lease where the Bank and Group, as lessor, transfers all essential risks and benefits related to the ownership of assets to the lessee, is classified as finance lease. All other lease forms are classified as operating lease.

Finance lease

The amount owed by lessees under finance lease are recorded as receivables in the amount of Bank and Group's net investment in leases equal to the present value of expected lease collections. The difference between the gross finance lease receivable and present value of future collections per finance lease receivable represents unearned financial income. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and reduce the amount of income over the lease term.

2.8 Employee benefits

On behalf of its employees, the Bank and Group pay personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank and Group pay the tax and contributions in the favour of the pension and health funds of the Federation of Bosnia and Herzegovina (on federal and cantonal level) and Republika Srpska.

In addition, transport allowances, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognised in the separate and consolidated statement of profit or loss and comprehensive income in the period in which the salary expense is incurred.

2.8.1 Long-term employee awards

Participants for each cycle of the so-called "Long-term Incentive Plan" are defined based on criteria related to their contribution to the Bank's long-term sustainable profitability. The estimated amount is recognized as personnel costs in profit or loss as earned by participants. Participants for each cycle of the Long-term Incentive Plan of the Bank and Group are defined based on criteria related to their contribution to the banks long-term sustainable and growing profitability of the Bank and Group. The estimated amount is recognised as personnel costs in the separate and consolidated statement of profit or loss and other comprehensive incomein the year when it is earned.

2.8.2 Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory severance payments, are recorded at the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The rate of average long-term borrowing of corporate clients is used as a discount rate in the absence of an active corporate debt securities market.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Foreign currency translation

Transactions in foreign currencies are translated into KM at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KM at the reporting date at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the separate and consolidated separate and consolidated statement of profit or loss, except in case of differences arising on non-monetary financial assets at FVOCI, which are recognised in other comprehensive income. Non-monetary assets and liabilities in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

The Bank and the Group value their assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina ("CBBH") valid at the reporting period date, which is approximate to market rates. The exchange rates set forth by CBBH and used in the preparation of the Bank and Group's separate and consolidated separate and consolidated statement of financial position at the reporting dates were as follows:

31 December 2020	EUR 1 = KM 1.95583	USD 1 = KM 1.592566
31 December 2019	EUR 1 = KM 1.95583	USD 1 = KM 1.747994

2.10 Cash and cash equivalents

For the purpose of preparation of the separate and consolidated cash flow statement and separate and consolidated statement of financial position, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments

Financial assets and financial liabilities are recognised when the Bank and Group become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value increased for transaction costs that are directly attributable to the acquisition or issue except for financial assets and financial liabilities at fair value through the separate and consolidated statement of profit and loss and other comprehensive income.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in the separate and consolidated statement of profit or loss and other comprehensive income.

2.11.1 Financial assets

A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through the separate and consolidated statement of profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank and Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through the separate and consolidated statement of profit or loss to present subsequent changes in fair value in other comprehensive income.

The Bank and Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through the separate and consolidated statement of profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised immediately in the separate and consolidated statement of profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

2.11.1.1 Debt instruments

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income.

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank and Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Bank and Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI, and
- the Bank and Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

2.11.1.2 Debt instruments at amortized cost or at fair value through other comprehensive income

The Bank and Group assess the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank and Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank and Group determine the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

2.11.1.2 Debt instruments at amortized cost or at fair value through other comprehensive income (continued)

Reclassifications

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In accordance with if an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model. The Bank and Group shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Bank and Group's financial assets during the current year or previous reporting periods.

The Bank and Group have more than one business model for managing its financial instruments which reflect how the Bank and Group manage their financial assets in order to generate cash flows. The Bank and Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank and Group consider all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank and Group do not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank and Group take into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank and Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank and Group determine whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank and Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank and Group have not identified a change in their business models.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

2.11.1.2 Debt instruments at amortized cost or at fair value through other comprehensive income (continued)

Reclassifications (continued)

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to the separate and consolidated statement of profit or loss and other comprehensive income. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See Note 18.

2.11.1.3 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in the separate and consolidated statement of profit or loss and other comprehensive income.

Reclassifications

If the business model under which the Bank and Group hold financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank and Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank and Group hold financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment

The Bank and Group recognize loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks at amortized cost;
- loans and advances to customers at amortized cost;
- financial assets at fair value through other comprehensive income;
- financial guarantees and letters of credit;
- other undrawn commitments.

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in Note 38.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment (continued)

2.11.2.1 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank and Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Bank and Group measure ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual or a collective basis.

For loan commitments and financial guarantee contracts impairment is recognized as a provision. The Bank and Group disclose information on impairment losses on financial assets separately from those for loan commitments and financial guarantee contracts.

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

POCI financial assets are treated differently because assets are credit-impaired at initial recognition. For such assets, the Bank and Group recognize all changes in lifetime ECLs since initial recognition as impairment losses, and all changes are recognized in the separate and consolidated statement of profit or loss and other comprehensive income. Favorable changes for such assets create impairment gains.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment (continued)

2.11.2.3 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see Note 38).

The Bank and Group consider the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank and Group; or
- the borrower is unlikely to pay its credit obligations to the Bank and Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the clientcustomer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

Significant increase in credit risk

The Bank and Group monitor all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank and Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank and Group compare the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank and Group consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank and Group’s historical experience and expert credit assessment including forward-looking information.

See Note 38 Risk management for more details.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.3 Modification and derecognition of financial assets

The Bank and Group initially recognize loans and receivables on the date when they occur

Purchase and sale of financial assets is recognized on a settlement date on a regular basis. The settlement date is the date when the asset was delivered to or by the Bank and Group and the asset or liability in question was not recognized until the settlement date. Changes in the fair value of financial assets and liabilities at fair value through profit or loss (other than derivatives) and at fair value through other comprehensive income of financial assets are recognized as of the trading date. All other financial assets and liabilities are recognized at the trading date on which the Bank and Group become a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs for all financial assets and liabilities that are not carried at FVTPL. Financial assets and liabilities at FVTPL are initially recognized at fair value, and transaction costs are recognized immediately in the separate and consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial assets due to significant change of conditions

The Bank and Group derecognize a financial asset, such as a loan to a client, when the terms of business have changed to the extent that the contract becomes a new loan, where the difference is recognized in the profit or loss on derecognition, but to the extent that the impairment loss is not already recorded. Newly recognized loans are classified as Stage 1 for ECL measurement purposes unless the new loan is considered POCI.

When assessing whether or not the loan is derecognized, the Bank and Group considers, among other things, the following factors: change in the currency of a loan, introduction of ownership of a property, change of the other counterparty, or if the change is such that the instrument no longer meets the SPPI criterion.

Changes in financial assets that do not result in significantly different cash flows

If the change does not result in cash flows that are substantially different, the change does not result in derecognition. Based on the change in the cash flows discounted by the original EIR, the Bank and Group record gain or loss on the change, to the extent that the impairment loss has not been recorded yet.

Derecognition financial assets in the event of significant changes to the conditions

Financial assets (or any part thereof or part of a group of similar financial assets) are derecognised when the rights to receive cash flows from the financial asset have expired or when they are transferred, and or

- The Bank and Group transfer almost all the risks and benefits associated with ownership, or
- The Bank and Group neither transfer nor retain almost all of the risks and benefits associated with ownership and the Bank and Group do not retain control.

The Bank and Group consider that the control is transferred if and only if the acquirer has the practical ability to sell the property to the wholly unrelated third party and is able to use that ability unilaterally and without introducing additional transfer restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.3 Modification and derecognition of financial assets (continued)

Derecognition financial assets in the event of significant changes to the conditions

The Bank and Group enter into transactions in which it retains contractual terms for receiving cash flows from the asset but assumes the contractual obligation to pay these cash flows to other entities and transfers all risks and benefits. These transactions are recorded as "pass-through" arrangements that result in derecognition if the Bank and Group:

- have no obligation to pay, unless it collects equivalent amounts from the property,
- have a ban on selling or pledging assets, and
- have the obligation to allocate any money that is collected from the property without any significant delay.

When the Bank and Group have netiher transferred or retained almost all risks and benefits, and retained control of the assets, the assets continue to be recognized only to the extent of the continued participation of the Bank and Group, in which case the Bank and Group also recogniz the related obligation. Transferred assets and related liabilities are measured on a basis reflecting the rights and liabilities held by the Bank and Group. The continuation of the collateral in relation to the transferred assets is measured at a lower value between the original carrying amount of the asset and the maximum amount of compensation that the Banka and Group would be required to pay.

Collateral (such as shares and bonds) that the Bank and Group issue under standard repurchase and securities lending agreements are derecognized as the Bank and Group retain all significant risks and rewards on a pre-determined purchase price and hence the criteria for termination of recognition are not met.

2.11.4 Write-off

Loans and debt securities are written off when the Bank and Group have no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank and Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Banka and Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank and Group's enforcement activities are stated as other income in the separate and consolidated statement of profit or loss and other comprehensive income. Additionaly the FBA Decision prescribes the regulation for Accounting writ-off accoridng to which the Bank and the Group are obliged to write off balace sheet exposure two year after the Bank has recorded expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

2.11.5 Presentation of allowance for ECL in the separate and consolidated statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the separate and consolidated statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see separate and consolidated Statement of changes in equity);
- for loan commitments and financial guarantee contracts: as a provision.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6 Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank and Group or a contract that will or may be settled in the Bank and Group's own equity instruments and is a non-derivative contract for which the Bank and Group are or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank and Group's own equity instruments.

2.11.6.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank and Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank and Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank and Group's own equity instruments.

2.11.6.2 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank and Group manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank and Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6.2 Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in the separate and consolidated statement of profit or loss and other comprehensive income to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in the separate and consolidated statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL line item in the profit or loss account.

In making the determination of whether recognising changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Bank and Group must assess whether they expect that the effects of changes in the liability's credit risk will be offset in the separate and consolidated statement of profit or loss and other comprehensive income by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

2.11.6.3 Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.11.6.3.1 Borrowings

Interest-bearing loans are initially recognized at fair value, less any related transaction costs. After initial recognition, interest-bearing borrowings are stated at amortized cost, and any difference between receivables (less transaction costs) and redemption value is recognized in profit or loss for the duration of the borrowing period based on the effective interest rate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6 Financial liabilities and equity

2.11.6.3.2 Current accounts and deposits of banks and clients

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

2.11.6.4 Derecognition of financial liabilities

The Bank and Group derecognise financial liabilities when, and only when, the Bank and Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank and Group exchange with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank and Group account for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

2.12. Debt securities

Debt securities are classified as financial assets at FVTOCI (with the disclosure of gains or losses on income or loss on derecognition) at FVTPL or at amortized cost, depending on the business model and the SPPI test.

2.13. Receivables from banks

Placements with banks are classified as financial assets at amortized cost and measured accordingly.

2.14 Cash and cash equivalents

For the purpose of preparation of the separate and consolidated cash flow statement, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts.

2.15 Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables. Loans and receivable arise when the Bank and Group provide money directly to a debtor with no intention of trading with the receivable or disposal in the near future.

Loans and receivables are initially recognised at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any potential impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables include loans to and receivables from banks, loans and receivables from clients, cash and cash equivalents, and obligatory reserves with CBBH.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank and Group are recognised at the proceeds received, net of direct issue costs.

2.17 Liabilities for contracts on financial guarantees, letters of credit and unused loans

Liabilities for financial guarantee contracts are initially measured at fair value and subsequently measured at greater than:

- amount of contractual obligations as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets", or
- the amount initially recognized and, where appropriate, reduced by cumulative amortization recognized in accordance with the income recognition policies established above.

Unused loans and letters of credit are liabilities that, during the term of a liability, the Bank and Group are obliged to provide a loan to a client under pre-determined conditions.

The nominal contractual value of financial guarantees, letters of credit and unused credit obligations, if the loan is agreed to be given to market conditions, is not shown in the separate and consolidated statement of financial position (presented in the off-balance sheet).

2.18 Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate and consolidated statement of financial position when, and only when, the Bank and Group have a legal right to set off the amounts and they tend either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses are presented on a net basis only when that is allowed pursuant to IFRS, and for gains and losses from the group of similar transactions, e.g. based on trade activity.

2.19 Derivative financial instruments

The Bank and Group use derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operating, financing and investing activities. The Bank and Group do not hold or issue derivative financial instruments for speculative trading purposes. All derivatives are classified as financial instruments held for trading.

Derivative financial instruments including foreign exchange forward contracts and foreign exchange swap contracts are initially recognised at trade date and subsequently measured at their fair value in the separate and consolidated statement of financial position. Fair values are obtained from discounted cash flow models.

All derivatives are classified as financial assets at fair value through profit or loss when their fair value is positive and as financial liabilities at fair value through profit or loss when it is negative.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Property and equipment

Property and equipment are initially stated at cost. Subsequent measurement of property is done at fair value, while equipment is held at cost, less accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the separate and consolidated statement of profit or loss and other comprehensive income during the period in which they are incurred.

Depreciation is provided on all property and equipment except for land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write off the cost to estimated residual value over the estimated useful life of the asset. The estimated useful lives are as follows:

Bank	31 December 2019	31 December 2020
Buildings	50 years	50 years
Computers	3.3 to 5 years	3.3 to 5 years
Leasehold improvement	Lease term	Lease term
Other equipment	6.6 to 14.2 years	6.6 to 14.2 years

Depreciation methods, the useful lives and residual values of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the separate and consolidated statement of profit or loss and other comprehensive income as other income or other expense.

2.21 Intangible assets

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

Intangible assets except for intangible assets not yet brought into use are amortised on a straight-line basis over their estimated useful lives as follows:

Bank	31 December 2019	31 December 2020
Software	5 years	5 years
Other intangible assets	5 years	5 years

2.22 Investment property

Investment property encompass property held for earning lease profits or for increase of value of capital property, or both. Investment properties are initially measured at cost (which is consistent with their market value at the acquisition date). Subsequent measurement is made using the fair value method. Changes in fair value are recognized in the separate and consolidated statement of profit or loss, and no depreciation is calculated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the separate and consolidated statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

2.23.1 Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

2.23.2 Deferred income tax

Deferred income taxes are recognised reflecting the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank and Group expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Deferred tax assets and liabilities are not discounted and are classified as a non-current assets and/or liabilities in the separate and consolidated statement of financial position.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank and Group reassess unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets, which are reduced to the extent at which it is no longer probable that tax benefits can be used.

2.24 Impairment of non-financial assets

Non-financial assets (other than deferred tax assets) of the Bank and Group are tested for impairment only when there is indication of impairment and their recoverable amount is then estimated. An impairment loss is recognised in the separate and consolidated statement of profit or loss and other comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Impairment of non-financial assets (continued)

The recoverable amount of individual assets or cash-generating units is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. The recoverable amount of assets that do not generate independent cash flows (e.g. corporate assets) is determined by assessing cash flows of the group to which the asset belongs.

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

2.25 Assets acquired in lieu of uncollectible receivables

The Bank and Group assess the marketability of assets acquired in lieu of uncollectible receivables, loans and financial lease, the value of which can be measured reliably, and they are recognised as assets in the separate and consolidated statement of financial position. The Bank and Group's intention is mainly to sell such assets, in which case they are classified as inventory, and not amortised. However, in certain limited cases they may end up being used by the Group and amortised within buildings, which are part of property and equipment.

The items acquired based on lease, property and equipment agreements are included in assets acquired in lieu of uncollectible receivables of the Bank and Group. These assets are recognised by cost or net realisable value, depending on which is lower.

In accordance with the FBA Decision, the Bank and the Group recognize repossessed assets at the lower of the following values:

a) The amount of the net carrying amount of the Bank's receivables. In this case the amount of booked valeu expected credit losses is equal to the amount of receivables, the Bank will record the repossessed tangible assets at the technical value in the amount of 1 KM.

b) Estimated fair value by an independent appraiser less expected selling expenses.

Impairment of assets is described under impairment of non-financial assets (Note 2.25).

2.26 Provisions

Provisions are recognised if the Bank and Group have a present obligation (legal or constructive) as a result of a past event, if is probable that the Bank and Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Equity and reserves

2.27.1 Share capital

Share capital represents the nominal value of paid-in ordinary and preference shares and is denominated in KM.

2.27.2 Treasury shares

When the Bank purchases its own equity instruments (treasury shares), the consideration paid is deducted from equity until the shares are cancelled. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in issued share capital.

2.27.3 Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognised in accordance with regulations of the Banking Agency of Federation of Bosnia and Herzegovina. Regulatory reserves for credit losses are non-distributable.

2.27.4 Retained earnings

Profit for the period after appropriations to owners is transferred to retained earnings.

2.27.5 Revaluation reserve for securities

Revaluation reserve for securities comprises changes in fair value of financial assets through OCI, net of deferred tax.

2.27.6 Dividends

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

2.28 Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank and Group enter into credit related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit card limits.

2.29 Managed funds for and on behalf of third parties

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

2.30 Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in business activities, which may result in revenue or expenses. The Bank has identified four primary business segments: Retail, Corporate and Investment Banking, Assets and Liabilities Management, and Central Unit.

"Lease" segment in the segments notes allocated to the segment of Retail or Corporate and Investment banking depending on where it belongs. Segmental results are measured inclusive of the application of internal transfer prices, based on specific prices, appropriate currencies and maturities, with embedded additional adjustments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Segment reporting (continued)

Segmental business result are regularly monitored by the Management and Supervisory Board, based on management financial information.

2.32 Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2020 and 2019 there were no dilution effects.

2.33 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the the separate and consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

During 2020 and 2019, there were neither qualifying assets nor capitalized borrowing costs.

3. ADOPTION OF NEW AND REVISED STANDARDS

3.1 Initial application of new amendments to the existing standards effective for the current reporting period

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 Materiality (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3: “Business Combinations” - Definition of Business (effective for business combinations for which the acquisition date is at or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and on acquisitions of assets occurring in day 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” - Reform of the Reference Interest Rate (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 “Covid 19 Lease Concessions” - Modifications to Lease Concessions (effective from 1 June 2020 or later, with permission and earlier application)The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank’s and Group’s separate and consolidated financial statements.

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank’s and Group’s separate and consolidated financial statements.

3.2 New standards and amendments to existing standards in issue not yet adopted

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

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- 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 IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022).

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in Note 2, the Bank and Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

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

4.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1.1 Useful lives of property and equipment

As described in Notes 2.21 and 2.22 above, the Bank and Group review the estimated useful lives of property and equipment at the end of each annual reporting period.

4.1.2 Tax

The Bank recognizes a tax liability in accordance with the tax regulations of the Federation of Bosnia and Herzegovina. Tax returns are approved by the tax authorities responsible for conducting ex-post control of taxpayers.

4.1.3 Impairment losses on loans and receivables

As described in Note 2.11.2 above, at each reporting period date, the Bank and Group assess indicators for impairment of loans and receivables, and receivables on financial lease.

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

Impairment losses are made mainly against the carrying value of loans to corporate and retail clients (summarised in Note 20), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to clients, mainly in the form of unused loan facilities and guarantees (summarised in Note 32).

Under IFRS 9 for recognizing the amount of provisions for a financial instrument, entities may follow the General Approach or the Simplified Approach.

Under the general approach each legal entity is obliged to calculate either the 12-month or lifetime ECL of a financial instrument depending on the significance of changing the credit risk of the financial instruments in relation to the initial recognition.

In Simplified Approach, legal entities are not required to track changes in credit risk. Provisions are always equal to the expected lifetime credit loss on each reporting date, immediately after recognition.

The Bank uses a simplified approach to the finance lease portfolio, and for the rest of the general approach.

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

4.1 Key sources of estimation uncertainty (continued)

4.1.3 Impairment losses on loans and receivables (continued)

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

Financial assets carried at amortized cost

The classification determines how the financial asset is treated in the separate and consolidated financial statements and, in particular, how is measured continuously. Classification and measurement requirements are the core of accounting for financial assets.

With regard to the rules for the classification of financial instruments, IFRS 9 contains three major categories of measurement for financial assets:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL).

How financial assets are classified and measured depends on two grades:

- Bank's Business Model (BM) for financial assets management; and
- Contractual characteristics of financial assets cash flow.

According to IFRS 9, the business model of the Bank refers to the Bank and Group managing its financial assets in order to generate cash flow. That is, the business model of the Bank and Group determines whether cash flows will result in the payment of contractual cash flows, or assets managed to collect contracted cash flows and the sale of financial assets.

Therefore, business models can be classified as:

- Hold
- Hold & Sell
- Other / residual

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

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

4.1 Key sources of estimation uncertainty (continued)

4.1.3 Impairment losses on loans and receivables (continued)

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

Financial assets carried at amortized cost

The assessment of the characteristics of cash flows aims to identify whether the contractual cash flows are “solely payment of principal and interest” (SPPI criterion).

If the SPPI criterion is met, the financial assets managed by the “Hold” Business Model will be measured at amortized cost, and funds managed under the Hold & Sell business model will be measured in the FVOCI. The financial assets by which the business model management “Other” will be measured as fair value through profit or loss, independent of the SPPI criteria.

The Bank and Group apply the “3-Stage” model, which is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, reflecting the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date. Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

The approach related to the calculation of expected credit losses is explained in detail in Note 38.1.

Compliance with the requirements of IFRS 9 and the Decision on credit risk management and determination of expected credit losses

In accordance with the provisions of the Decision, the Bank formed larger value adjustments for credit losses in the amount of BAM 8,953,996 in relation to the amount obtained by calculation resulting from the Bank’s internal model, according to the requirements of IFRS 9. This difference was due to the following reasons:

- application of minimum rates of value adjustments prescribed by Article 23 of the Decision for exposures in the level of credit risk 1 - difference in the amount of KM 2,656,274,
- application of minimum rates of value adjustments prescribed by Article 24 of the Decision for exposures in the level of credit risk 2 - difference in the amount of KM 5,740,422,
- application of minimum rates of value adjustments prescribed by Article 25 of the Decision for exposures in the level of credit risk 3 (non-performing assets) - difference in the amount of KM 319,374.of which KM 37,765 relates to exposures covered by eligible collateral,

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

4.1 Key sources of estimation uncertainty (continued)

4.1.3 Impairment losses on loans and receivables (continued)

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

- application of minimum value adjustment rates prescribed in Article 26 of the Decision for trade receivables, receivables based on factoring and financial leasing and other receivables - the difference in the amount of 237,926 KM.

In accordance with Article 32 of the Decision, the Bank did not have a lower value of acquired tangible assets as of December 31, 2020.

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

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

4.1 Key sources of estimation uncertainty (continued)

4.1.3 Impairment losses on loans and receivables (continued)

b) Regulatory reserves calculated in accordance with FBA regulations (Bank only)

In accordance with the Decision on Minimum Standards for Credit Risk Management and Classification of Bank Assets (Official Gazette of the Federation of BH, No. 85/11 - consolidated text, 33/12 and 15/13), the Agency requested that credit reserves be losses (CRL) calculated in accordance with the said Decision are set aside or deducted from capital when calculating capital adequacy, in the amount in which the CRL calculated in this way are greater than the total deductions under IFRS at the contract level. Missing provisions for credit losses as at 31 December 2019 amount to KM 63,183 thousand and are reduced by KM 20,682 thousand of reserves that are excluded from the share capital of the bank and formed upon the first application of IAS 39.

On June 20, 2019, the Banking Agency of the Federation of BH passed a Decision on credit risk management and determination of expected credit losses with effect from January 1, 2020 and repealed the above Decision, which terminated the obligation to form a CRL under it.

Furthermore, the Agency in fig. Journal of the Federation of BH No. 91/18 published the Decision on the conditions for the inclusion of formed reserves for credit losses in the regular share capital of the bank.

Based on the Decision of the Assembly in 2020, the Bank included in the share capital KM 18,614 after paid income tax (KM 2,068 thousand).

4.1.4 Legal proceedings

The Bank and Group make individual assessment of all legal proceedings whose value exceeds KM 25 thousand. All legal proceedings below KM 25 thousand are monitored and provided for on a portfolio basis.

As of 31 December 2020 the Bank and Group have provided KM 11,543,428.97, which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Bank and Group.

4.1.5 Fair value of financial instruments

As described in Note 40, the Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

5. SEGMENT REPORTING

The segments of the Bank and the Group include:

1. “Retail”: individuals, small business and sole traders, including finance lease.
2. “Corporate and Investment Banking”: large and medium corporate clients, state and public sector, financial markets (trading activities), including finance lease.
3. “Assets and Liabilities Management”: asset and liability management.
4. “Central Unit”: other assets and liabilities not assigned to other segments.

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

5. SEGMENT REPORTING (CONTINUED)

Segmentation of positions of the separate statement of profit or loss and the statement of financial position is based on separate financial statements prepared for parent company reporting purposes, which use different criteria for the calculation of fair value of assets through OCI and derivatives, as well as different classification of particular positions.

Statement of profit or loss per segment

Bank **Year ended 31 December 2020**	**Retail**	**Corporate and Investment Banking**	**Assets and Liabilities Management**	**Central Unit**	**Total by management reports**	**Adjustment before financial stateme-nts**	**Total**
Net interest income	106,747	34,970	7,528	(746)	148,499	686	149,185
Net fee and commission income	55,489	17,227	(1,329)	61	71,448	-	71,488
Dividend income	-	-	-	31	31		31
Net gains from foreign exchange trading and translation of monetary assets and liabilities	6,770	4,788	3	57	11,618	(2)	11,616
Other income	3,835	157	-	(52)	3,941	1,008	4,949
Operating income	**172,841**	**57,124**	**6,202**	**(649)**	**235,537**	**1,692**	**237,229**
Depreciation and amortization	(8,433)	(404)	(8)	(7,797)	(16,642)	701	(15,941)
Operating expenses	(94,661)	(22,040)	(1,548)	4,035	(114,214)	1,229	(112,985)
Profit before impairment losses and taxation	**69,747**	**34,698**	**4,646**	**(4,410)**	**104,681**	**3,622**	**108,303**
Impairment losses and provisions, net	(18,868)	(3,095)	(428)	(5)	(22,396)	(3,234)	(25,630)
Profit before taxation	**50,879**	**31,603**	**4,218**	**(4,415)**	**82,285**	**388**	**82,673**
Income tax expense	(5,075)	(3,133)	(422)	238	(8,392)	(39)	(8,431)
NET PROFIT	**45,804**	**28,470**	**3,796**	**(4,177)**	**73,893**	**349**	**74,242**

5. SEGMENT REPORTING (CONTINUED)

Statement of profit or loss per segment (continued)

Bank ***Year ended 31 December 2019***	**Retail**	**Corporate and Investment Banking**	**Assets and Liabilities Management**	**Central Unit**	**Total by manage-ment reports**	**Adjust-ment before financial stateme-nts**	**Total**
Net interest income	119,437	37,836	6,140	(1,782)	161,631	551	162,182
Net fee and commission income	53,338	18,160	(1,051)	-	70,447	-	70,447
Dividend income	-	-	-	198	198	-	198
Net gains from foreign exchange trading and translation of monetary assets and liabilities	9,753	5,423	(1)	(1)	15,174	(70)	15,104
Other income	5,487	2,785	288	(5,303)	3,257	(1,282)	1,975
Operating income	**188,015**	**64,204**	**5,376**	**(6,888)**	**250,707**	**(801)**	**249,906**
Depreciation and amortization	(7,855)	(354)	(8)	(5,844)	(14,061)	(860)	(14,921)
Operating expenses	(94,168)	(21,857)	(1,567)	4,794	(112,798)	204	(112,594)
Profit before impairment losses and taxation	**85,992**	**41,993**	**3,801**	**(7,938)**	**123,848**	**(1,457)**	**122,391**
Impairment losses and provisions, net	(6,904)	(2,051)	(507)	1	(9,461)	1,459	(8,002)
Profit before taxation	**79,088**	**39,942**	**3,294**	**(7,937)**	**114,387**	**2**	**114,389**
Income tax expense	(7,897)	(3,937)	(329)	(1,128)	(13,291)	(27)	(13,318)
NET PROFIT	**71,191**	**36,005**	**2,965**	**(9,065)**	**101,096**	**(25)**	**101,071**

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

5. SEGMENT REPORTING (CONTINUED)

Statement of financial position per segment

Bank

31 December 2020	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Manageme-nt	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Segment assets	1,868,285	1,259,152	2,392,638	578,812	6,102,482	(5,492)	6,096,989
Subscribed income tax		-	-	2,703	2,703	(39)	2,664
Deferred tax assets	-	-	-	891	891	(891)	0
Total assets	**1,868,285**	**1,259,152**	**2,392,638**	**582,406**	**6,106,076**	**(6,422)**	**6,099,653**
Segment liabilities	3,137,389	1,438,704	58,798	545,908	5,180,799	0	5,182,206
Current tax liability	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	863	-	704	159
Total liabilities	**3,137,389**	**1,438,704**	**58,798**	**546,711**	**5,181,662**	**704**	**5,182,365**
Acquisition of property, equipment and intangible assets	-	-	-	13,044	-	-	

Bank

31 December 2019	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Manageme-nt	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Segment assets	2,136,209	1,432,413	2,471,255	527,728	6,567,605	3,106	6,570,711
Total assets	**2,136,209**	**1,432,413**	**2,471,255**	**527,728**	**6,567,605**	**3,106**	**6,570,711**
Segment liabilities	3,470,948	1,568,360	513,401	163,025	5,715,734	(4)	5,715,730
Current tax liability	-	-	-	819	819	40	859
Deferred tax liability	-	-	-	3,809	3,809	(1,803)	2,006
Total liabilities	**3,470,948**	**1,568,360**	**513,401**	**167,653**	**5,720,362**	**(1,767)**	**5,718,595**
Acquisition of property, equipment and intangible assets	-	-	-	20,175	-	-	-

6. INTEREST INCOME

Analysis by source

	Bank 2020	Bank 2019
Retail	114,001	120,555
Corporate	41,270	42,433
State and public sector	16,916	22,097
Banks and other financial institiutions	744	1,195
	172,931	**186,280**

Banks and other financial institutions include Central Bank of BH.

Analysis by product

	Bank 2020	Bank 2019
Loans and receivables from clients at amortized cost	160,960	170,427
Debt securities (financial assets at FVOCI)	11,227	14,658
Loans to and receivables from banks at amortized cost	744	1,195
	172,931	**186,280**

Interest income on impaired loans and receivables amounted to KM 8,942 thousand. (2019: KM 3,785 thousand), of which effects of unwinding were recognized in interest income in the amount of KM 303 thousand (2019: KM 631 thousand).

7. INTEREST EXPENSE

Analysis by recipient

	Bank 2020	Bank 2019
Retail	11,534	13,615
Negative interest on placements to banks and obligatory reserve with the CBBH	6,007	5,740
Corporate	2,901	2,556
Banks and other financial institutions	3,116	2,017
State and public sector	188	170
	23,746	**24,098**

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

7. INTEREST EXPENSE (CONTINUED)

Analysis by product

	Bank 2020	Bank 2019
Current accounts and deposits from retail clients	11,534	13,615
Current accounts and deposits from banks	6,458	6,361
Current accounts and deposits from corporate, and state and public sector	2,941	2,493
Borrowings	413	538
Repo activities	2,252	854
Long-term lease liabilities	148	237
	23,746	**24,098**

8. FEE AND COMMISSION INCOME

	Bank 2020	Bank 2019
Credit cards	23,371	23,389
Product package fees	13,322	11,554
Domestic payment transactions	11,102	11,090
Foreign payment transactions	16,412	16,637
Guarantees and letters of credit	4,643	4,983
Other	7,750	7,018
	76,600	**74,671**

9. FEE AND COMMISSION EXPENSES

	Bank 2020	Bank 2019
Domestic payment transactions	2,778	2,567
Foreign payment transactions	1,378	915
Other	996	742
	5,152	**4,224**

10. NET GAINS FROM FOREIGN EXCHANGE TRADING AND TRANSLATION OF MONETARY ASSETS AND LIABILITIES

	Bank 2020	Bank 2019
Net foreign exchange spot trading gains	11,639	15,151
Net losses from FX forwards	(20)	(31)
Net foreign exchange loss from translation of monetary assets and liabilities	(3)	(16)
	11,616	**15,104**

11. OTHER INCOME

	Bank 2020	Bank 2019
Write-offs of other liabilities and reversal of accrued expenses	525	286
Collected written-off receivables	3,052	182
Income from IT services	413	433
Net income from repossessed collaterals	356	431
Income from expenses recharged to clients	111	71
Rent income	50	68
Income from claims settled by insurance companies	76	64
Net gains on disposal of property and equipment	37	54
Income from recording tangible assets	-	-
Other	329	386
	4,949	**1,975**

12. OPERATING EXPENSES

	Bank 2020	Bank 2019
Personnel costs	59,928	59,212
Administration and marketing expenses	38,401	39,801
Savings deposit insurance expenses	11,580	10,498
State contributions (excluding personnel-related)	1,713	1,830
Rental costs	703	764
Other expenses	660	489
	112,985	**112,594**

Personnel costs of the Bank include KM 12,170 thousand of defined contributions paid into the state-owned pension plans (2019: KM 11,811 thousand).

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

13. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Bank 2020	Bank 2019
Properties acquired in lieu of uncollected receivables (Note 21)	1,322	3,368
Off-balance-sheet exposure to credit risk (Note 32)	(9,558)	1,643
Provisions for legal proceedings (Note 32)	1,734	1,048
Impairment of property and equipment (Note 24 and Note 2.3.1.2.)	(168)	622
Impairment of investment property (Note 23 and Note 2.3.1.2.)	-	373
Loans and receivables from clients at amortized cost (Note 20)	31,127	355
Loans and receivables from banks at amortized cost, including the obligatory reserve at the CBBH (Note 16 and Note 17)	239	159
Impairment of cash and cash equivalents (Note 15)	184	14
Impairment of securities (Note 18)	1,482	(34)
Other assets (Note 21)	(732)	454
	25,630	**8,002**

14. INCOME TAX EXPENSE

Total tax recognised in the separate and consolidated statement of profit or loss and other comprehensive income may be presented as follows:

	Bank 2020	Bank 2019
Current income tax	10,357	13,514
Deferred income tax	(1,926)	(196)
Total tax in Statement of profit or loss	**8,431**	**13,318**
Deffered tax through other comprehensive income	(79)	(773)
Tax paid on credit loss reserves (Note 4.1.2.)	(2,068)	-

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	Bank 2020	Bank 2019
Profit before income tax	**82,673**	**114,389**
Tax calculated at rate of 10%	8,267	11,439
Effects of non-deductible expenses	167	1,807
Effects of non-deductible income	(3)	(20)
Effects of deductible depreciation	(169)	(204)
Effects of impairment of assets	128	400
Effects of provisions and receivables	1,967	-
Capital gains	-	-
Additional income tax in subsidiary for the branch in RS	-	92
Current income tax	**10,357**	**13,514**
Average effective income tax rate	**12.5%**	**11.8%**

14. INCOME TAX EXPENSE (CONTINUED)

	Bank Deferred tax assets	Bank Deferred tax liabilities	Bank Net deferred tax assets / (liabilities)
Balance at 31 December 2018	**-**	**1,430**	**1,430**
Change in fair value of financial assets at fair value through other comprehensive income	-	539	539
Changes in revaluation reserves at actuarial gain/loss	(7)	-	(7)
Other provisions for loans and receivables from clients through statement of profit or loss	(182)	-	(182)
Net deferred tax liability for depreciation	-	203	203
Changes in negative fair value of property and equipment recognized in statement of profit or loss	(218)	-	(218)
Changes in positive fair value of property and equipment recognized in other comprehensive income	-	241	241
Netting tax assets	407	(407)	-
Balance as at 31 December 2019	**-**	**2,006**	**2,006**
Change in fair value of financial assets at fair value through other comprehensive income	-	114	114
Changes in revaluation reserves at actuarial gain/loss	(33)	-	(33)
Other provisions for loans and receivables from clients through statement of profit or loss	(1,967)	-	(1,967)
Net deferred tax liability for depreciation	-	169	169
Changes in negative fair value of property and equipment recognized in statement of profit or loss	(128)	-	(128)
Changes in positive fair value of property and equipment recognized in other comprehensive income	-	(2)	(2)
Netting tax assets	2.128	(2,128)	-
Balance as at 31 December 2020	**-**	**159**	**159**

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

14.INCOME TAX EXPENSE (CONTINUED)

	Bank 31 December 2020	Bank 31 December 2019
Deferred tax assets	-	-
Deferred tax liabilities		
Net deferred tax liability for financial assets at FVOCI	(806)	(692)
Net deferred tax assets for revaluation reserves at actuarial gain/loss	33	-
Net deferred tax assets for property and equipment	529	218
Net deferred tax liability for other provisions for loans and receivables from clients	919	(866)
Net deferred tax liability for property and equipment recognized in other comprehensive income	(238)	(241)
Net deferred tax liability for depreciation	(595)	(425)
Net deferred tax liabilities	**(159)**	**(2,006)**

15. CASH AND CASH EQUIVALENTS

	Bank 31 December 2020	Bank 31 December 2019
Giro account with CBBH	240,335	380,004
Current accounts with other banks	364,252	210,282
Cash in hand	203,817	169,802
Items in the course of collection	-	88
	808,404	*760,176*
Less: Impairment allowance	(493)	(129)
	807,911	**760,047**

Movement in impairment allowance for cash and cash equivalents can be presented as follows:

	Bank 31 December 2020	Bank 31 December 2019
As at 1 January	**129**	**115**
Effect of IFRS 9 (Note 2.3.1)	180	-
Impairment in the separate and consolidated income statement (Note 13)	184	14
As at 31 December	**493**	**129**

16. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	Bank 31 December 2020	Bank 31 December 2019
Obligatory reserve at CBBH	495,496	536,612
Less: Impairment allowance	(1,090)	(1,129)
	494,406	**535,483**

Movement in impairment allowance for obligatory reserve at the CBBH can be presented as follows:

	Bank 2020	Bank 2019
As at 1 January	**1,129**	**1,112**
Impairment in the separate and consolidated income statement (Note 13)	(39)	17
As at 31 December	**1,090**	**1,129**

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

16. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA (CONTINUED)

In 2020, the basis for calculation of the obligatory reserve of commercial banks comprised all deposits and borrowed funds, regardless of currency. In addition, the unified rate of obligatory reserve of 10% was determined, which is applied by CBBH on the base for calculation of obligatory reserve.

The CBBH does not charge a fee on the amount of required reserve funds, while the fee applied by the European Central Bank on deposits of commercial banks was calculated on the amount of funds above the required reserve. The fee calculated by the CBBH on the amount of funds above the required reserve for 2020 in accordance with the above was -0.50%.

17. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

	Bank 31 December 2020	Bank 31 December 2019
Placements with other banks – gross	239,436	853,797
Loans to banks – gross	684,529	196,627
	923,965	***1,050,424***
Less: Impairment allowance	(1,502)	(569)
	922,463	**1,049,855**
Expected to be recovered:		
- no more than twelve months after the reporting period	908,408	1,034,867
- more than twelve months after the reporting period	15,557	15,557
Less: Impairment allowance	(1,502)	(569)
	922,463	**1,049,855**

As at 31 December 2020, loans and receivables from banksat amortized cost included KM 2,931 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (31 December 2019: KM 3,020 thousand).

As at 31 December 2020, the amount of placements and loans within loans to and receivables from banks was KM 16,309 thousand (31 December 2019: KM 16,421 thousand) to related parties.

The movement in impairment allowance for loans to and receivables from banks is as follows:

	Bank 2020	Bank 2019
Balance as at 1 January	**569**	**438**
Effects of the FBA Decision (Note 2.3.1)	780	-
Forex differences	(1)	(11)
Impairment in the separate and consolidated income statement (Note 13)	278	142
Write-offs	(124)	-
Balance as at 31 December	**1,502**	**569**

17.LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST (CONTINUED)

Loans to and receivables from banks at amortized cost, including the obligatory reserve at the CBBH

Gross exposure

Bank		**31 December 2020**			**31 December 2019**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing					
Low risk	1,398,098	-	-	1,398,098	1,023,829
Medium risk	21,363	-	-	21,263	563,083
High risk	-	-	-	-	-
Non-performing	-	-	-	-	-
Default	-	-	-	-	124
Total	**1,419,461**	**-**	**-**	**-**	**1,587,036**

Bank **Movement of gross exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**1,586,912**	**-**	**124**	**1,587,036**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	(124)	(124)
New financing	530,707	-		530,707
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-			
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3				
Assets repaid	(694,960)	-		(694,960)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(3,477)	-		(3,477)
Other changes	279	-	-	279
At 31 December 2020	**1,419,461**	**-**	**-**	**1,419,461**

Bank **Movement of impairment allowance**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	**1,574**	**-**	**124**	**1,698**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	780	-	(124)	656
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	239	-	-	239
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1)	-	-	(1)
At 31 December 2020	**2,592**	**-**	**-**	**2,592**

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

17. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST (CONTINUED)

Bank **Movement of gross exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**1,204,253**	**-**	**124**	**1,204,377**
New financing	504,473	-	-	504,473
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(123,454)	-	-	(123,454)
Amounts written off	-	-	-	-
Foreign exchange adjustments	1,272	-	-	1,272
Other changes	368	-	-	368
At 31 December 2019	**1,586,912**	**-**	**124**	**1,587,036**

Bank **Movement of impairment allowance**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2019	**1,426**	**-**	**124**	**1,550**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	159	-	-	159
Amounts written off	-	-	-	-
Foreign exchange adjustments	(11)	-	124	(11)
At 31 December 2019	**1,574**	**-**	**124**	**1,698**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Bank 31 December 2020	Bank 31 December 2019
Debt securities at fair value through other comprehensive income	622,736	527,064
Equity securities at fair value through other comprehensive income	199	199
	622,935	**527,263**

The movement in impairment allowance for financial assets at fair value through profit or loss is as follows:

	Bank 2020	Bank 2019
Balance as at 1 January	**934**	**966**
Effects of the FBA Decision (Note 2.3.1)	182	-
Net expense in separate and consolidated statement of changes in equity	1,482	(34)
FX differences (separate and consolidated statement of changes in equity)	(6)	2
Balance as at 31 December	**2,592**	**934**

During 2020 and 2019 there were no due uncollected financial assets through other comprehensive income, nor impairment of financial assets at fair value through other comprehensive income.

Debt securities at fair value through other comprehensive income

	Bank 31 December 2020	Bank 31 December 2019
Bonds of the Government of Federation of BH	225,692	181,297
State Bonds of the Republic of Croatia	148,480	149,787
Bonds of the Government of Republika Srpska	88,578	85,484
State Bonds of the Republic of Poland	59,518	61,072
State Bonds of the Republic of Slovenia	45,532	49,424
Treasury record of the Government of the Federation of BH	30,000	-
Treasury bills of the Government of Republika Srpska	24,936	-
	622,736	**527,064**

Equity securities at fair value through other comprehensive income

	Bank 31 December 2020	Bank 31 December 2019
Listed or quoted	199	199
	199	**199**

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

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

Debt instruments at FVOCI

Bank	31 December 2020				31 December 2019
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing					
Low risk	253,530	369,206	-	622,736	
Medium risk	-	-	-	-	260,283
High risk	-	-	-	-	266,781
Non-performing	-	-	-	-	-
Default	-	-	-	-	-
Total	**253,530**	**369,206**	**-**	**622,736**	**527,064**

Bank Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**260,283**	**266,781**	**-**	**527,064**
New financing	37,434	201,022	-	238,456
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3			-	-
Reduced placements due to repayment (maturity)	(34,528)	(98,534)		(133,062)
Assets repaid	-	-		-
Amounts written off	-	-		-
Foreign exchange adjustments	(5,262)	-	-	(5,262)
Other changes	(4,397)	(63)	-	(4,460)
At 31 December 2020	**253,530**	**369,206**	**-**	**622,736**

Bank Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**79**	**855**	**-**	**934**
Effects of the FBA Decision (Note 2.3.1)	182	-	-	182
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	64	1,418	-	1,482
Impact of exchange rate differences	(8)			(8)
Amounts written off	-	-	-	-
At 31 December 2020	**317**	**2,273**	**-**	**2,590**

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

Bank Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**216,235**	**275,512**	**-**	**491,747**
New financing	73,040	76,727		149,767
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	5,384	-	-	5,384
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(34,399)	(85,208)	-	(119,607)
Amounts written off	-	-	-	-
Foreign exchange adjustments	2,459		-	2,459
Other changes	(2,436)	(250)	-	(2,686)
At 31 December 2019	**260,283**	**266,781**	**-**	**527,064**

Bank Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**105**	**861**	**-**	**966**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	(28)	(6)	-	(34)
Exchange rate differences (separate and consolidated statement of changes in equity)	2	-	-	2
At 31 December 2019	**79**	**855**	**-**	**934**

19. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Bank	31 December 2020		31 December 2019	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	12,733	215		
Foreign exchange swap contracts	650,562	-	519,968	-
	663,295	**215**	**519,968**	
Financial liabilities				
Forward foreign exchange contracts	12,658	179	87	
Foreign exchange swap contracts	-	-	-	-
	12,658	**179**	**87**	

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

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST

	Bank 31 December 2020	Bank 31 December 2019
Corporate (including state and public sector)		
- in domestic currency	1,392,187	1,641,274
- in foreign currency	9,192	20,308
	1,401,379	*1,661,582*
Retail		
- in domestic currency	1,858,971	2,102,520
- in foreign currency	-	229
	1,858,971	*2,102,749*
Finance lease receivables		
- in domestic currency	64,748	78,728
	64,748	*78,728*
Total loans and receivables before allowance	***3,325,098***	***3,843,059***
Less: Impairment allowance	(213,052)	(290,146)
Net loans and receivables	**3,112,046**	**3,552,913**
Expected to be recovered:		
- no more than twelve months after the reporting period	1,248,451	1,532,756
- more than twelve months after the reporting period	2,076,647	2,310,303
Less: Impairment allowance	(213,052)	(290,146)
	3,112,046	**3,552,913**

As at 31 December 2020, included in Bank's retail loans in domestic currency is KM 624,123 thousand of gross loans (31 December 2019: KM 764,672 thousand), and in corporate loans in domestic currency KM 555,184 thousand (31 December 2019: KM 754,205 thousand) which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the KM equivalent translated at the rate applicable at the date of payment.

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Bank	31 December 2020	31 December 2019
Loans and receivables from customers		
Corporate entites	1,299,367	1,570,337
State and public sector	102,012	91,245
Individuals	1,858,971	2,102,749
Finance lease	64,748	78,728
	3,325,098	***3,843,059***
Less: Impairment allowance	(213,052)	(290,146)
	3,112,046	**3,552,913**

a) Corporate entities – credit quality

Gross exposure

Bank		31 December 2020			31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	97,260	-	-	97,260	-
Medium risk	876,670	249,898	-	1,126,568	1,452,713
High risk	11,204	25,332	-	36,536	4,591
Non-performing					
Default	-	-	39,003	39,003	113,033
Total	**985,134**	**275,230**	**39,003**	**1,299,367**	**1,570,337**

Movement of gross exposure

		Bank		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**1,161,405**	**295,899**	**113,033**	**1,570,337**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	(55,895)	(55,895)
New financing	475,014	70,502	2,919	548,435
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	6,939	(6,939)	-	-
Transfers to Stage 2	(37,671)	41,105	(3,434)	-
Transfers to Stage 3	(372)	(998)	1,370	-
Assets repaid	(620,181)	(124,339)	(6,564)	(751,084)
Accounting write-off in years	-	-	(8,762)	(8,762)
Amounts written off	-	-	(3,658)	(3,658)
Foreign exchange adjustments	-	-	(6)	(6)
Other changes	-	-	-	-
At 31 December 2020	**985,134**	**275,230**	**39,003**	**1,299,367**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**1,069,144**	**304,214**	**146,804**	**1,520,162**
New financing	673,427	154,085	6,328	833,840
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	3,541	(3,541)	-	-
Transfers to Stage 2	(33,225)	33,225	-	-
Transfers to Stage 3	(161)	(171)	332	-
Assets repaid	(551,321)	(191,913)	(18,570)	(761,804)
Amounts written off	-	-	(21,861)	(21,861)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2019	**1,161,405**	**295,899**	**113,033**	**1,570,337**

Loans and receivables from clients	Bank			
Movement of impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	11,367	30,790	106,472	148,629
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	1,353	2,309	(55,755)	(52,093)
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	82	(82)	-	-
Transfers to Stage 2	(290)	1,473	(1,183)	-
Transfers to Stage 3	(658)	(76)	734	-
Impairment (Note 13)	3,842	18,101	(3,345)	17,598
Accounting write-off in years	-	-	(8,762)	(8,762)
Amounts written off			(3,658)	(3,658)
Foreign exchange adjustments	-	-	(77)	(77)
Other changes	-		(299)	(299)
At 31 December 2020	**15,696**	**52,515**	**33,127**	**101,338**

Loans and receivables from clients	Bank			
Movement of impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2019	**12,595**	**23,083**	**134,087**	**169,765**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	31	(31)	-	-
Transfers to Stage 2	(673)	673	-	-
Transfers to Stage 3	(326)	(11)	337	-
Impairment (Note 13)	(260)	7,074	(5,039)	1,775
Amounts written off	-	-	(21,861)	(21,861)
Foreign exchange adjustments	-	-	-	-
Business combination	-	-	-	-
Other changes	-	2	(1,052)	(1,050)
At 31 December 2019	**11,367**	**30,790**	**106,472**	**148,629**

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

b) State and public sector – credit quality

Bank		31 December 2020			31 December 2019
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing	-	-	-	-	
Low risk	102,012	-	-	102,012	-
Medium risk	-	-	-	-	91,245
High risk	-	-	-	-	-
Non-performing	-	-	-	-	-
Default	-	-	-	-	-
Total	**102,012**	**-**		**102,012**	**91,245**

Movement of gross exposure		Bank		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**82,364**	**8,881**	**-**	**91,245**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	-	-
New financing	41,709	-	-	41,709
Assets derecognised (excluding write offs)				
Transfers to Stage 1	7,460	(7,460)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(29,522)	(1,421)	-	(30,943)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1	-		1
At 31 December 2020	**102,012**	**-**	**-**	**102,012**

Movement of gross exposure		Bank		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**111,296**	**10,309**	**-**	**121,605**
New financing	13,598	-	-	13,598
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-			-
Transfers to Stage 3	-	-	-	-
Assets repaid	(42,530)	(1,428)	-	(43,958)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**82,364**	**8,881**	**-**	**91,245**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**155**	**1,546**	**-**	**1,701**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	(130)	-	(130)
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	184	(184)	-	-
Transfers to Stage 2	-	-		-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	62	(1,158)	-	(1,096)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**401**	**74**	**-**	**475**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**230**	**1,795**	**-**	**2,025**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	(75)	(249)	-	(324)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**155**	**1,546**	**-**	**1,701**

c) Retail – credit quality

Bank	31 December 2020				31 December 2019
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	1,711,998	58,414	-	1,770,412	1,938,804
High risk	1,759	11,622	-	13,381	56,581
Non-performing					
Default	-	-	75,178	75,178	107,364
Total	**1,713,757**	**70,036**	**75,178**	**1,858,971**	**2,102,749**

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**1,821,205**	**174,180**	**107,364**	**2,102,749**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	(45,019)	(45,019)
New financing	308,598	4,903	1,678	315,179
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	100,603	(100,535)	(68)	-
Transfers to Stage 2	(41,648)	49,185	(7,537)	-
Transfers to Stage 3	(19,618)	(10,507)	30,125	-
Assets repaid	(455,455)	(47,199)	(11,073)	(513,727)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	(295)	(295)
Foreign exchange adjustments	-	-	-	-
Other changes	72	9	3	84
At 31 December 2020	**1,713,757**	**70,036**	**75,178**	**1,858,971**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**1,617,721**	**235,562**	**99,097**	**1,952,380**
New financing	735,571	54,407	3,721	793,699
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	61,764	(61,711)	(53)	-
Transfers to Stage 2	(38,642)	43,378	(4,736)	-
Transfers to Stage 3	(13,699)	(12,151)	25,850	-
Assets repaid	(541,510)	(85,315)	(15,151)	(641,976)
Amounts written off	-	-	(1,365)	(1,365)
Foreign exchange adjustments	-	-	-	-
Other changes	-	10	1	11
At 31 December 2019	**1,821,205**	**174,180**	**107,364**	**2,102,749**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**12,084**	**19,527**	**93,285**	**124,896**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	1,164	1,081	(44,376)	(42,131)
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	2,432	(2,431)	(1)	-
Transfers to Stage 2	(344)	1,070	(726)	-
Transfers to Stage 3	1,612	(2,330)	718	-
Impairment (Note 13)	10,812	(7,917)	9,337	12,232
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	(295)	(295)
Foreign exchange adjustments	-	-	20	20
Other changes	-	-	(19)	(19)
At 31 December 2020	**27,760**	**9,000**	**57,943**	**94,703**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**13,844**	**21,456**	**87,037**	**122,337**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	412	(411)	(1)	-
Transfers to Stage 2	(383)	722	(339)	-
Transfers to Stage 3	(151)	(2,285)	2,436	-
Impairment (Note 13)	(1,639)	43	5,555	3,959
Amounts written off	-	-	(1,365)	(1,365)
Foreign exchange adjustments	-	-	-	-
Other changes	1	1	(38)	(36)
At 31 December 2019	**12,084**	**19,527**	**93,285**	**124,896**

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

d) Finance lease – corporate – credit quality

Bank		31 December 2020			31 December 2019
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	49,871	-	49,871	62,687
High risk	-	208		208	1,696
Non-performing					
Default	-	-	12,385	12,385	11,422
Total		**50,079**	**12,385**	**62,464**	**75,805**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**-**	**64,383**	**11,422**	**75,805**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	-	-
New financing	-	10,950		10,950
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	9	(9)	-
Transfers to Stage 3	-	(2,429)	2,429	-
Assets repaid	-	(22,835)	(666)	(23,501)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	(790)	(790)
Foreign exchange adjustments	-	1	(1)	-
At 31 December 2020	**-**	**50,079**	**12,385**	**62,464**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**-**	**76,637**	**23,786**	**100,423**
New financing	-	19,304	38	19,342
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	1,746	(1,746)	-
Transfers to Stage 3	-	(184)	184	-
Assets repaid	-	(33,120)	(6,837)	(39,957)
Amounts written off	-	-	(4,004)	(4,004)
Other changes	-	-	1	1
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**-**	**64,383**	**11,422**	**75,805**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020		**3,228**	**10,687**	**13,915**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	46	(29)	17
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(448)	448	-
Impairment (Note 13)	-	1,563	798	1,5712,361
Accounting write-off in years	-	-	(790)	(790)
Amounts written off	-	-	-	-
At 31 December 2020	**4,389**	**11,114**	**15,503**	**4,389**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**-**	**2,977**	**19,960**	**22,937**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	418	(418)	-
Transfers to Stage 3	-	(6)	6	-
Impairment (Note 13)	-	(160)	(4,859)	(5,019)
Amounts written off	-	-	(4,004)	(4,004)
Other changes	-	-	-	-
Foreign exchange adjustments	-	(1)	2	1
At 31 December 2019	**-**	**3,228**	**10,687**	**13.915**

e) Finance lease – retail – credit quality

Gross exposure

Bank	31 December 2020				31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	939	-	939	1,690
High risk	-	10	-	10	36
Non-performing	-	-			
Default	-	-	1,251	1,251	1,150
Total	**-**	**949**	**1,251**	**2,200**	**2,876**

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020		**1,726**	**1,150**	**2,876**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	-	-
New financing	-	147	-	147
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(228)	228	-
Assets repaid	-	(696)	(127)	(823)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**-**	**949**	**1,251**	**2,200**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**-**	**2,516**	**1,094**	**3,610**
New financing	-	504	33	537
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	10	(10)	-
Transfers to Stage 3	-	(180)	180	-
Assets repaid	-	(1,124)	(147)	(1,271)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**-**	**1,726**	**1,150**	**2,876**

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

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	-	32	973	1,005
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	-	-
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(10)	10	-
Impairment (Note 13)	-	(4)	36	32
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2020	**-**	**18**	**1,022**	**1,040**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**-**	**53**	**988**	**1,041**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(9)	9	-
Impairment (Note 13)	-	(12)	(24)	(36)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**-**	**32**	**973**	**1,005**

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

e) Finance lease – retail – credit quality

Gross exposure

Bank		31 December 2020			31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	47
Medium risk	-	84	-	84	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**-**	**84**		**84**	**47**

Movement of gross exposure		Bank		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**47**	**-**	**-**	**47**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	-	-	-	-
New financing	-	55	-	55
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1				
Transfers to Stage 2	(29)	29	-	-
Transfers to Stage 3				
Assets repaid	(18)	-	-	(18)
Accounting write-off in years	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**-**	**84**	**-**	**84**

Movement of impairment allowance		Bank		
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**-**	**-**	**-**	**-**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**-**	**-**	**-**	**-**

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

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Loans and receivables from clients at amortized cost are analysed by industry in the table below:

	Bank 31 December 2020	Bank 31 December 2019
Corporate (including state and public sector)		
Industry:		
Electricity, gas and water	70,116	124,177
Wood and paper	67,204	67,972
Metal and engineering	63,375	67,558
Food and drinks	66,456	66,945
Chemicals	33,645	47,548
Textile and leather	9,035	12,088
Electrical and optical equipment	3,694	2,608
Tobacco	142	414
Other manufacturing	29,832	48,705
Total industry	*343,499*	*438,015*
Retail and wholesale trade	503,006	563,591
Health and social care	102,457	114,264
Central and local governments	105,555	89,418
Tourism	62,297	66,572
Real estate	50,905	56,375
Transport and communications	43,514	51,739
Construction	33,374	51,156
Financial intermediaries	15,383	18,746
Agriculture, forestry and fisheries	14,072	16,206
Education and other public services	4,711	5,893
Other	20,795	39,277
Total	***956,069***	***1,073,237***
Total corporate	**1.299,568**	**1,511,252**
Retail		
Non-purpose loans	1,150,317	1,410,204
Housing loans	423,693	365,570
Other retail loans	190,254	202,079
Total retail	**1,764,264**	**1,977,853**
Total loans and receivables from clients	**3,063,832**	**3,489,105**

20.LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Finance lease	Bank 31 December 2020	Bank 31 December 2019
Corporate (including state and public sector)		
Food and drinks	1,403	1,807
Wood and paper	1,115	1,804
Metal and engineering	9,075	1,672
Textile and leather	222	432
Electricity, gas and water	332	402
Chemicals	355	299
Electrical and optical equipment	63	184
Other manufacturing	339	814
Total industry	*12,904*	*7,414*
Retail and wholesale trade	11,071	17,524
Agriculture, forestry and fisheries	2,353	14,505
Transport and communications	5,070	8,348
Construction	6,009	7,318
Financial intermediaries	830	1,072
Real estate	381	604
Tourism	336	271
Education and other public services	148	229
Health and social care	4,909	169
Central and local governments	84	47
Other	2,960	4,436
Total	***34,151***	***54,523***
Total corporate	**47,055**	**61,937**
Retail		
Other loans to individuals	1,159	1,871
Total retail	**1,159**	**1,871**
Total loans and receivables from clients	**48,214**	**63,808**

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

21. OTHER ASSETS AND RECEIVABLES

	Bank 31 December 2020	Bank 31 December 2019
Receivables from card operations	30,536	36,492
Assets acquired in lieu of uncollectible receivables	10,635	12,352
Accrued fees	1,415	1,676
Other assets	10,461	13,650
	53,047	***64,170***
Less: Impairment allowance	(8,672)	(12,573)
	44,375	**51,597**

The movements in impairment allowance are summarized as follows:

	Bank 2020	Bank 2019
Balance as at 1 January	**12,573**	**9,405**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	(3,319)	-
Impairment of assets acquired in lieu of uncollected receivables (Note 13)	1,322	3,368
Impairment of other assets (Note 13)	(732)	454
Other changes – transfer of provisions for fees		-
Write-offs	(726)	(786)
Accounting write-off in years	(420)	-
Other changes	(4)	147
Foreign exchange differences	(22)	(15)
Balance as at 31 December	**8,672**	**12,573**

Assets acquired in lieu of uncollectible receivables are assets (property, vehicles and other equipment) related to the collection of the overdue receivables from loan and financial lease clients, which are not classified in the investment property portfolio.

22. INVESTMENTS IN ASSOCIATES

The Bank purchased 49% of share in UniCredit Broker d.o.o. Sarajevo – in liqudation on 22 December 2015, whose 100% owner was the related party UniCredit Insurance Management CEE GmbH Austria. Acquisition costs of purchased share is KM 460 thousand (EUR 235 thousand). The value of share increased in 2019 on Group level was KM 863 thousand due to generated profit of the associate for the previous two periods.

UniCredit Broker d.o.o. Assembly, which comprises, two members (UniCredit Insurance Management CEE GmbH and UniCredit Bank d.d. Mostar) made the Decision to liquidate UniCredit Broker d.o.o. brokersko društvo u osiguranju on 9 December 2019. UniCredit Bank d.d. Mostar received a license for insurance representation in 2017 by amending its legislation, and the Bank assumed insurance brokerage business. The completion of the closure of the company and the distribution of the liquidation estate will be carried out after the General Meeting of the company in February 2021.

	31 December 2020	31 December 2019
Total assets	1,037	1,129
Total liabilities	0	6
Net assets	1,123	1,106
Net profit/ (loss) for the year	(86)	17

23. INVESTMENT PROPERTY

Fair value measurement of investment property was conducted by an independent appraiser, which is not a member company of UniCredit Group, whose personnel has adequate qualification and experience in assessing fair value of property in relevant locations. During 2019, the Bank and Group changed the accounting policy related to recognition of investment property, as explained in Note 2.3.1.2.

Fair value of investment property was ascertained using income approach, which reflects current market expectations related to future amounts – cash flows (revenues and expenses) that arise from investment property which discount into a single amount.

Balance as at 31 December 2018	**881**
Reduction to fair value (Note 13)	(373)
Other changes	(17)
Balance as at 31 December 2019	**491**
Reduction to fair value (Note 13)	-
Other changes	491
Balance as at 31 December 2020	**0**

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

24. PROPERTY AND EQUIPMENT

Bank	Land and buildings	Motor vehicles and equipment	Computers	Leasehold improvements	Assets in progress	Total
COST						
Balance as at 31 December 2018	**55,294**	**29,954**	**41,160**	**24,701**	**9,076**	**160,185**
Additions	-	-	-	-	11,478	11,478
Write-offs	-	(1,995)	(3,586)	(2,073)	-	(7,654)
Disposals	-	(203)	-	-	-	(203)
Transfers (from) / to	495	2,520	3,245	1,439	(7,699)	-
Transfer between categories	(930)	96	577	-	331	74
Other movements	17	-	-	-	-	17
Fair value adjustment (Note 2.3.1.2)	5,978	-	-	-	-	5,978
Balance as at 31 December 2019	**60,854**	**30,372**	**41,396**	**24,067**	**13,186**	**169,875**
Additions	-	0	-		8,301	8,301
Write-offs	(11)	(405)	(2,568)	(569)		(3,553)
Disposals	(1)	(148)	-	-	-	(149)
Transfers (from) / to/ in use	217	808	5,573	471	(7,069)	-
Transfer between categories	-	-	-	-	748	748
Fair value adjustment	1,157	-	-	-	-	1,157
Other movements	-	-	-	-	-	-
Balance as at 31 December 2020	**62,216**	**30,627**	**44,401**	**23,969**	**15,166**	**176,379**
ACCUMULATED DEPRECIATION						
Balance as at 31 December 2018	**22,343**	**22,796**	**34,906**	**23,304**	**-**	**103,349**
Depreciation charge for the year	1,054	1,732	2,517	860	-	6,163
Write-offs	-	(1,974)	(3,581)	(2,061)	-	(7,616)
Disposals	-	(134)	-	-	-	(134)
Other changes	-	-	1	-	-	1
Fair value adjustment (Note 2.3.1.2)	4,195	-	-	-	-	4,195
Balance as at 31 December 2019	**27,592**	**22,420**	**33,843**	**22,103**	**-**	**105,958**
Depreciation charge for the year	1,048	1,583	2,782	619	-	6,032
Write-offs	(5)	(405)	(2,409)	(569)	-	(3,388)
Disposals	-	(84)	-	-	-	(84)
Fair value adjustment	992	-	-	-	-	992
Other changes	-	-	-	-	5	5
Balance as at 31 December 2020	**29,627**	**23,514**	**34,216**	**22,153**	**4**	**109,515**
NET BOOK VALUE						
31 December 2019	**33,262**	**7,952**	**7,553**	**1,964**	**13,186**	**63,917**
31 December 2020	**32,588**	**7,113**	**10,185**	**1,816**	**15,162**	**66,864**

The carrying value of the Bank's non-depreciating land within land and buildings amounted to KM 3,864 thousand as at 31 December 2020. During 2020, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2020, Bank's property and equipment were not pledged as collateral.

24. PROPERTY AND EQUIPMENT (CONTINUED)

Fair value measurement of buildings and land was conducted by an independent appraiser, which is not a member company of UniCredit Group, whose personnel has adequate qualification and experience in assessing fair value of property in relevant locations. During 2019, the Bank and Group changed the accounting policy related to recognition of buildings and land, as explained in Note 2.3.1.2.

The fair value of the building and the land was determined using: cost approach – replacement cost method; market approach – method of comparable transactions, and yield approach – discounted cash flow method.

The following parameters have been taken into account in the selection of methods for determining the estimated market value of the real estate in question: type of real estate (e.g. residential units, business premises, production facilities, construction land, etc.), purpose of the real estate (e.g. for residential, production, trade, provision of services, storage, administration, etc.), location of the real estate (urban, rural, industrial zone), adequate comparative prices for the sale and/or lease of the real estate and other factors that may influence the choice of the valuation method itself (quality of the building, current use and other).

Information about the fair value hierarchy as at 31 December 2020 is as follows:

Level 1	Level 2	Level 3
32,588	-	-

25. RIGHT TO USE ASSETS

Bank	Right to use buildings IFRS 16
COST	
As at 1 January 2020	**12,702**
Additions	1,560
As at 31 December 2020	**14,262**
ACCUMULATED DEPRECIATION	
As at 1 January 2020	**3,638**
Depreciation charge for the year	4,116
Disposals	(988)
As at 31 December 2020	**6,766**
NET BOOK VALUE	**7,496**
31 December 2020	**7,496**

Right to use assets refer to leased properties that the Bank has leased for business operations, and whose lease agreements are longer than 1 year.

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

26. INTANGIBLE ASSETS

Bank	Software	Other intangible assets	Assets in progress	Total
COST				
As at 31 December 2018	**48,108**	**2,429**	**10,628**	**61,165**
Additions	-	-	8,697	8,697
Write-offs	(1,963)	(27)	-	(1,990)
Transfers (from) / to	10,891	220	(11,111)	-
Transfer to property and equipment (Note 24)	-	-	(74)	(74)
Transfer to other assets	-	-	(655)	(655)
Other movements	(123)	-	-	(123)
As at 31 December 2019	**56,913**	**2,622**	**7,485**	**67,020**
Additions	-	-	4,743	4,743
Disposals	-	-	-	-
Transfers (from) / to	931	146	(1,077)	-
Transfer to property and equipment (Note 24)	-	-	(748)	(748)
Transfer to other assets	-	-	(3)	(3)
Other movements	-	-	-	-
As at 31 December 2020	**57,844**	**2,768**	**10,400**	**71,012**
ACCUMULATED DEPRECIATION				
As at 31 December 2018	**41,147**	**2,106**	**552**	**43,805**
Depreciation charge for the year	4,433	147	-	4,580
Disposals	(974)	(12)	-	(986)
As at 31 December 2019	**44,606**	**2,241**	**552**	**47,399**
Depreciation charge for the year	5,620	173	-	5,793
Disposals	2	-	-	2
As at 31 December 2020	**50,228**	**2,414**	**552**	**53,194**
NET BOOK VALUE				
31 December 2019	**12,307**	**381**	**6,933**	**19,621**
31 December 2020	**7,616**	**354**	**9,848**	**17,818**

During 2020 and 2019, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2020 and 2019, intangible assets were not pledged as collateral for the Bank's borrowings.

27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS AT AMORTIZED COST

	Bank 31 December 2020	Bank 31 December 2019
Demand deposits		
- in foreign currency	1,841	1,736
- in KM	11,541	21,950
Fixed-term deposits		
- in foreign currency	69	430,580
- in KM	16,006	16,006
	29,457	**470,272**

As at 31 December 2020, current accounts and deposits from banks include KM 17,669 thousand due to related parties (31 December 2019: KM 448,433 thousand).

28. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS AT AMORTIZED COST

	Bank 31 December 2020	Bank 31 December 2019
Retail		
Current and savings accounts and term deposits - foreign currency	1,499,495	1,590,237
Current and savings accounts and term deposits - KM	1,636,722	1,519,505
	3,136,217	***3,109,742***
Corporate (including state and public sector)		
Demand deposits		
- in KM	1,336,578	1,449,642
- in foreign currency	363,756	282,762
Fixed-term deposits		
- in KM	118,392	151,939
- in foreign currency	19,893	52,858
	1,838,619	***1,937,201***
	4,974,836	**5,046,943**

As at 31 December 2020, the Bank's retail deposits in KM include KM 480 thousand (31 December 2019: KM 563 thousand) and corporate and state deposits in KM include KM 83,665 thousand (31 December 2019: KM 45,758 thousand) which have a EUR currency clause, with payments in KM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits from clients of the Bank also include KM 1,921 thousand from related parties (31 December 2019: KM 2,144 thousand).

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

29. BORROWINGS

	Bank 31 December 2020	Bank 31 December 2019
Foreign banks	29,341	43,130
	29,341	**43,130**
Maturity analysis:		
Within one year	12,499	12,356
In the second year	11,762	12,851
Third to fifth year	5,080	17,923
	29,341	**43,130**

As at 31 December 2020, Bank's interest-bearing borrowings include KM 6,901 thousand (31 December 2019: KM 11,288 thousand) related to borrowings from related parties.

30. OTHER LIABILITIES

	Bank 31 December 2020	Bank 31 December 2019
Liabilities for items in the course of settlement	54,749	66,005
Accrued expenses	19,610	22,991
Liabilities for card operations	9,482	10,364
Deferred income	2,210	2,131
Lease users' down payments	426	509
Other liabilities	23,929	7,579
	110,406	**109,579**

31. LEASE LIABILITIES

Long-term lease payables	
less than 1 year	3,766
1 to 2 years	2,030
2 to 3 years	1,148
3 to 4 years	516
4 to 5 years	208
Total amount of long-term lease payments	**7,668**
Discounting effects (unearned finance cost)	(148)
At 31 December 2020	**7,520**

32.PROVISIONS FOR LIABILITIES AND CHARGES

Bank	Provisions for contingencies and commitments	Provisions for legal proceedings	Long-term provisions for employees	Total
Balance at 1 January 2018	**21,008**	**10,080**	**2,921**	**34,009**
Net charge in profit or loss (Note 13)	1,643	1,048	449	3,140
Provisions used during the period	-	(301)	(223)	(524)
Actuarial gain/loss for the period	-	-	68	68
Reclassification from other liabilities	-	-	8	8
Foreign currency differences	5	-	-	5
Balance as at 31 December 2019	**22,656**	**10,827**	**3,223**	**36,706**
Effects of the FBA Decision (Note 2.3.1)	1,693	-	-	1,693
Net charge in profit or loss (Note 13)	(9,558)	1,734	243	(7,581)
Provisions used during the period	-	(278)	(364)	(642)
Actuarial gain/loss for the period	-	-	327	327
Reclassification from other liabilities	-		(10)	(10)
Foreign currency differences	(26)	-	-	(26)
Balance as at 31 December 2020	**14,765**	**12,283**	**3,419**	**30,467**

33.SHARE CAPITAL

	Class A Ordinary shares	Class D Preference shares	Total
Number of shares	119,011	184	119,195
Nominal value (in KM)	1,000	1,000	1,000
Total	**119,011**	**184**	**119,195**

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

34. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. For the purpose of calculating basic earnings per share, preferred shares are considered as ordinary shares as they do not bear preferential dividend right.

	Group 2020	Bank 2020	Group 2019	Bank 2019
Net profit for the year attributable to ordinary shareholders	76,383	74,242	101,079	101,071
Weighted average number of ordinary shares during the period	118,935	118,935	118,935	118,935
Basic earnings per share (KM)Basic earnings per share (KM)	**623.87**	**624.22**	**849.87**	**849.80**

Diluted earnings per share are not presented, as the Bank has not issued dilutive equity instruments.

35. COMMITMENTS AND CONTINGENT LIABILITIES

During its operations, the Bank has commitments and contigent liabilities recoreded in off-balance, which are related to guarantees, credentials and unused part of loan facilities.

	Bank 31 December 2020	Bank 31 December 2019
Financial guarantees and Letters of credit	328,255	339,775
Other undrawn commitments	725,973	650,025
Total	**1,054,228**	**989,800**

a) Financial guarantees and Letters of credit

Bank		**31 December 2020**			**31 December 2019**
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing					
Low risk	27,107	-	-	27,107	25,347
Medium risk	235,497	55,695	-	291,192	308,808
High risk	4,513	4,220	-	8,733	2,198
Non-performing					
Default	-	-	1,223	1,223	3,422
Total	**267,117**	**59,915**	**1,223**	**328,255**	**339,775**

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

a) Financial guarantees and Letters of credit (continued)

Movement of gross exposure

	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**276,455**	**59,898**	**3,422**	**339,775**
New exposure	198,213	44,311	149	242,673
Exposure matured	(209,116)	(43,138)	(1,939)	(254,193)
Transfers to Stage 1	2,084	(2,084)	-	-
Transfers to Stage 2	(498)	498	-	-
Transfers to Stage 3	(20)	430	(410)	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**267,118**	**59,915**	**1,222**	**328,255**

	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**233,952**	**75,030**	**4,505**	**313,487**
New exposure	233,098	41,878	2,298	277,274
Exposure matured	(188,959)	(57,526)	(4,501)	(250,986)
Transfers to Stage 1	25	(25)	-	-
Transfers to Stage 2	(1,661)	1,661	-	-
Transfers to Stage 3	-	(1,120)	1,120	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**276,455**	**59,898**	**3,422**	**339,775**

Movement of provisions

	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	**4,232**	**6,477**	**3,038**	**13,747**
Transfers to Stage 1	6	(6)	-	-
Transfers to Stage 2	(12)	12	-	-
Transfers to Stage 3	(5)	102	(97)	-
Impairment	(3,036)	(1,665)	(2,467)	(7,168)
Foreign exchange adjustments	(26)	-	-	(26)
At 31 December 2020	**1,159**	**4,920**	**474**	**6,553**

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

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

a) Financial guarantees and Letters of credit (continued)

Movement of provisions

	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**3,822**	**4,808**	**4,272**	**12,902**
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(42)	42	-	-
Transfers to Stage 3	-	1	(1)	-
Impairment	446	1,627	(1,233)	840
Foreign exchange adjustments	5	-	-	5
At 31 December 2019	**4,232**	**6,477**	**3,038**	**13,747**

b) Other undrawn commitments

Gross exposure	31 December 2020				31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	638,345	51,534	-	689,879	647,356
High risk	35,556	146	-	35,702	2,315
Non-performing					
Default	-	-	392	392	354
Total	**673,901**	**51,680**	**392**	**725,973**	**650,025**

Movement of gross exposure

	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**589,791**	**59,880**	**354**	**650,026**
New exposure	380,594	49,421	225	430,240
Exposure matured	(305,139)	(48,963)	(191)	(354,293)
Transfers to Stage 1	9,629	(9,629)	-	-
Transfers to Stage 2	(898)	898	-	-
Transfers to Stage 3	(80)	114	(34)	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**673,897**	**51,721**	**354**	**725,973**

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

b) Other undrawn commitments (continued)

Movement of provisions	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**4,277**	**4,423**	**209**	**8,909**
Effects of the FBA Decision and Accounting Write-Off (Note 2.3.1)	999	692	2	1,693
Transfers to Stage 1	48	(48)	-	-
Transfers to Stage 2	(6)	6	-	-
Transfers to Stage 3	(1)	(98)	98	(1)
Impairment	(1,978)	(294)	(117)	(2,389)
Foreign exchange adjustments	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Other changes				
At 31 December 2020	**3,339**	**4,681**	**192**	**8,212**

Movement of provisions	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**4,351**	**3,600**	**155**	**8,106**
Transfers to Stage 1	(32)	31	1	-
Transfers to Stage 2	154	(154)	-	-
Transfers to Stage 3	-	-	-	-
Impairment	(196)	946	53	803
Foreign exchange adjustments	-			
Acquisition of associate	-	-	-	-
Other changes	-	-	-	-
At 31 December 2019	**4,227**	**4,423**	**209**	**8,909**

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

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

	Group 31 December 2020	Bank 31 December 2019
Assets under custody	416,123	413,075
Loans managed on behalf of third parties	29,186	33,156
	445,309	**446,231**

These funds are not part of the separate and consolidated statement of the financial position of the Bank and Group, nor part of the assets of the Bank and Group, and they are managed separately. The Bank and Group earn fee income for provision of the related services.

37.RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholders of the Bank are Zagrebačka banka d.d. with a holding of 65.59% *(2011: 65.59%)* and UniCredit Bank Austria AG with 24.4% *(2011: 24.4%)*. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its associate (up until disposal); Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members.

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

An overview of related party transactions as of 31 December 2020 is presented in the table below:

	2020		2019	
Bank	**Income**	**Expenses**	**Income**	**Expenses**
UniCredit Bank Austria AG Vienna, Austria	202	5,717	230	204
UniCredit Bank a.d. Banja Luka, BH	1,280	253	1,298	366
Zagrebačka banka d.d. Zagreb, Croatia	32	1,434	42	832
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	51	-	35	-
UniCredit Broker d.o.o. Sarajevo, BH	-	-	-	-
UniCredit Services GmbH Vienna, Austria	-	6	-	4,776
UniCredit S.p.A Milano, Italy	162	4,030	360	2,216
UniCredit Bank AG Munich, Germany	2	1,110	330	15
ZANE BH d.o.o. Sarajevo, BH	3	26	1	117
I-Faber SPA Milano, Italy	-	-		-
UniCredit Services S.C.p.A Prague, Czech Republic	-	153	-	262
UniCredit Bank Czech Republic and Slovakia a.s. Prague, Czech Republic	-	-	-	124
UniCredit Bank Srbija a.d. Beograd, Serbia	-	27	-	35
UniCredit Bank Hungary, Budapest, Hungary	2	-	3	-
UniCredit Leasing Slovakia A.S. Bratislava, Slovakia	-	-	-	13
Uctam BH d.o.o. Mostar, BH	5	-	8	-
Total related parties	***1,739***	***12,756***	***2,307***	***8,960***
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	109	7,441	155	7,471
	1,848	**20,197**	**2,462**	**16,431**

There were no transactions with the members of the Supervisory Board during 2020 and 2019.

Income from UniCredit Group members in 2020 includes interest income in the amount of KM 544 thousand (2019: KM 722 thousand) and fee and commission income in the amount of KM 777 thousand (2019: KM 766 thousand). Income in 2020 also includes other income in the amount of KM 418 thousand.

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

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Expenses towards UniCredit Group members in 2020 include interest expense in the amount of KM 2,956 thousand (2019: KM 1,958 thousand), fees in the amount of KM 1,561 thousand (2019: KM 851 thousand), other administrative expenses in the amount of KM 7,146 thousand (2019: KM 6,133 thousand) and other expenses in the amount of KM 1,093 thousand (2019: KM 18 thousand).

An overview of balances at 31 December 2020 and 31 December 2019 is presented below:

	31 December 2020		31 December 2019	
Bank	**Exposure***	**Liabilities**	**Exposure***	**Liabilities**
UniCredit Bank Austria AG Vienna, Austria	20,942	7,401	15,535	11,896
UniCredit Bank a.d. Banja Luka	16,265	16,009	16,797	16,008
Zagrebačka banka d.d. Zagreb, Croatia	10,967	1,526	14,543	955
UniCredit Services Vienna, Austria	3,266	6,364	4,922	1,650
UniCredit S.p.A Milano, Italy	729,545	1,909	213,300	431,462
UniCredit Bank AG Munich, Germany	8,747	183	2,455	553
ZANE BH d.o.o. Sarajevo, BH	-	183	-	1,659
UniCredit Broker d.o.o. Sarajevo, BH	-	-	-	-
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	209	180	-	197
UniCredit Services S.C.p.A Prague, Czech Republic	73	153	53	-
UniCredit Bank Hungary, Budapest, Hungary	1,215	22	795	-
UniCredit Bank Czech Republic and Slovakia, a.s. Prague, Czech republic	-	134	-	124
UniCredit Bank Srbija a.d. Belgrade, Serbia	673	55	-	98
Uctam BH d.o.o. Mostar, BH	-	1,737	-	484
Total related parties	***791,902***	***35,856***	***268,400***	***465,086***
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	3,344	10,069	3,611	10,269
	795,246	**45,925**	**272,011**	**475,355**

* *Exposure includes loans, interest receivables, other receivables and off-balance-sheet exposure.*

Regarding exposure toward the related parties, impairment losses as at 31 December 2020 amount to KM 1,370 thousand (31 December 2019 was KM 254.7 thousand).
Furthermore, as at 31 December 2020, the Bank has guarantees from: UniCredit Bank Austria AG in the amount of KM 11,393 thousand (31 December 2019: KM 13,718 thousand); UniCredit SpA Milano in the amount of KM 913 thousand (31 December 2019: KM 522 thousand) and from UniCredit Bank AG Munich in the amount of KM 788 thousand (31 December 2019: KM 4,008 thousand) while as at 31 December 2020 The Bank had no guarantees given (31 December 2019: 0 KM).

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Remuneration paid to Management Board and other key management personnel:

	Bank 2020	Bank 2019
Gross salaries	4,371	4,335
Bonuses	1,454	1,590
Other benefits	1,310	938
	7,135	**6,863**

54 employees were included in the Management Board and other key management personnel (2019: 42 employees), including personnel that spent only a part of 2020 in such positions.

38. RISK MANAGEMENT

The Bank's and Group's risk management is conducted through a system of policies, programmes, procedures and approved 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 the Bank and Group.

The most important types of risk to which the Bank and Group are exposed are credit risk, market risk and operating risk.

The Supervisory Board and the Management Board define the principles of risk management and internal acts related to risk management.

38.1 Credit risk

Credit risk is the risk that the Bank and Group will suffer a loss because its customers or other parties do not meet their contractual obligations. The Bank and Group are exposed to credit risk through credit and investment activities and in cases where it acts as an intermediary on behalf of clients or other third parties.

Credit risk is the risk of loss due to non-fulfillment of the borrower's financial obligation towards the Bank and Group. It represents the risk that an unexpected change in the credit quality of a client could trigger a change in the value of credit exposure toward it. This change in the value of credit exposure can be the consequence of:

- default by a client who is unable to meet the contractual obligations
- customer credit quality worsening.

The Bank and Group manage and control the credit risk by setting the limit on the amount of risk that is willing to accept, concentrating and monitoring exposures in accordance with these limits.

The Bank's and Group's primary exposure to credit risk arises from loans and receivables from customers and banks. The amount of credit exposure in this respect represents the carrying amount of the asset. Furthermore, the Bank and Group are exposed to credit risk in relation to off-balance-sheet liabilities arising from unused funds and guarantees issued.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

The Bank and Group have established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

Credit risk management

Credit risk management integrates the organizational structure of the Bank and Group on the basis of accurately defined authorities and responsibilities among employees, the system of internal acts, internal controls, and methods of measurement, monitoring and credit risk management.

Credit risk is managed in accordance with the applicable programs and policies of the Bank and Group and the regulatory requirements of the Federal Banking Agency.

Credit exposure to portfolios and individual clients / groups is regularly reviewed taking into account the set limits.

Any proposed significant increase in credit exposure is considered by the Risk Management prior to its approval as well as during the credit exposure monitoring phase and is approved at the appropriate decision-making level.

The Credit Committee is regularly informed of any significant changes in the quantity and quality of the portfolio, including the proposed impairment losses. Credit risk is continuously monitored and reported, facilitating early recognition of impairment in the loan portfolio

The Bank and Group have established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

In order to manage the level of credit risk, the Bank and Group operate with good credit rating clients, and where appropriate, security instruments are taken.

Most credit risk exposures are secured by collateral in the form of cash, guarantees, mortgages and other forms of collateral.

Impairment and provisioning policies

For this purpose, the Bank and Gorup apply a “3-Stage” model that is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, aiming to reflect the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date. Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Impairment and provisioning policies (continued)

Given the classification in different stages, the classification of credit exposure to performing and non-performing:

- **Stages 1 and 2** may only include performing financial assets,
- **Stage 3** may only include non-performing financial assets.

Financial Instruments in Stage 1 result in Recognition of the 12-month ECL.

Financial instruments in Stage 2 result in the recognition of lifetime ECLs for the instrument. For financial instruments in Stage 3, the lifetime ECL will be recorded.

Definition of default status and recovery

The client is in the default status if the client is late with the payment of a material amount of more than 90 consecutive calendar days by the counter or when they are unlikely to pay one of their obligations in full (UTP event).

The Bank and Group have implemented a delay counter that takes into account the threshold of materiality. Substantial material liability is assumed when the receivables of the bank from corporate clients are more than KM 1,000 and 1% of the debtor's exposure, and from natural persons exceeds 1% of the debtor's exposure and 200 KM.

The recovery period is defined as the indicator of the borrower's ability and willingness to meet the contractual terms of recovery.

This period also aims to prevent the repetition of a default by a debtor shortly after the payment / agreement / entry into force of the deferment.

The period of recovery (reaging) implies that no new event of default may occur during that period and the amount of due receivables may not exceed the defined threshold of materiality.

PD assessment process

Probability of default (PD) is an estimate of the probability of default, i.e. the client's transition to the default status. It gives an estimate of the likelihood that a client will not be able to settle their obligations over a certain period of time.

The probability of default (PD) reflects the 12-month probability of default based on the long-term average of the one-year default rate.

There are two approaches to determining the PD for the purposes of calculating impairment.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

PD assessment process (continued)

For the low risk portfolio (Sovereign, Banks), Group Ratios are applied to PDs based on the GWR tool, and for the rest of the portfolio, the Bank's internal data is used, i.e. PDs created based on dana on historical defaut rate of individual groups of exposures on the basis of days overdue and product types.

For the purpose of aggregated reporting, mapping to reporting low, medium, high, default was performed based on the average realized default rate based on which PiT (Point in time) adjustments are performed to calculate the IFRS 9 impairment.

EAD

EAD (Exposure at Default) represents the measure of exposure at the time of the default event. The EAD lifetime was obtained taking into account the expected changes in future periods, based on the repayment plan. For unused off-balance exposure, full use (CCF of 100%) was assumed.

LGD

LGD (Loss Given Default) represents the percentage of estimated loss, and thus the expected return rate, at the date of the occurrence of a default event.

To assess LGD, the Bank and Group segmented their corporate and retail portfolio into homogeneous portfolios based on key features that are relevant for estimating future cash flows. The data used is based on historically collected loss data and includes a wider set of transaction characteristics (e.g. product type).

LGD is calculated on the basis of cure rate and discounted collateral values after applying haircuts, and efficency factors (calculated on the basis of historical collateral charge information).

Adjustments to PD and LGD apply according to IFRS 9 requirements:

- Apply PIT adjustment instead of TTC
- Include FLI information
- Expand credit risk parameters in a multi-annual perspective

ECLGiven that the ECL must be an unbiased and weighted amount of probability determined by estimating the range of possible outcomes, the Bank has implemented an overlay factor calculated according to the formula:

$$Overlay\ factor = \frac{ECL_{Weighted}}{ECL_{Baseline}}$$

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

ECL weighted is calculated for three possible scenarios (Baseline, Contagious, Positive) according to the weighting factors, ie the probabilities of each scenario. The ECL baseline is the ECL for the baseline scenario with the highest probability of occurrence. The bank applies a constant overlay factor.

The final ECL is calculated as:

$$ECL_{Final} = ECL_{Baseline} \times Overlay\ factor$$

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

iIn accordance with the rules defined by the Decision on credit risk management and determination of expected credit losses, the Bank applies the following rules of minimum coverage to define the ECL:

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

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

b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality step 3 and 4-0 in accordance with Article 69 of the Decision on calculating the bank's capital, 1% exposure,

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

d) for other exposures - 0.5% of exposures.

The Bank is obliged to determine and record the expected credit losses in the amount of more than two of the following for exposures allocated to credit risk level 2:

a) 5% exposure,

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

For exposures allocated to credit risk level 3, the bank shall determine and record expected credit losses at least in the amounts defined in Table 1 or Table 2.

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

N°	Days of delay	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

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

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

Exceptionally, if the bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure. In doing so, the estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable.

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

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

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

N°	Days of delay	Minimum expected credit loss
1.	there is no delay in material a significant amount	0,5%
2.	up to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

The effects of the difference between IFRS 9 and the FBA Decision are presented in Note 2.3.1.2

Grouping of financial assets measured on a collective and individual approach

Depending on the level of exposure toward a person or a group of related persons, clients are assigned one of the following portfolios:

- Individually significant exposure - for exposures above 150,000 KM;
- Small exposure portfolio - for exposures below 150,000 KM

Expected credit losses of exposures in the default status are individually calculated for “individually material exposures” in the default status liabilities.

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Grouping of financial assets measured on a collective and individual approach (continued)

Calculation of impairment for Stage 3 for non-individually significant exposures are based on portfolio estimates by building homogeneous client groups / transactions with similar risk characteristics taking into account default and in accordance with developed LGD models.

For all performing exposures, the Bank and Group calculate the ECL on a collective basis.

Significant increase of credit risk (SICR)

The principle of the ECL model under IFRS 9 is the reflection of the general pattern of changes in the credit quality of financial instruments from the beginning, for the timely recognition of expected credit losses. The amount of ECL recognized depends on the degree of deterioration of the credit from the initial recognition. The Standard introduces two measurement measures for ECL (12-month and lifetime ECL).

IFRS 9 transfer logic is reflected in the impairment tool for IFRS 9 and each contract is undoubtedly assigned to one of the 3 Stages according to the general rules as follows:

At the next measurement dates the financial instrument is assigned to:

- Stage 1, if the reporting date is not in the default status and: the credit risk has not increased significantly since initial recognition
- Stage 2, if the reporting date is not in the default status and the credit risk has significantly increased since initial recognition,
- Stage 3, if the reporting date is in the status of default.

The IFRS 9 guidelines are quite comprehensive in terms of the principle of a significant increase in credit risk (SICR).

Four groups of SICR criteria are defined:

- Quantitative criteria (related to PD changes),
- Qualitative Criteria,
- Back-stops,
- Manual overrides.

<u>The quantitative approach</u> for determining SICR is based on a quantile regression model that applies to a rated portfolio.

<u>Qualitative criteria</u> supplement the quantitative approach and will be taken into account if the basic criteria are:

- not included in the rating system and
- significant.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Significant increase of credit risk (SICR)

Under back-stops, the following criteria are considered:

- 30 days delay,
- Forbearance

Manual overrides are defined as the fourth and last component of the transfer logic. The manual override process is a non-mandatory component of the non-quantitative part of the transfer logic and may be required to overcome possible exceptions due to specific factors when all other trigger triggers fail to capture special events of significant loan deterioration.

The Bank and Group use qualitative criteria, back stops and manual overrides.

SICR catalogue of the Bank and Group:

- Days overdue
- Forbore classification
- Restructuring classification
- Watch list
- Default status over the past 12 months
- Non investment grade for securities
- Manual override.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.1 Maximum exposure to credit risk

The Bank and Group continuously apply prudent methods and tools in the credit risk assessment process. The maximum exposure to credit risk relating to items in the separate and consolidated statement of financial position and commitments (off-balance-sheets items) is as follows:

	Bank 31 December 2020	Bank 31 December 2019
Statement of financial position		
Current accounts at CBBH and other banks (Note 15)	604,094	590,245
Obligatory reserve at CBBH (Note 16)	494,406	535,483
Loans to and receivables from banks (Note 17)	922,463	1,049,855
Debt securities at fair value through other comprehensive income (Note 18)	622,736	527,064
Financial assets at fair value through profit or loss (Note 19)	215	-
Loans and receivables from clients (Note 20)	3,112,046	3,552,913
Other assets exposed to credit risk (part of Note 21)	42,039	49,638
Total credit risk exposure relating to assets	***5,797,999***	***6,305,198***
Off-balance-sheet items (Note 35)		
Unused loan facilities	725,973	650,025
Guarantees	321,420	326,752
Letters of credit	6,835	13,023
Total off-balance sheet credit risk exposure	***1,054,228***	***989,800***
	6,852,227	**7,294,998**

The above table represents the maximum credit risk exposure of the Bank and Group as at 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For items in the separate and consolidated statement of financial position, the exposures set out above are based on net carrying amounts as reported in the separate and consolidated statement of financial position. For commitments the maximum credit risk exposure equals the total undrawn amounts.

45.4% of the Bank's and Group's total maximum exposure to credit risk is derived from loans and receivables from clients (31 December 2019: 48.7%), while 13.5% refers to loans and receivables from banks (31 December 2019: 14.4%), and investments in financial assets at FVOCI 9.1% (31 December 2019: 7.2%). The Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.2 Concentration of assets and liabilities toward state sector

The table below shows the concentration of placements and liabilities to the State of Bosnia and Herzegovina and the entities: the Federation of Bosnia and Herzegovina and Republika Srpska:

	Bank 31 December 2020	Bank 31 December 2019
Current account with CBBH (Note 15)	240,335	380,004
Obligatory reserve at CBBH (Note 16)	494,406	535,483
Bonds of the Government of Federation of Bosnia and Herzegovina (Note 18)	225,692	181,297
Bonds of the Government of Republika Srpska	88,578	85,484
Treasury bills of the Federal Ministry of Finance of BH	30,000	-
Treasury bills of the Federal Ministry of Finance of the Republic of Srpska	24,936	-
Current tax liability	2,664	(859)
Subscribed income tax	-	-
State and public sector	101,621	89,591
Deferred tax liability (Note 14)	(159)	(2,006)
	1,208,073	**1,268,994**

The Bank and the Group had no off-balance sheet sovereign risk exposure at 31 December 2020 and 31 December 2019.

In addition, liabilities to state institutions are as follows:

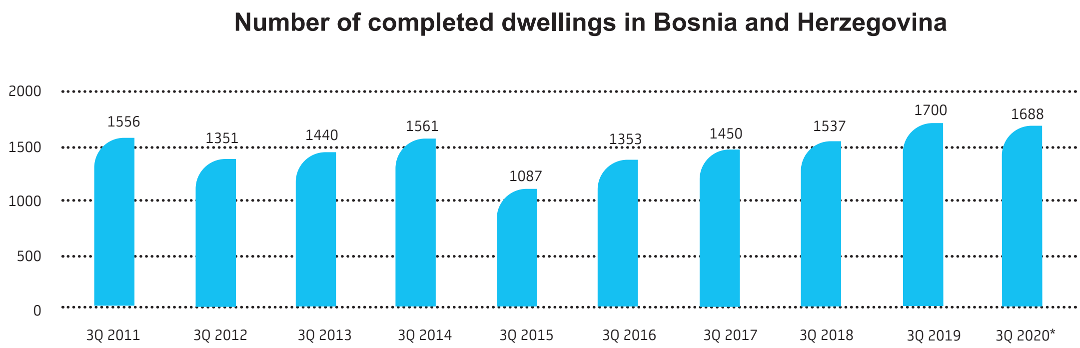
	Bank 31 December 2020	Bank 31 December 2019
Short-term deposits	(1,129)	(123,952)
Off-balance-sheet exposure	5	5

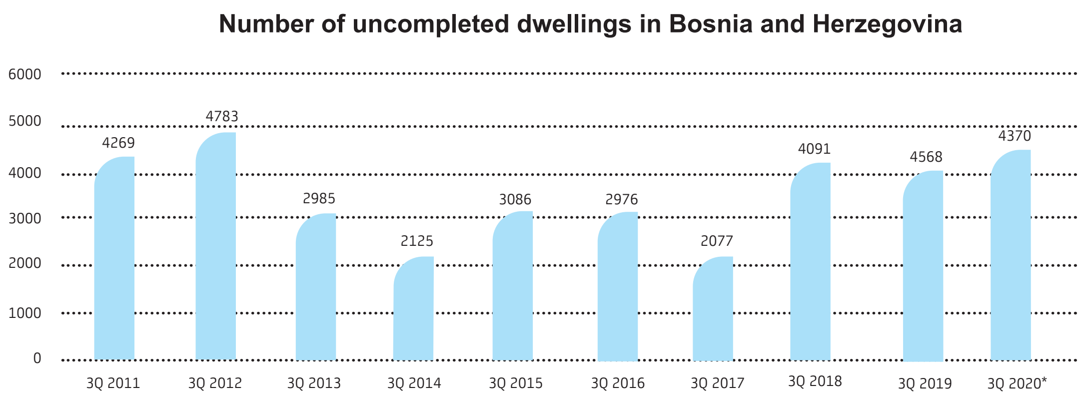
38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3 Real estate market trends (unaudited)

According to the latest information from the Agency for Statistics of BH, in the first nine months of 2020, the number of completed apartments was 1,688, which is a decrease of 0.7% compared to the same period in 2019 (1,700). The number of unfinished apartments at the end of the third quarter of 2020 is 4,370 and represents a decrease of 4.3% compared to the same period in 2019 (4,568).





*Data as at 31 December 2019 have not been published.

The average price of new apartments sold in the third quarter of 2020 is 1,651 KM. Compared to the average price of new dwellings sold in 2019, the average price is lower by 1.6%, and compared to the third quarter of 2019 higher by 1.6%. The number of new apartments sold in the third quarter of 2020 compared to the third quarter of 2019 is higher by 43.0%. Compared to the average number of new apartments sold in 2019, it is higher by 9.7%.

The largest demand remains for real estate in large towns in Bosnia and Herzegovina, wher the prices are considerably higher than in smaller towns.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3 Real estate market trends (unaudited) (continued)

In June 2018, the portal "Public Insight into the Real Estate Price Register of the Federation of Bosnia and Herzegovina" was launched, whose objective is to increase the transparency and security of the real estate market, and data analysis for drafting annual reports. The total number of sales contracts registered in 2019 in the Federation of BH is 16,228. The largest volume of apartment turnover in 2019 was registered in Novi Sarajevo, Sarajevo Centar, Tuzla, Zenica and Mostar. The report on the state of the real estate market in the Federation of BH for 2020 has not been published.

38.1.4 Restructuring Department portfolio

Clients of the Restructuring Department are the ones where focus of the business relationship shifted from making profit to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The objective is timely identification of clients where restructuring would enable them to continue in business and to mitigate or prevent further losses for the Bank.

Restructuring Department activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that should be the subject of restructuring, work on defining the appropriate restructuring strategy, analysing restructuring applications, suggesting measures and making recommendations for restructuring, monitoring progress, monitoring the portfolio, assessing the level of provisions and the Bank's proposed measures to improve collateral coverage in order to strengthen its position in the collection of receivables.

In 2020, restructured corporate portfolio amounted to KM 114,177 thousand, with the portfolio coverage by provisions of 45%, while restructured retail portfolio amounted to KM 4,381 thousand, with the portfolio coverage by provisions of 40.42%.

In 2020, the restructured portfolio of legal entities recorded an increase in volume by 135.9% compared to the portfolio of legal entities at the end of 2019. The evident growth of the portfolio is the result of migration from the aspect of client competencies, of which several clients / groups with significant total exposure, and pre-segmentation as a consequence of the pandemic caused by the COVID-19 virus.

In 2020, the restructured portfolio of citizens recorded an increase of 63.90% compared to the restructured portfolio at the end of 2019. The growth of the portfolio is a consequence of the migration of clients to the Restructuring portfolio due to the growth of regular modifications and pre-segmentation as a consequence of the pandemic caused by the COVID-19 virus.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Restructuring Department portfolio (continued)

Bank **Forborne (Restructured exposures)**	*Total gross loans to customers ("UBZ")*	*Modified exposure ("MI")*	*Refinanced exposures ("RI")*	*%(MI + RI) /UBZ*	*Total ECL allowance ("UV")*	*Total ECL allowance for restructured exposures ("UV R")*	*%UV R / UV*
31 December 2020							
Households	1,861,171	2,461	1,045	0.2%	95,743	1,342	1.4%
Non-financial companies	1,355,250	74,672	17,134	6.8%	116,578	47,135	40.4%
Other financial companies	6,851	-	-	0.0%	256	0	0.0%
Total	**3,223,002**	**77,133**	**18,179**	**3%**	**212,577**	**48,477**	**22.8%**

Bank	*Restructured exposures (risk group)*					
	Stage 1		*Stage 2*		*Stage 3*	
	restructured exposure - gross (stage 1)	*ECL allowance for restructured exposure (stage 1)*	*restructured exposure - gross (stage 2)*	*ECL allowance for restructured exposure (stage 2)*	*restructured exposure - gross (stage 3)*	*ECL allowance for restructured exposure (stage 3)*
31 December 2020						
Households	-	-	1,214	108	2,292	1,234
Non-financial companies	-	-	71,243	31,291	20,563	15,844
Other financial companies	-	-	-	-	-	-
Total	**-**	**-**	**72,457**	**31,399**	**22,855**	**17,078**

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Restructuring Department portfolio (continued)

Bank
Forborne (Restructured exposures)

	Total gross loans to customers ("UBZ")	*Modified exposure ("MI")*	*Refinanced exposures ("RI")*	*%(MI + RI) / UBZ*	*Total ECL allowance ("UV")*	*Total ECL allowance for restructured exposures ("UV R")*	*%UV R / UV*
31 December 2019							
Households	2,105,625	392	957	0.1%	125,901	600	0.5%
Non-financial companies	1,626,364	34,146	27,182	3.8%	159,953	27,117	17.0%
Other financial companies	19,778	-	-	0.0%	2,267	-	0.0%
Total	**3,751,767**	**34,538**	**28,139**	**2.0%**	**288,121**	**27,717**	**9.6%**

Bank	***Restructured exposures (risk group)***					
	Stage 1		***Stage 2***		***Stage 3***	
	restructured exposure - gross (stage 1)	*ECL allowance for restructured exposure (stage 1)*	*restructured exposure - gross (stage 2)*	*ECL allowance for restructured exposure (stage 2)*	*restructured exposure - gross (stage 3)*	*ECL allowance for restructured exposure (stage 3)*
31 December 2019						
Households	-	-	636	59	713	541
Non-financial companies	-	-	34,059	4,767	27,269	22,350
Other financial companies	-	-	-	-	-	-
Total	**-**	**-**	**34,695**	**4,826**	**27,982**	**22,891**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.5 Received collateral and other instruments of credit security

The Bank and Group define the policy for managing techniques for mitigating credit risk, which has the objective to ensure optimum management by collateral instruments, and mitigate potential losses on placements in case of default.

The efficient implementation of credit risk mitigation techniques in Bank's and Group's business processes leads to optimization of capital use.

Collateral valuation is one of the basic elements of loan approval process, in addition to the assessment of client's credit worthiness.

Client quality is based on the credit worthiness assessment and the quality of business relationship with the Bank and Group. The collateral can never be substitute for client rating. If client rating or credit worthiness are not adequate, the loan cannot be approved. Collateral instruments serve for the Bank to protect itself in case of default, when the debtor is not able to make payments.

Basic condition for accepting collateral instruments is the legal enforcement. It is necessary to employ due care and diligence to ensure that the possibility for collection from collateral instruments is not endangered due to legal reasons.

Careful and adequate collateral management is required, in the sense of continuous monitoring and assessment. Assessed collateral must be regularly monitored, at least annually. The more regular monitoring and supervision is required in case of significant changes of market conditions.

In applying the credit risk mitigation technique, the Bank and Group emphasize the importance of processes and controls of legal protection requirements, as well as assessing the suitability of collateral.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.5 Received collateral and other instruments of credit security (continued)

a) Total exposure

Bank 31 December 2020	Maximum credit risk exposure	Fair value of received collateral and other instruments of credit risk security Deposits	Equity securities	Received guarantees	Housing mortgages	Insurance policies	Other	On-balance offsetting	Surplus of collateral over maximum exposure amount (-)	Total collateral and other instruments of credit risk security	Net exposure (on-balance)
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBH	1,303,900	-	-	-	-	-	-	-	-	-	1,302,317
Loans and receivables from banks	923,965	-	-	-	-	-	-	-	-	-	922,463
Loans and receivables from clients	3,325,098	26,848	-	103,888	830,025	-	-	-	(960,761)	-	3,145,180
- Legal entities	1,361,831	19,703	-	103,888	500,000	-	-	-	(623,591)	-	1,275,989
- State	102,096		-	-	-	-	-	-	-	-	101,621
- Individuals and entrepreneurs (citizens)	1,861,171	7,145	-	-	330,025	-	-	-	(337,170)	-	1,767,508
Debt securities at amortized cost	-	-	-	-	-	-	-	-			
Total financial assets at amortized cost	**5,552,963**	**26,848**		**103,888**	**830,025**	**-**	**-**	**-**	**(960,761)**	**-**	**5,369,898**
Derivative financial assets	215										215
Financial assets held for trading											
Financial assets at FVTPL											
Total financial assets at FVTPL	**215**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**215**
Debt securities at FVOCI	622,935	-	-		-	-	-	-	-	-	622,935
Total debt securities at FVOCI	**622,935**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**622,935**
Guarantees and letters of credit	328,255	.9,865	-	10,216	9,952	-	-	-	(30,033)		321,702
Other classic risk off-balance sheet items	725,973	6,206	-	47,844	50,786	-	-	-	(104,836)	-	717,761
	1,054,228	**16,071**	**-**	**58,060**	**60,738**	**-**	**-**	**-**	**(134,869)**	**-**	**1,039,463**
	7,230,341	**42,919**	**-**	**161,948**	**890,763**	**-**	**-**	**-**	**1,095,630**	**-**	**7.032.518**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.5 Received collateral and other instruments of credit security (continued)

a) Total exposure (continued)

Bank 31 December 2019		**Fair value of received collateral and other instruments of credit risk security**									
	Maximum credit risk exposure	**Deposits**	**Equity securities**	**Received guarantees**	**Housing mortgages**	**Insurance policies**	**Other**	**On-balance offsetting**	**Surplus of collateral over maximum exposure amount (-)**	**Total collateral and other instruments of credit risk security**	**Net exposure (on-balance)**
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBH	1,296,788	-	-	-	-	-	-	-	-	-	1,295,530
Loans and receivables from banks	1,050,424	-	-	-	-	-	-	-	-	-	1,049,855
Loans and receivables from clients	3,843,059	64,531		110,557	880,283				(52,241)	1,003,130	3,582,753
- Legal entities	1,646,189	55,086	-	110,557	555,597	-	-	-	(51,061)	670,178	1,511,752
- State	91,245	-	-	-	-	-	-	-	-	-	89,591
- Individuals and entrepreneurs (citizens)	2,105,625	9,445	-		324,686	-	-	-	(1,179)	332,952	1,981,734
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	**6,190,271**	**64,531**	-	**110,557**	**880,283**	**-**	**-**	**-**	**(52,241)**	**1,003,130**	**5,928,138**
Derivative financial assets	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	-	-									
Financial assets at FVTPL	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities at FVOCI	527,263	-	-	-	-	-	-	-	-	-	40
Total debt securities at FVOCI	**527,263**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Guarantees and letters of credit	339,775	3,895	-	23,125	29,352	-	-	-	(10,983)	45,389	326,028
Other classic risk off-balance sheet items	650,025	2,212	-	1,682	40,472	-	-	-	(19,507)	34,859	641,116
	989,800	**6,107**	**-**	**24,807**	**69,824**	**-**	**-**	**-**	**(20,490)**	**80,248**	**967,144**
	7,707,334	**70,638**	**-**	**135,364**	**950,107**	**-**	**-**	**-**	**(72,731)**	**1,083,378**	**6,895,282**

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.5 Received collateral and other instruments of credit security (continued)

b) Received collateral and other instruments of credit security exposure for assets classified in Stage 3

		Fair value of received collateral and other instruments of credit risk security									
Bank 31 December 2020	**Maximum credit risk exposure**	**Deposits**	**Equity securities**	**Received guarantees**	**Housing mortgages**	**Insurance policies**	**Other**	**On-balance offsetting**	**Surplus of collateral over maximum exposure amount (-)**	**Total collateral and other instruments of credit risk security**	**Net exposure (on-balance)**
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBH											
Loans and receivables from banks	127,817	80	-	-	15,256	-	-	-	(15,356)	-	48,876
Loans and receivables from clients	51,388	33	-	-	8,797	-	-	-	(8,830)	-	29,368
- Legal entities	-	-	-	-	-	-	-	-	-	-	-
- State	76,429	47	-	-	6,479	-	-	-	(6,526)	-	19,508
- Individuals and entrepreneurs (citizens)											
Debt securities at amortized cost	**127,817**	**80**	**-**	**-**	**15,276**	**-**	**-**	**-**	**(15,356)**	**-**	**48,876**
Total financial assets at amortized cost											
Derivative financial assets	-	-	-		-	-	-	-	-	-	-
Financial assets held for trading	-	-	-		-	-	-	-	-	-	-
Financial assets at FVTPL	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets at FVTPL	-	-	-		-	-	-	-	-	-	-
Debt securities at FVOCI	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total debt securities at FVOCI	1,223	-	-		-	-		-	-	-	749
Guarantees and letters of credit	392	-	-		-	-	--	-	-	-	200
Other classic risk off-balance sheet items	**1,615**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**949**
	129,432	**80**	**-**		**15,276**	**-**	**-**	**-**	**(15,356)**	**-**	**49,825**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.5 Received collateral and other instruments of credit security (continued)

b) Received collateral and other instruments of credit security exposure for assets classified in Stage 3

Bank 31 December 2019	Maximum credit risk exposure	Fair value of received collateral and other instruments of credit risk security									
		Deposits	Equity securities	Received guarantees	Housing mortgages	Insurance policies	Other	On-balance offsetting	Surplus of collateral over maximum exposure amount (-)	Total collateral and other instruments of credit risk security	Net exposure (on-balance)
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBH											
Loans and receivables from banks	124	-	-								
Loans and receivables from clients	232,969	-		54	14,860				(1,304)	13,738	44,872
- Legal entities	124,455	128	-	54	9,083	-	-	-	(588)	8,549	28,670
- State	-	-	-		-	-	-	-	-	-	-
- Individuals and entrepreneurs (citizens)	108,514	128		-	5,777				(716)	5,189	16,202
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	**233,093**	**128**		**54**	**14,860**				**(1,304)**	**13,738**	44,**872**
Derivative financial assets	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	
Financial assets at FVTPL	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at FVTPL	-	-	-	-	-	-	**-**	-	-	-	-
Debt securities at FVOCI	-	-	-	-	-	-	-	-	-	-	-
Total debt securities at FVOCI	-	-	-	-	-	-	-	-	-	-	-
Guarantees and letters of credit	3,422	-	-	-	-	-	-	-	-	-	384
Other classic risk off-balance sheet items	354	-	-	-	-	-	-	-		-	145
	3,766	**-**	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**8**	**529**
	236,869	**128**	**-**	**54**	**14,868**	**-**	**-**	**-**	**(1,304)**	**13,746**	**45,401**

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.6 Gross exposure on housing and consumer loans according to LTV indicator

The following is an LTV ratio (the ratio of loan coverage to market value of collateral pledged with that loan) for a portfolio of individual clients:

Households

BANK 2019 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	IN MILLION TOTAL
Gross loans for purchase of a flat or a house	72,703	8,029	34,019	38,978	57,105	233,746	**444,580**
Gross consumer loans	1,397,803						**1,397,803**
Total	1,470,506	8,029	34,019	38,978	57,105	233,746	**1,842,383**

Households

BANK 2020 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	IN MILLION TOTAL
Gross loans for purchase of a flat or a house	63,319	48,274	316,781	1,731	480	734	**431,319**
Gross consumer loans	1,226,684						**1,226,684**
Total	1,290,003	48,274	316,781	1,731	480	734	**1,658,003**

Remarks:

- Transaction overdrafts and card loans are not included in Gross Consumer Loans

- LTV=LTV current represents the ratio between the gross value of the loan and the market value of the real estate pledged with that loan (market value after deduction for previous encumbrances of the Group and other creditors and without the application of corrective factors)

- LTV=0% - for loans that do not require collateral on collateral. For housing loans, LTV=0% for loans below EUR 15 thousand.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.7 Analysis by debt maturity and collateral

Impairment allowance coverage of the non-performing loan portfolio in 2020 is 80.74% for the Bank and Group (31 December 2019: 90.75%).

Total impairment of loans and receivables from customers and finance leases for the Bank and the Group amounts to KM 213,052 thousand (31 December 2019: KM 290,146 thousand), of which KM 103,201 thousand (31 December 2019: KM 2211,417 thousand) relates to the impairment the value of loans for which impairment was individually identified, and the remaining value of KM 109,551 thousand (31 December 2018: KM 78,729 thousand) relates to impairment on a portfolio basis.

	Bank 31 December 2020	Bank 31 December 2019
Retail loans		
Loans that are neither past due nor impaired	1,727,878	1,932,461
Past due loans that are not impaired	55,915	62,924
Impaired loans	75,178	107,364
Gross	**1,858,971**	**2,102,749**
Less: Impairment allowance	(94,703)	(124,896)
Net	**1,764,268**	**1,977,853**

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.7 Analysis by debt maturity and collateral (continued)

	Bank 31 December 2020	Bank 31 December 2019
Corporate, including state and public sector		
Loans that are neither past due nor impaired	1,330,986	1,543,957
Past due loans that are not impaired	31,390	4,592
Impaired loans	39,003	113,033
Gross	**1,401,379**	**1,661,582**
Less: Impairment allowance	(101,813)	(150,330)
Net	**1,299,566**	**1,511,252**
Finance lease		
Financial lease receivables that are not past due	50,884	64,424
Past due receivables on financial lease that are not impaired (Note 20)	228	1,732
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	13,636	12,572
Gross	**64,748**	**78,728**
Less: Impairment allowance	(16,536)	(14,920)
Net	**48,212**	**63,808**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.7 Analysis by overdue receivables and collateral (continued)

a) Loans that are neither past due nor impaired

Loans to clients are monitored and systematically reviewed. The objective of the loan portfolio monitoring is to reduce credit risk cost and improve the quality of the Group's loan portfolio by timely identification of potentially risky clients and a structured and targeted management of the business relationship with those clients.

				Retail	Corporate, including state and public sector				Finance lease
Bank	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
31 December 2020									
Standard monitoring	995,259	152,220	362,712	1,510,191	697,607	324,239	45,685	1,067,531	34,756
Special monitoring	137,829	21,756	58,102	217,687	179,366	47,980	36,109	263,455	16,128
	1,133,088	**173,976**	**420,814**	**1,727,878**	**876,973**	**372,219**	**81,794**	**1,330,986**	**50,884**
Bank									
31 December 2019									
Standard monitoring	1,175,045	155,293	313,267	1,643,605	802,454	353,461	49,673	1,205,588	27,834
Special monitoring	209,254	28,380	51,222	288,856	200,758	68,973	68,637	338,368	36,590
	1,384,299	**183,673**	**364,489**	**1,932,461**	**1,003,312**	**422,434**	**118,310**	**1,543,956**	**64,424**

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

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continue)

36.1.7 Analysis by overdue receivables and collateral (continued)

b) Past due loans that are not impaired

	Retail				Corporate, including state and public sector				Financial lease
Bank	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Total	Large	Medium	Small	Large	Total
31 December 2020									
Past due up to 30 days	36,660	10,316	2,701	49,677	18,799	10,096	1,632	30,527	213
Past due 31 to 60 days	3,743	759	583	5,085	-	536	234	770	15
Past due 61 to 90 days	817	238	98	1,153	-	-	93	93	-
Past due over 90 days	-	-	-	**-**	-	-	-	-	-
	41,220	**11,313**	**3,382**	**55,915**	**18,799**	**10,632**	**1,959**	**31,390**	**228**
Estimated value of collateral	**-**	**-**	**474**	**474**	**4,908**	**-**	**-**	**4,908**	**-**
31 December 2019									
Past due up to 30 days	42,153	14,381	1,706	58,240	-	848	2,986	3,834	1,700
Past due 31 to 60 days	2,935	682	-	3,617	-	-	758	758	32
Past due 61 to 90 days	866	201	-	1,067	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-
	45,954	**15,264**	**1,706**	**62,924**	**-**	**848**	**3,744**	**4,592**	**1,732**
Estimated value of collateral	**-**	**-**	**118**	**118**	**-**	**211**	**1,034**	**1,245**	**-**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.7 Analysis by overdue receivables and collateral (continued)

b) Past due loans that are not impaired (continued)

Estimated values of properties pledged as collateral are based on valuations done by authorised surveyors/agency upon initial approval of a loan or possible subsequent re-evaluation, weighted by the value of the loan in the total exposure secured by the same collateral, up to the estimated value of collateral. The value of deposits and State guarantees is weighted in the same manner up to the outstanding balance of related secured exposure. Guarantors, co-debtorship and bills of exchange are not valued in the table above although they are usually required as collateral.

c) Non-performing loans (impaired loans)

The Bank and Group expect to collect the amount of non-performing loans exceeding the estimated value of collateral from other sources.

Gross amount of non-preforming loans to clients and financial lease receivables for the Bank and Group as of 31 December 2020 amounts to KM 127,816 thousand (31 December 2019: KM 232,969), while on net level before cash flows from received collateral instruments they amount to KM 24,615 thousand (31 December 2019: KM 21,522 thousand).

The breakdown of the net amount of the individually impaired loans to clients, along with the fair value of related collateral held by the Bank as security, is as follows:

	Retail				Corporate, including state and public sector				Financial lease
Bank	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
31 December 2020									
Non-performing loans	11,450	1,386	4,395	**17,231**	3,624	1,059	1,196	**5,879**	**1,505**
Estimated value of collateral	**6**	**-**	**91**	**97**	**-**	**-**	**172**	**172**	**-**

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.7 Analysis by overdue receivables and collateral (continued)

c) Non-performing loans (impaired loans) (continued)

	Retail				Corporate, including state and public sector				Finance lease
Bank	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
31 December 2019									
Non-performing loans	9,956	1,652	2,473	14,081	4,825	1,253	480	**6,558**	**912**
Estimated value of collateral	**739**	**-**	**2,063**	**2,802**	**2,874**	**739**	**254**	**3,867**	**-**

The Bank expects to collect the excess in the carrying value of non-performing loans from the estimated value of the related collateral from sources other than collateral.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.8 COVID 19

In response to the outbreak of the COVID-19 pandemic, in 2020 the Bank, in accordance with the Decisions of the local regulator, defined a Program of special measures for clients (legal entities and individuals) who are exposed to negative economic effects caused by the „COVID-19 virus".

Special measures were granted to the Bank's clients, natural and legal persons whose creditworthiness deteriorated due to the negative impact of the „COVID-19 virus" viral disease pandemic, ie whose sources of repayment were reduced as a result and thus prevented or will be prevented from settling liabilities to the Bank. In accordance with the regulatory framework, the measures were approved as of 31 December 2020.

The total loan portfolio over which one of the measures was approved in 2020 amounts to KM 499.6 million, of which the largest part of KM 401 million relates to measures approved to legal entities.

Volumes approved by sectors and level of risk:

	Gross loans				The amount of expected credit losses			
	In total	of which: at the level of credit risk 1	of which: at the level of credit risk 2	of which: at the level of credit risk 3		of which: at the level of credit risk 1	of which: at the level of credit risk 1	of which: at the level of credit risk 1
Legal persons	401.091	223.500	164.043	13.548	56.544	10.430	36.068	10.046
Retail	98.544	83.480	11.979	3.085	4.215	1.546	1.057	1.612
In total	499.635	306.980	176.022	16.633	60.759	11.976	37.125	11.658

In addition to approving measures for clients affected by the Covid 19 pandemic, risk management activities focused on monitoring activities aimed at identifying high-risk clients in the context of the Covid pandemic19, on activities related to updating macroeconomic scenarios in calculating expected losses, and on generating adequate expected amounts. losses for customers whose business has been affected or is expected to be significantly affected by the impact of the Covid 19 pandemic.

In uncertain conditions and on the circumstances of almost complete closure of the economy, the Bank included macroeconomic assumptions in the calculation of ECL (expected losses) from 30 April 2020, which predicted a decline in GDP of 7.7% in 2020.

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

38.RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.8 COVID 19 (continued)

Macroeconomic scenario for the purposes of calculating expected losses on 30 April 2020 is shown in the Table.

Macroeconomic Scenario on 30 April 2020	IFRS9 Baseline					
	2017	2018	2019	2020	2021	2022
Real GDP, yoy% change	3,2	3,6	2,6	-7,7	4,9	3,5
Inflation (CPI) yoy, eop	1,2	1,6	0,3	0,7	2,7	2,0
Inflation (CPI) yoy, average	1,3	1,4	0,6	0,0	2,3	1,9
Monthly Wage, nominal EUR	675,6	696,7	726,7	683,0	723,0	827,4
Unemployment rate%	38,4	36,0	33,3	37,5	34,0	24,0
Exchange rate /€ eop	2,0	2,0	2,0	2,0	2,0	2,0
Exchange rate /€ average	2,0	2,0	2,0	2,0	2,0	2,0
Short term rate, eop	-0,3	-0,3	-0,4	-0,4	-0,4	-0,3
Short term rate, average	-0,3	-0,3	-0,4	-0,4	-0,4	-0,4
House Price Index yoy% change	4,3	9,6	9,7	5,0	2,0	3,0

The overall effect of the change in the macroeconomic scenario had the effect of increasing the level of total expected losses.

During the year, in the conditions of uncertainty caused by the Covid 19 pandemic, the Bank identified and generated an additional amount of expected losses for clients with increased risk through the monitoring process on a monthly basis. An additional level of expected losses was generated using the manual override technique. The Bank applies it to clients where there is a significant increase in credit risk compared to initial recognition. The same can be applied based on the decision of the Credit Committee. This can only be used to increase the level of expected losses. Manual override of the EL is performed in such a way that the obtained calculation of the EL according to the model is corrected with a higher amount of EL.

Looking at the whole 2020, the Bank regularly performed adjustments to the parameters used in the collective calculation of expected losses, which include macroeconomic expectations, overlay factor and default rates.

The macroeconomic scenario in 4Q2020 was without significant changes to the scenario from 4/2020 related to expectations in 2020, but with an increase in the expected GDP growth rate in 2022.

In addition to macroeconomic scenarios, the value of the overlay factor was updated during the year (with negative effects on the calculation of expected losses), and the default rate (with positive effects on the calculation of expected losses). The overlay factor used in the calculation of expected losses grew in 2020 from the level of 0.995886 at the end of 2019 to 1.020146 at the end of 2020.

Given that the calculation of expected losses (ECL) must be an unbiased and weighted probability amount determined by estimating the range of possible outcomes, the Bank calculates the overlay factor according to the formula:

$$Overlay\ factor = \frac{ECL_{Weighted}}{ECL_{Baseline}}$$

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.8 COVID 19 (continued)

The expected weighted loss (ECL weighted) is calculated for three possible scenarios (Baseline, Contagious, Positive) according to the weighting factors, ie the probabilities of each scenario. The ECL baseline is the ECL (expected loss) for the baseline scenario with the highest probability of occurrence. The bank applies a constant overlay factor.

The final expected loss is calculated as:

$$ECL_{Final} = ECL_{Baseline} \times Overlay\ factor$$

As at 31 December 2020 the Bank allocated KM 22.1 million of costs based on expected losses, which compared to the previous 2019 represents an increase in allocated risk costs by over 230%. Almost entirely, the allocated cost refers to the income portfolio, and given the fact that in 2020 there were no significant inflows into non-performing assets. The allocated cost would be even higher if the effects of the reduction of expected losses due to a significant reduction in volume in 2020 compared to 2019 and the collection of non-performing assets are excluded.The overall review of the portfolio by level of risk shows a significant increase in the level of expected losses within risk level 1 and risk level 2. The decrease in level 3 of credit risk, as well as the level of expected losses is the result of accounting write-offs conducted in 2020 receivables, 100% reserved).

An overview of the portfolio by risk level is shown in the Table below.

Bank	**2019**	**2020**
In m KM		
Gross loans to customers	**3,843**	**3,325**
Of which:		
Risk level 1	3,065	2,801
Risk level 2	545	396
Risk level 3	233	128
ECL (expected)-Reservation level	**290**	**213**
Of which		
Risk level 1	24	44
Risk level 2	55	66
Risk level 3	211	103
% coverage ECL risk level 1	0.78%	1.57%
% coverage ECL risk level 2	10.09%	16.67%
% coverage ECL risk level 3	90.56%	80.47%

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

38.RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk

Liquidity risk is the potential risk that the Bank and Group will not be able to meet its obligations as scheduled,in full and without delay. It arises in the Bank's and Group's financing activities and assets and liabilities management. Adjusting its business with regard to liquidity risk is achieved through compliance with the relevant legislation, internal policies for maintenance of liquidity reserves, compliance of assets and liabilities, setting limits and planned liquidity indicators.

ALM Department manages liquidity reserves on a daily basis, to enable the funding of clients' needs and to ensure an optimum balance between continuity and flexibility of financing through use of sources with different maturities.

The Bank and Group have access to a diverse funding base including various types of retail and corporate and bank deposits, borrowings, subordinated debt, issued debt securities, share capital and reserves. These enhance funding flexibility and limit dependence on any one source of funds as well as generally ensure better funding cost management.

Liquidity needs are planned every month for a period of six months and controlled and matched on a daily basis.

38.2.1 Structural liquidity risk

Structural liquidity management aims to ensure the financial stability of the Bank and Group. The primary objective is to avoid undue and unexpected pressures on the financing needs of a short-term liquidity position and to ensure optimal financing sources and associated costs. This can be achieved by striking a balance between medium-term and long-term stable assets and adequate stable sources of financing.

Restrictions are defined in the form of limits and alert levels:

- "limit" is a firm point that metrics should not exceed; in the event of a limit being exceeded, the escalation process is initiated and corrective actions are taken to re-align with the prescribed limit as soon as possible (position reduced within the limit);

- the alert level is the point in which the check and analysis process is triggered. The overreach signals the need for an active approach in monitoring the causes and the potential adoption of action plans, although corrective action is not necessary.

Adjusted NSFR

The adjusted NSFR ratio monitors structural liquidity in grades over three and over five, with specific rules for the following positions:

- short-term liability positions (weighted by appropriate factors for positions that provide stable financing) minus short-term asset positions (weighted by appropriate factors for positions that require stable financing) are considered to be a stable source of funding over the longest time period;

- non-performing receivables are shown on a net basis over the entire amount over the longest time period.

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.1 Structural liquidity risk (continued)

Adjusted NSFR (continued)

ADJUSTED NSFR	(in KM million)			
	31 December 2020		31 December 2019	
	>3Y	>5Y	>3Y	>5Y
Items that provide stable funding sources	1,087	1,027	1,204	1,098
Items that require stable funding sources	1,306	762	1,787	1,074
NET STL	2,790	2,790	2,836	2,836
Items that provide stable funding sources + NET STL	3,877	3,818	4,040	3,934
Warning level	124.5%	124.5%	126%	126%
RATIO	**297%**	**501%**	**226%**	**366%**

Items that provide stable funding sources and net current liabilities are sufficient to cover items that require stable funding sources in the relevant classes.

Structural FX Gap

Structural FX Gap monitors maturity maturity by material currencies (EUR, other) in the class for more than one year, based on the "adjusted NSFR" metric methodology.

EUR FX GAP >1G	(in KM million)	
	31 December 2020	31 December 2019
Liabilities in classes >1G	238	363
NET STL	945	1,036
Receivables in classes >1G	879	1,202
Warning level (max)	(305)	(610)
RATIO	**304**	**197**

OTHER FX GAP >1G	(in KM million)	
	31 December 2020	31 December 2019
Liabilities in classes >1G	9	0.2
NET STL	144	157
Receivables in classes >1G	7	2
Warning level (max)	(39)	(98)
RATIO	**146**	**154**

Items that provide stable sources of funding and net current liabilities in significant currencies other than local currency (EUR and other currencies) are sufficient to cover items that require stable sources of funding in grades over one year.

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

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.1 Structural liquidity risk (continued)

Net stable funding ratio (NSFR) requirement

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

NSFR	(in KM milion)	
	31 December 2020	31 December 2019
Items that provide stable funding sources	4,877	6,326
Items that require stable funding sources	2,576	6,700
Warning level	104%	106%
Limit	101%	101%
Stable funding source ratio requirement (%)	**189%**	**156%**

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.2 Future cash flows from financial instruments

The following table details the Bank's and Group's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank and Group anticipate that the cash flow will occur in a different period.

Maturity for non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Bank							
31 December 2020							
Non-interest bearing		222,925	50	718	752	0	224,445
Variable interest rate instruments	4.78%	1,120,834	41,195	192,613	724,465	461,301	2,540,408
Fixed interest rate instruments	3,10%	1,156,701	284,875	509,727	1,289,727	395,040	3,636,070
		2,500,460	**326,120**	**703,058**	**2,014,944**	**856,341**	**6,400,923**
Bank							
31 December 2019							
Non-interest bearing	-	169,890	-	-	-	-	169,890
Variable interest rate instruments	4.92%	1,153,597	55,192	238,272	851,847	543,292	2,842,200
Fixed interest rate instruments	3.68%	1,384,733	304,224	549,947	1,198,103	440,367	3,877,373
		2,708,220	**359,416**	**788,219**	**2,049,950**	**983,659**	**6,889,463**

The following table details the the Bank's and Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank and Group can be required to pay. The table includes both interest and principal cash flows.

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

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.2 Future cash flows from financial instruments (continued)

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Bank							
31 December 2020							
Non-interest bearing		2,895	1,120	8,212	11,452	1,347	25,026
Variable interest rate instruments	0.38%	3,270,899	26,196	99,284	179,572	152	3,576,103
Fixed interest rate instruments	1.14%	684,158	51,752	230,608	478,598	7,021	1,452,137
		3,957,952	**79,068**	**338,104**	**669,622**	**8,520**	**5,053,266**
Bank							
31 December 2019							
Non-interest bearing	-	1,493	1,733	11,404	9,002	2,641	26,275
Variable interest rate instruments	0.54%	3,219,693	32,549	122,274	189,905	298	3,564,719
Fixed interest rate instruments	0.87%	598,034	144,010	532,435	714,257	10,601	1,999,337
		3,819,223	**178,292**	**666,113**	**913,164**	**13,540**	**5,590,331**

The Bank and Group expect to meet their other obligations from operating cash flows and proceeds of maturing financial assets and assets at fair value through other comprehensive income.

38.3 Market risk

Market risk is defined as the effect that general and specific movements and market variable changes in the market have on the separate and consolidated statement of profit or loss and other comprehensive income and separate and consolidated statement of financial position of the Bank and Group.

Basic risk factors include:

- interest rate risk;
- credit margin risk, and
- currency risk and

The aim of market risk management on Bank and Group level is management and control of market risk exposure within acceptable parameters to ensure the solvency of the Bank and Group with the optimisation of risk return.

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement. Daily reports on market risk exposures are created together with defined limits of market risk exposure for the purpose of risk management. Revision of existing limits is conducted at least once a year. Alterations to the limits of the Bank and Group are coordinated by Zagrebačka banka. In addition to development and implementation of techniques for measuring market risk, the Bank and Group continuously works on improving its business processes and quality of data.

38. RISK MANAGEMENT (CONTINUED)

38.3 Market risk (continued)

Market risk measurement techniques:

On Bank and Group level, market risk management includes continuous reporting on risk exposure, followed by use of limits and daily review of all positions where market risk exposures exist. The positions are aggregated on daily basis and compared with defined limits.

Market risk metrics, used both for measuring and internal reporting on Bank and Group's market risks, are compliant with UniCredit Group and they encompass:

- Value at Risk
- Sensitivity metrics (basis point value – BPV, basis point value for credit margin CPV, net open foreign currency position and other sensitivity measures),
- Alarming level of losses (applied to cumulative result through specific time horizon), and
- Results of stress resistance tests.

38.3.1 Value at Risk

The Bank and Group use Value-at-Risk methodology (VaR) to estimate the market risk and the maximum potential losses expected on positions held for trading and other activities.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements, as a measure of maximum potential loss for the defined holding period or a period in which the position could be closed. Loss can occur in the overall or individual positions, based on assumptions of various market variables.

The risk model calculates VaR daily with a confidence level of 99%. The model uses historical simulation based on last 250 observations of daily indicators.

Bank's VaR according to risk types in 2020 and 2019 is as follows:

Bank	Minimum 2020	Average 2020	Maximum 2020	End of 2020
FVOCI Total	**381**	**2,372**	**3,501**	**3,338**
FVtPL Total	**0.2**	**1**	**3**	**0.6**

Bank	Minimum 2019	Average 2019	Maximum 2019	End of 2019
Interest risk	(1,521)	(461)	(403)	(403)
Currency risk	(6)	(1)	(0)	(2)
Securities price risk	(534)	(414)	(370)	(389)
Total VaR	**(1,347)**	**(894)**	**(788)**	**(789)**

During 2020, the VaR metric was divided according to the new IFRS 9 classification into FVOCI and FVtPL.

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

38.RISK MANAGEMENT (CONTINUED)

38.3 Market risk (continued)

38.3.1 Value at Risk

Bank	Minimum 2018	Average 2018	Maximum 2018	End of 2018
Interest risk	(237)	(371)	(744)	(277)
Currency risk	-	(1)	(21)	(1)
Securities price risk	(737)	(1,045)	(1,281)	(878)
Total VaR	**(779)**	**(998)**	**(1,274)**	**(946)**

38.3.2 Stress-testing

Stress-testing is used to evaluate the effect of market risks on the Bank's and Group's portfolio. In the stress-testing process the Bank currently covers the following risk categories - currency risk and interest rate risk:

- Currency risk is tested for individual currencies and currency groups - testing includes appreciation and depreciation shocks of 5%, 10% and 30% for currencies KM and EUR.
- Interest rate risk is tested by each currency for the Bank's and Group's overall position. The scenarios include parallel shifts in interest rates by 200 basis points, interest rate level changes, curve rotation, increase of interest rates, including various shocks on currency interest rate curves.

Testing is performed monthly and test results are included into regular ALCO's reports.

38.4 Foreign currency risk

Foreign currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, and trading activities. It is monitored daily in accordance with regulations and internally set limits per certain foreign currencies, and in the total amount for all assets and liabilities denominated in foreign currencies or tied to foreign currencies.

Foreign currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values.

The Bank and Group direct bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits.

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

Bank	KM	EUR	USD	Other currencies	Total
As of 31 December 2020					
Assets					
Cash and cash equivalents	389,581	261,313	73,956	83,061	807,911
Obligatory reserve at CBBH	494,406	-	-		494,406
Loans and receivables from banks	16,222	898,284	2,928	5,029	922,463
Financial assets available for sale	257,320	317,423	48,192	-	622,935
Financial assets at fair value through profit or loss	-	215	-	-	215
Loans and receivables from clients	2,008,883	1,103,163	-	-	3,112,046
Other assets and receivables	36,104	1,089	35	18	37,246
Investments in associates	460	-	-	-	460
	3,202,976	**2,581,487**	**125,111**	**88,108**	**5,997,682**
Liabilities					
Current accounts and deposits in banks	27,547	1,910	-	-	29,457
Current accounts and deposits from clients	3,007,549	1,761,741	119,678	85,868	4,974,836
Received deposits-down payments of lease users	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	179	-	-	179
Borrowings and subordinated debt	-	29,341	-	-	29,341
Other liabilities	86,994	22,869	1,018	830	111,711
Provisions for liabilities and expenses	15,701	-	-	-	15,701
	3,137,791	**1,816,040**	**120,696**	**86,698**	**5,161,225**
Net position	**65,185**	**765,447**	**4,415**	**1,410**	**836,457**

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

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

Bank	KM	EUR	USD	Other currencies	Total
As of 31 December 2019					
Assets					
Cash and cash equivalents	518,708	167,630	16,660	57,049	760,047
Obligatory reserve at CBBH	535,483	-	-	-	535,483
Loans and receivables from banks	26,245	974,882	13,688	35,040	1,049,855
Financial assets at fair value through other comprehensive income	134,606	303,480	89,177	-	527,263
Financial assets at fair value through profit or loss	-	-	-	-	-
Loans and receivables from clients	2,165,696	1,387,217	-	-	3,552,913
Other assets and receivables	41,697	1,221	37	83	43,038
Investments in associates	460	-	-	-	460
	3,422,895	**2,834,430**	**119,562**	**92,172**	**6,469,059**
Liabilities					
Current accounts and deposits in banks	37,956	432,311	-	5	470,272
Current accounts and deposits from clients	3,060,764	1,776,990	119,445	89,744	5,046,943
Received deposits-down payments of lease users	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Borrowings and subordinated debt	-	43,130	-	-	43,130
Other liabilities	101,111	11,156	373	398	113,038
Provisions for liabilities and expenses	14,050	-	-	-	14,050
	3,213,881	**2,263,587**	**119,818**	**90,147**	**5,687,433**
Net position	**209,014**	**570,843**	**(256)**	**2,025**	**781,626**

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

38.4.1 Foreign currency sensitivity analysis

The Bank and Group are mainly exposed to EUR and USD. Since currency board arrangement is in force in Bosnia and Herzegovina, neither Bank nor the Group are exposed to risk of change of EUR exchange rate (fixed exchange rate, Convertible Mark (KM) is pegged to EUR). Received deposits – down payments of lease users.

The following table details the sensitivity to a 10% increase or decrease in KM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only receivables and liabilities denominated in foreign currency and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
Bank	**31 December 2019**	**31 December 2020**
Profit/Loss	(3)	(6)

38.5 Interest rate risk

Interest rate risk represents the risk of decrease in asset values caused by adverse interest rate changes. Interest rate changes directly affect the net present value of future cash flows and consequently net interest income.

Interest rate change risk sources are:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk as the risk of changes in shape and slope of yield curve; and
- basis risk as the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

38.5.1 Interest rate sensitivity analysis

The sensitivity analysis below has been determined through the measurement of risk by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 0.01% (1 basis point) with the basis point value (BP01) limit applied as the sensitivity measure according to currencies and time periods. Daily compliance limits are set by UniCredit Group.

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

38. RISK MANAGEMENT (CONTINUED)

38.5 Interest rate risk (continued)

38.5.1 Interest rate sensitivity analysis (continued)

BPV sensitivity analysis for the Bank per currency:

	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
Bank						
31 December 2020						
KM	-	(15)	(19)	(219)	(1)	(254)
EUR	(10)	(37)	41	58	2	54
USD	-	-	(10)	(1)	-	(11)
Total	**10**	**52**	**70**	**278**	**3**	**319**

Values in 2020 are presented as absolute values.

BPV sensitivity analysis for the Bank per currency:

	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
Bank						
31 December 2019						
KM	-	(12)	(13)	(201)	-	(227)
EUR	-	(36)	56	102	6	127
USD	-	(2)	(4)	(3)	-	(8)
Total	**-**	**50**	**72**	**306**	**6**	**362**

Values in 2019 are presented as absolute values.

BPV limits are monitored through an internal model, IMOD, which is also used for the calculation of VaR (developed by the UniCredit Group).

38.5.2 Effective interest rates

The table below presents effective interest rates applicable to various balance-sheet categories calculated as the weighted average interest rates for the period:

	Bank 31 December 2020	Bank 31 December 2019
	%	**%**
Cash and cash equivalents	(0.46)	(0.37)
Obligatory reserve at CBBH	0	0.00
Financial assets at FVOCI	1.96	2.79
Loans and receivables from banks	(0.55)	(0.45)
Loans and receivables from clients	4.60	4.63
Current accounts and deposits from banks	0.14	0.05
Current accounts and deposits from clients	0.33	0.39
Interest-bearing borrowings	1.09	1.45

38. RISK MANAGEMENT (CONTINUED)

38.6 Operating risk

Operating risk is a risk of losses caused by inadequate or unsuccessful internal processes, personnel and systems or external events, including legal risk.

The Bank and Group are exposed to operating risk in all its activities, and as a consequence of this fact, through an established organizational structure, on a daily basis tends to affect the spread of culture and awareness of the importance of operating risk management.

The Bank and Group established an appropriate system for recognising, measuring, grading and monitoring of operating risks, aiming at its optimum management and reduction by using the positive experience of the UniCredit Group regarding operating risks, standards and principles defined by the local regulator and the Basel Committee as well as its own findings based on its own experience in this area.

Operating risk management is inbuilt throughout the entire organisational structure of the Bank, through regular, strategic, supervisory, and audit management. In this way the Bank and group have a special focus on continuous analysis and development of solutions to avoid, control and transfer operating risk to third parties.

With the system of adequate measures, the Bank and Group intend to decrease the possibility of operating risk events that would have negative implications for the Bank's and Group's operations, i.e. to decrease them when they occur. In that sense, the Bank and Group particularly ensured adequate management of the following, given their significance and scope:

- information system and information system risks
- outsourcing risks
- legal risk
- business continuity
- anti-money laundering and terrorism financing system, and
- other relevant systems in the Bank and Group.

The Bank and Group use standard procedures within its established operating risk management system, which include gathering information about default events, monitoring key operating risk indicators, assessing operating risk when implementing new products/systems/procedures or before conducting new business activities, assessment of risk of information and communication technology, scenario analysis and analysis and reporting of the Operating and reputational risk board, Management and other key management personnel and supervisory bodies on the Bank's exposure to operating risk, which also includes reporting on the results of operating risk management.

The Bank and group make decisions on operating risk management both strategically and in everyday working processes. Raising awareness on the operating risks management culture is continuous through employee education and adequate reporting system, and is additionally supported by adequate and efficient implementation of elements of operating risks management in Bank's and Group's specific policies, processes and procedures.

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

38. RISK MANAGEMENT (CONTINUED)

38.6 Operating risk (continued)

The central element of the Strategy is the concept of integrated risk management and synergy with business development. By focusing on the assessment of the most significant risks and their prevention and mitigation, we achieved one of the most important stepst toward the most successful implementation of business strategy and goals.

38.7 Reputational risk

Reputational risk represents the risk of loss of confidence in the Bank's integrity caused by unfavourable public opinion on the Bank's business practice, which arises from its activities, business relationships with individual clients or activities of the members of Bank's bodies, regardless of whether the basis for such public opinion exists.

The Bank and Group are exposed to reputational risks in all its activities since reputational risk represent current or future risk that may affect revenues or equity as a result of unfavorable seeing of the Bank's and Group's image by the clients, other counterparties, shareholders/ investors, regulator or employees (stakeholders).

The Bank and Group recognise the importance of preventing and mitigating actions in reputational risk management. According to the standards of UniCredit Group, and own knowledge based on extensive experience and continuous improvements in the area, in its daily operating activities, the Bank and Group are systematically approaching to the strategy, monitoring and evaluation for each individual case of reputational risk, as well as continuous education of employees.

Reputational risk management system encompasses tools and mechanisms for continuous recognition, assessment and monitoring of actual or potential reputational risk events, and reporting to the higher management and responsible bodies on the Bank's and Group's exposure to reputational risk.

Responsibility for reputational risk management is distributed through the overall hierarchical structure of the Bank and Group, and continuous rising of awareness on importance of reputational risk is one of the pillars of the risk management.

39. CAPITAL MANAGEMENT

In compliance with laws, regulations and internal acts the Bank and Group monitor and report quarterly to regulators on its capital, risk-weighted assets and capital adequacy ratios.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2020, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations in line with Basel III methodology had a capital adequacy ratio of 20.1%.

The regulatory capital of the Bank consists of core and supplementary capital.

The core capital of the Bank (fully equal to ordinary core equity) consists of paid shares, own treasury shares, share premium, retained unallocated profit and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), net of the amount of treasury shares, intangible assets and deferred tax assets.

Supplementary capital consists of equity instruments recognized as ancillary capital - paid-in equity instruments, less own equity instruments.

The Agency is in accordance with the Decision on Minimum Standards for Credit Risk Management and Classification of Bank Assets ("Official Gazette of the Federation of BH", number: 85/11 - consolidated text, 33/12 and 15/13). required that the amounts of credit loss reserves (RKG) calculated in accordance with the said Decision be set aside or deducted from capital when calculating capital adequacy, in the amount in which the RKG calculated in this way is greater than the total deductions under IFRS at the contract level. Missing provisions for credit losses as at 31 December 2019 amount to KM 63,183 thousand and are reduced by KM 20,682 thousand of reserves that are excluded from the share capital of the bank and formed at the first application of IAS 39.

On June 20, 2019, the Banking Agency of the Federation of BH passed a Decision on credit risk management and determination of expected credit losses with effect from 1 January 2020 and repealed the above Decision, which terminated the obligation to form a RKG under it.

Furthermore, the Agency in fig. Journal of the Federation of BH No. 91/18 published the Decision on conditions for inclusion of formed reserves for credit losses in the regular share capital of the Bank.

Based on the Decision of the Assembly in 2020, the Bank included in the share capital KM 18,614 after paid income tax (KM 2,068 thousand).

The minimum minimum capital requirements are as follows:

- regular core capital rate 6.75%
- core capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection layer for capital preservation that is to be maintained in the form of regular core capital in the amount of 2.5% of the total exposure amount.

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

39. CAPITAL MANAGEMENT (CONTINUED)

The total weighted risk used to calculate capital adequacy includes the risk of weighted assets and credit equivalents, position, currency, commodity risk and operational risk.

The capital adequacy ratio under Basel III methodology for 2020 was significantly above the prescribed limit of 12%. The composition of capital and capital ratios as at 31 December 2020 is given in the table below.

	Bank	Bank
	31 December 2020	**31 December 2019.**
Regulatory capital	**682.236**	**685.736**
Core capital	682.066	685.736
Regular core capital	682.066	685.736
Issued share capital – Ordinary shares	119.011	119.011
Share premium	48.317	48.317
Accumulated comprehensive income	9.842	7.161
Statutory, regulatory and other reserves	523.422	532.811
Deductions from regular core capital		
intangible assets	(17.818)	(19.621)
own shares	(214)	(214)
deferred tax assets	(34)	(14)
significant investment in capital of financial sector entities	(460)	(460)
Deductions from additional core capital exceeding the additional core capital	-	(1.255)
Total regular core capital capital	**682.066**	**685.736**
Additional core capital	**-**	**-**
Core capital	**682.066**	**685.736**
Supplementary capital	**170**	**-**
Issued own capital – Priority shares	184	184
Own shares	(14)	(14)
General credit risk allowances	-	41.075
Missing credit loss provisions	-	(42.501)
Deductions from supplementary capital exceeding supplementary capital	**-**	1.255
Total regulatory capital	**682.236**	**685.736**
Risk weighted assets (unaudited)	**3.258.778**	**3.804.472**
Capital adequacy ratio	**20.1%**	**18%**

The Bank is obligated to ensure and maintain financial leverage rate as an additional security and simple capital hedge, in the amount of at least 6%.

The Bank's financial leverage ratio is the ratio of the amount of the core capital to the total risk exposure of the Bank as at the reporting date, expressed as a percentage, and as at 31 December 2020 it is significantly above the stated minimum, amounting to 10.66%.

40.FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

40.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. In addition, the information is given about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Bank			
31 December 2020		Fair values	
	Level 1	**Level 2**	**Level 3**
Financial assets ***at FVOCI (see Note 18)***			
Listed equity securities in Bosnia and Herzegovina	659	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BH	-	225,692	-
Bonds of the Government of Republika Srpska	-	88,578	-
Bonds of the Government of Republic of Croatia	148,480	-	-
State Bonds of the Republic of Poland	59,518	-	-
State Bonds of the Republic of Slovenia	45,532	-	-
Treasury bills of the Government of the Federation of Bosnia and Herzegovina	-	30,000	-
Treasury bills of the Government of Republika Srpska		24,936	-
Assets	-	-	215
Liabilities	-	179	-
Bank			
31 December 2019		Fair values	
	Level 1	**Level 2**	**Level 3**
Financial assets at FVOCI (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	659	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BH	-	181,296	
Bonds of the Government of Republika Srpska	-	85,484	-
Bonds of the Government of Republic of Croatia	149,787	-	-
State Bonds of the Republic of Poland	61,072	-	-
State Bonds of the Republic of Slovenia	49,424	-	
Treasury bills of the Government of the Federation of Bosnia and Herzegovina			-
Treasury bills of the Government of Republika Srpska			
Foreign currency forward contracts (see Note 19)			
Assets	-	-	-
Liabilities	-	-	-

Valuation techniques and key inputs

Financial assets at fair value through other comprehensive income

For the securities presented under Level 1 valuation technique is based on quoted bid prices in an active market.

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

41.FAIR VALUE MEASUREMENT (CONTINUED)

40.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period (continued)

For the securities presented under Level 1 discounted mark to market technique is applied. Instruments that are not quoted in an active market are valued by using the models which include maximum relevant and available inputs and, also, unobservable inputs, but at minimum level. Depending on significance of inputs that are unobservable, debt securities are awarded with Level 2 or Level 3. Valuation is performed based on discounted future cash flows, considering the last available rate on owned or similar debt securities as yield rate.

For the securities presented under Level 3 discounted cash flow valuation technique is applied. Instruments classified in this category depend on factors not available on the market.

Foreign currency forward contracts

Valuation technique applied for forward contracts presented under Level 2 is discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and Level 2 during 2020 and 2019.

40.FAIR VALUE MEASUREMENT (CONTINUED)

40.2 Fair value of the Bank's and Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial separate and consolidated statements approximate their fair values.

	Bank		Bank	
	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
Loans and receivables from clients	3,112,046	3,186,404	3,552,913	3,550,523
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	4,974,836	4,953,929	5,046,943	4,995,387
- Borrowings	29,341	29,218	43,130	42,689

Bank	Fair value hierarchy as at 31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	1,130,443	2,055,961	**3,186,404**
	-	**1,130,443**	**2,055,961**	**3,186,404**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	4,953,929	**4,953,929**
- Borrowings	-	-	29,218	**29,218**
	-	**-**	**4,983,147**	**4,983,147**

The Bank and Group provide finance lease of equipment and vehicles.

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

40. FAIR VALUE MEASUREMENT (CONTINUED)

40.2 Fair value of the Bank's and Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required) (continued)

Bank	Fair value hierarchy as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	729,406	2,821,117	**3,550,523**
	-	**729,406**	**2,821,117**	**3,550,523**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	4,995,387	**4,995,387**
- Borrowings	-	-	42,689	**42,689**
			5,038,076	**5,038,076**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2020 are based on requirements of IFRS 13, by applying the methodology developed on UnICredit Group level.

40. FAIR VALUE MEASUREMENT (CONTINUED)

40.2 Fair value of the Bank's and Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required) (continued)

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties and the concept of risk neutral "Probability of Default" approach based on market parameters, introduced for determining fair value by restricting dependence on internal parameters. The parameters included in the calculation are market premium and correlation of assets return and the market.

For the purpose of classification of instruments in fair value hierarchy (Level 2 or Level 3), a value limit / materiality of the difference between the fair value of risk-free and full fair value was established. If the determined difference is equal or greater than 5% instrument is classified as Level 3. Accordingly, if the total fair value is not significantly different from the risk-free fair value (less than 5%), the instrument is classified as Level 2.

The table shows the calculations of fair value for performing loans and deposits from clients with fixed and variable interest rates.

Fair value of non-performing loans of clients is equaled to book value.

40.3 Reconciliation of Level 3 fair value measurements

Fair value of equity securities in Bosnia and Herzegovina, which do not have the price on the active market cannot be reliably measured. Therefore, they are measured at cost, as they have no material impact on the Bank's financial separate and consolidated statements.

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

41. APPROVAL OF THE FINANCIAL SEPARATE AND CONSOLIDATED STATEMENTS

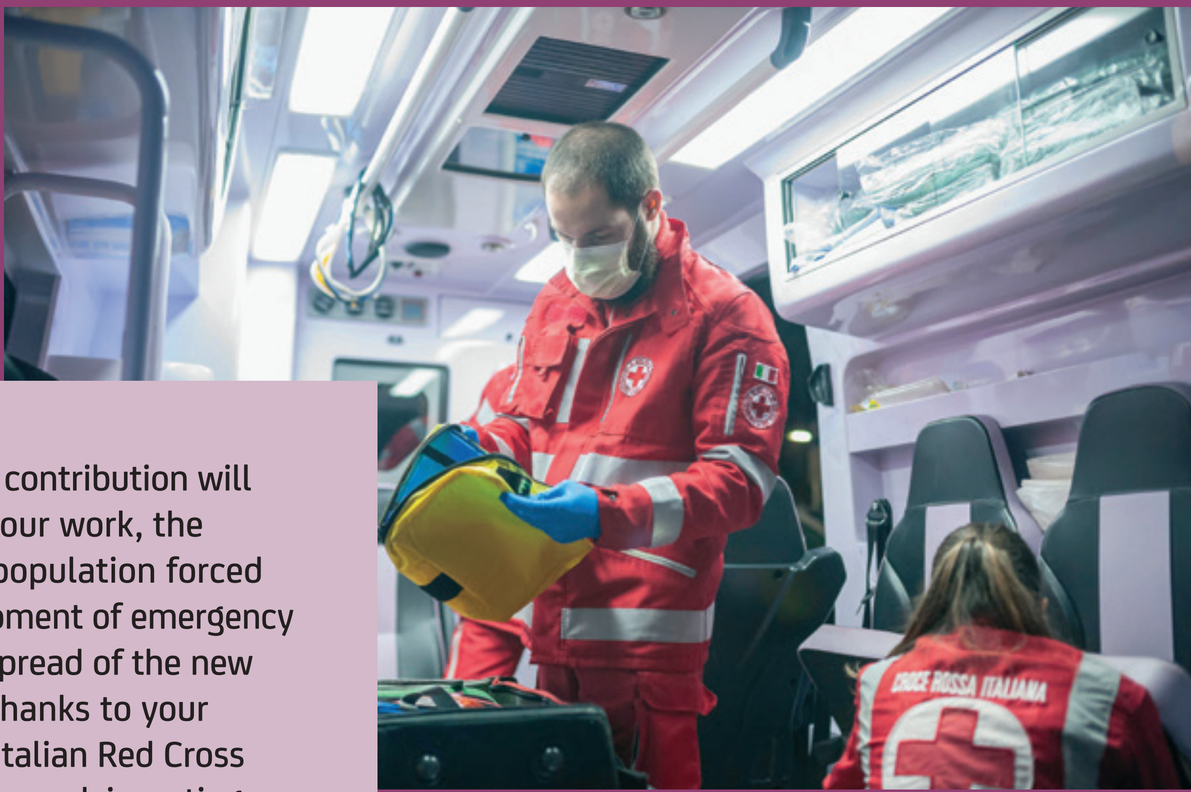
The separate and consolidated financial statements on the pages 32 to 167 were approved by the Management Board on 18 February 2021 for the submission to the Supervisory Board:

UniCredit Bank dioničko društvo

President of the Board	**Member of the Board for Finance Management**
Amina Mahmutović	Matteo Consalvi

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

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions

These financial statements include Balance Sheet (statement of financial position as at 31 December 2020) and Profit and Loss (statement on the overall result for the period from 1 January to 31 December 2020) for UniCredit Bank d.d. and UniCredit Bank d.d. Group in the form that is prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (Official Gazette of FBH 82/10).

BALANCE SHEET

Statement of financial position as at 31 December 2020 — in BAM

ITEM	Code for AOP			Gross	Current year Impairment value	Net (3-4)	Previous year (initial balance)
1	2			3	4	5	6
Assets							
A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+030+031+032+033+034)	**0**	**0**	**1**	**6,253,571,021**	**225,256,134**	**6,028,314,887**	**6,502,503,145**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0	0	2	860,288,790	2,267,562	858,021,228	814,615,272
a) Cash and cash equivalents in domestic currency	0	0	3	389,580,424	0	389,580,424	518,707,593
b) Other receivables in domestic currency	0	0	4	51,107,632	2,208,719	48,898,913	53,817,189
c) Cash and cash equivalents in foreign currency	0	0	5	418,823,718	0	418,823,718	241,468,643
d) Gold and other precious metals	0	0	6	36,541	0	36,541	36,541
e) Other receivables in foreign currency	0	0	7	740,475	58,843	681,632	585,306
2. Deposits and loans in local and foreign currency (009 + 010)	0	0	8	495,495,746	0	495,495,746	536,612,197
a) Deposits and loans in domestic currency	0	0	9	495,495,746	0	495,495,746	536,612,197
b) Deposits and loans in foreign currency	0	1	0	0	0	0	0
3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013)	0	1	1	3,496,170	1,459,018	2,037,152	1,205,477
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0	1	2	3,481,197	1,456,579	2,024,618	1,191,086
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0	1	3	14,973	2,439	12,534	14,391
4. Loans and deposits (015 to 017)	0	1	4	3,568,156,349	123,492,062	3,444,664,287	3,945,160,526
a) Loans and deposits in local currency	0	1	5	1,778,578,735	86,611,542	1,691,967,193	1,863,252,191
b) Loans and deposits with hedge local currency currency	0	1	6	878,016,474	34,946,284	843,070,190	1,057,949,532
c) Loans and deposits in foreign currency	0	1	7	911,561,140	1,934,236	909,626,904	1,023,958,803
5. Securities (019 to 021)	0	1	8	616,237,897	0	616,237,897	520,094,944
a) Securities in local currency	0	1	9	257,194,275	0	257,194,275	134,525,434
b) Securities with hedge local currency	0	2	0	91,589,327	0	91,589,327	111,678,575
c) Securities in foreign currency	0	2	1	267,454,295	0	267,454,295	273,890,935
6. Other placements and prepayments (023 to 029)	0	2	2	698,583,028	91,400,102	607,182,926	677,794,646
a) Other placements in local currency	0	2	3	2,617,544	2,536,309	81,235	0
b) Other placements with hedge local currency	0	2	4	33,544,000	4,746,586	28,797,414	37,509,789
c) Due placements and current maturities of long-term placements in local currency	0	2	5	636,572,214	77,874,890	558,697,324	616,329,647
d) Prepayments in local currency	0	2	6	14,258,000	951,359	13,306,641	14,122,336
e) Other placements in foreign currency	0	2	7	5,290,957	5,290,957	0	0
f) Due placements and current maturities of long-term placements in foreign currency	0	2	8	0	0	0	3,293,357
g) Prepayments in foreign currency	0	2	9	6,300,313	1	6,300,312	6,539,517
7. Inventories	0	3	0	11,313,041	6,637,390	4,675,651	7,020,083
8. Fixed available for sale assets	0	3	1	0	0	0	0
9. Assets of discontinued operations	0	3	2	0	0	0	0
10. Other assets	0	3	3	0	0	0	0
11. Value added tax prepayment	0	3	4	0	0	0	0
B. FIXED ASSETS (036+041)	**0**	**3**	**5**	**261,643,466**	**169,465,602**	**92,177,864**	**93,093,855**
1. Tangible assets and investment in property (037 to 040)	0	3	6	190,634,962	116,275,121	74,359,841	73,472,524
a) Tangible assets owned by the bank	0	3	7	151,508,162	94,120,673	57,387,489	57,723,197
b) Investment in property	0	3	8	23,966,433	22,154,448	1,811,985	2,566,395
c) Fixed assets acquired under financial lease	0	3	9	0	0	0	0
d) Advances and acquired but not brought into use	0	4	0	15,160,367	0	15,160,367	13,182,932
2. Intangible assets (042 to 046)	0	4	1	71,008,504	53,190,481	17,818,023	19,621,331
a) Goodwill	0	4	2	0	0	0	0
b) Investment in development	0	4	3	0	0	0	0
c) Intangible assets under financial lease	0	4	4	0	0	0	0
d) Other intangible assets	0	4	5	60,609,842	53,190,481	7,419,361	12,135,783
e) Advances and assets acquired but not brought into use	0	4	6	10,398,662	0	10,398,662	7,485,548
C. DEFFERED TAX ASSETS	**0**	**4**	**7**	**2,527,008**	**0**	**2,527,008**	**413,321**

D. OPERATING ASSETS (001+035+047)	**048**	**6,517,741,495**	**394,721,736**	**6,123,019,759**	**6,596,010,321**
E. OFF BALANCE SHEET ASSETS	**049**	**1,054,228,405**	**0**	**1,054,228,405**	**989,799,805**
F. TOTAL ASSETS (048+049)	**050**	**7,571,969,900**	**394,721,736**	**7,177,248,164**	**7,585,810,126**

ITEM	AOP Code	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	**101**	**5,205,731,869**	**5,743,893,709**
1. Deposits and borrowings (103 to 105)	102	5,013,586,689	5,539,972,555
a) Deposits and interest-bearing borrowings in domestic currency	103	3,032,875,222	3,096,670,235
b) Hedging deposits and borrowings	104	83,779,523	60,182,997
c) Deposits and interest-bearing borrowings in foreign currency	105	1,896,931,944	2,383,119,323
2. Interests and fees (107+108)	106	8,000	8,000
a) Interests and fees in domestic currency	107	8,000	8,000
b) Interests and fees in foreign currency	108	0	0
3. Securities (110 to 112)	109	0	0
a) Securities in domestic currency	110	0	0
b) Hedging securities i domestic currency	111	0	0
c) Securities in foreign currency	112	0	0
4. Other liabilities and accruals (114 to 124)	113	192,137,180	203,913,154
a) Salaries and fees	114	2,480,177	2,620,107
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	115	77,587,002	89,889,012
c) Tax and contributions ,excluding current and deffered income tax	116	3,148,369	2,869,377
d) Current tax liability	117	10,356,476	13,513,577
e) Deffered tax liability	118	2,686,023	2,419,596
f) Provisions	119	30,466,759	36,706,451
g) Accruals in domestic currency	120	22,577,089	25,220,332
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	121	279,516	267,171
i) Other liabilities in foreign currency	122	24,538,797	11,740,166
j) Accruals in foreign currency	123	5,165,496	5,957,859
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	124	12,851,476	12,709,506
B. EQUITY (126+132+138+142-148)	**125**	**917,287,890**	**852,116,612**
1. Issued share capital (127+128+129-130-131)	126	167,283,583	167,283,583
a) Share capital	127	119,195,000	119,195,000
b) Other forms of capital	128	0	0
c) Share premium	129	48,317,277	48,317,277
d) Registered but uncontributed capital	130	0	0
e) Repurchase of own shares	131	228,694	228,694
2. Reserves (133 to 137)	132	523,422,370	553,492,411
a) Reserves from profit	133	523,422,370	533,156,159
b) Other provisions	134	0	0
c) Provision for losses	135	0	20,336,252
d) General banking risk provisions	136	0	0
e) Transferred reserves (foreign exchange)	137	0	0
3. Revaluation reserve (139 to 141)	138	11,686,504	9,322,082
a) Revaluation reserve based on change in value of fixed assets and intangible investments	139	2,141,677	2,164,157
b) Revaluation reserve based on change in value of securities	140	9,544,827	7,157,925
c) Other revaluation resererves	141	0	0
4. Profit (143 to 147)	142	214,895,433	122,018,536
a) Profit for the year	143	74,242,243	101,071,456
b) Unallocated profit from prior years	144	140,653,190	20,947,080
c) Surplus of income over expenses for the period	145	0	0
d) Unallocated surplus of income over expenses for previous years	146	0	0
e) Retained earnings	147	0	0
5. Loss (149+150)	148	0	0
a) Loss for the period	149	0	0
b) Loss from previous years	150	0	0
C. LIABILITIES (101+125)	**151**	**6,123,019,759**	**6,596,010,321**
D. OFF BALANCE SHEET LIABILITIES	**152**	**1,054,228,405**	**989,799,805**
E. TOTAL LIABILITIES (151+152)	**153**	**7,177,248,164**	**7,585,810,126**

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (CONTINUED)

CONSOLIDATED BALANCE SHEET

Statement of financial position as at 31 December 2020 in BAM

ITEM	Code for AOP	Gross	Impairment value	Current year Net (3-4)	Previous year (initial balance)
1	2	3	4	5	6
Assets					
A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+030+031+032+033+034)	**0 0 1**	**6,253,931,429**	**225,256,134**	**6,028,675,295**	**6,502,905,779**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0 0 2	860,288,790	2,267,562	858,021,228	814,615,272
a) Cash and cash equivalents in domestic currency	0 0 3	389,580,424	0	389,580,424	518,707,593
b) Other receivables in domestic currency	0 0 4	51,107,632	2,208,719	48,898,913	53,817,189
c) Cash and cash equivalents in foreign currency	0 0 5	418,823,718	0	418,823,718	241,468,643
d) Gold and other precious metals	0 0 6	36,541	0	36,541	36,541
e) Other receivables in foreign currency	0 0 7	740,475	58,843	681,632	585,306
2. Deposits and loans in local and foreign currency (009 + 010)	0 0 8	495,495,746	0	495,495,746	536,612,197
a) Deposits and loans in domestic currency	0 0 9	495,495,746	0	495,495,746	536,612,197
b) Deposits and loans in foreign currency	0 1 0	0	0	0	0
3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013)	0 1 1	3,496,170	1,459,018	2,037,152	1,205,477
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0 1 2	3,481,197	1,456,579	2,024,618	1,191,086
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0 1 3	14,973	2,439	12,534	14,391
4. Loans and deposits (015 to 017)	0 1 4	3,568,156,349	123,492,062	3,444,664,287	3,945,160,526
a) Loans and deposits in local currency	0 1 5	1,778,578,735	86,611,542	1,691,967,193	1,863,252,191
b) Loans and deposits with hedge local currency currency	0 1 6	878,016,474	34,946,284	843,070,190	1,057,949,532
c) Loans and deposits in foreign currency	0 1 7	911,561,140	1,934,236	909,626,904	1,023,958,803
5. Securities (019 to 021)	0 1 8	616,598,305	0	616,598,305	520,497,578
a) Securities in local currency	0 1 9	257,554,683	0	257,554,683	134,928,068
b) Securities with hedge local currency	0 2 0	91,589,327	0	91,589,327	111,678,575
c) Securities in foreign currency	0 2 1	267,454,295	0	267,454,295	273,890,935
6. Other placements and prepayments (023 to 029)	0 2 2	698,583,028	91,400,102	607,182,926	677,794,646
a) Other placements in local currency	0 2 3	2,617,544	2,536,309	81,235	0
b) Other placements with hedge local currency	0 2 4	33,544,000	4,746,586	28,797,414	37,509,789
c) Due placements and current maturities of long-term placements in local currency	0 2 5	636,572,214	77,874,890	558,697,324	616,329,647
d) Prepayments in local currency	0 2 6	14,258,000	951,359	13,306,641	14,122,336
e) Other placements in foreign currency	0 2 7	5,290,957	5,290,957	0	0
f) Due placements and current maturities of long-term placements in foreign currency	0 2 8	0	0	0	3,293,357
g) Prepayments in foreign currency	0 2 9	6,300,313	1	6,300,312	6,539,517
7. Inventories	0 3 0	11,313,041	6,637,390	4,675,651	7,020,083
8. Fixed available for sale assets	0 3 1	0	0	0	0
9. Assets of discontinued operations	0 3 2	0	0	0	0
10. Other assets	0 3 3	0	0	0	0
11. Value added tax prepayment	0 3 4	0	0	0	0
B. FIXED ASSETS (036+041)	**0 3 5**	**261,643,466**	**169,465,602**	**92,177,864**	**93,093,855**
1. Tangible assets and investment in property (037 to 040)	0 3 6	190,634,962	116,275,121	74,359,841	73,472,524
a) Tangible assets owned by the bank	0 3 7	151,508,162	94,120,673	57,387,489	57,723,197
b) Investment in property	0 3 8	23,966,433	22,154,448	1,811,985	2,566,395
c) Fixed assets acquired under financial lease	0 3 9	0	0	0	0
d) Advances and acquired but not brought into use	0 4 0	15,160,367	0	15,160,367	13,182,932

2. Intangible assets (042 to 046)	0 4 1	71,008,504	53,190,481	17,818,023	19,621,331
a) Goodwill	0 4 2	0	0	0	0
b) Investment in development	0 4 3	0	0	0	0
c) Intangible assets under financial lease	0 4 4	0	0	0	0
d) Other intangible assets	0 4 5	60,609,842	53,190,481	7,419,361	12,135,783
e) Advances and assets acquired but not brought into use	0 4 6	10,398,662	0	10,398,662	7,485,548
C. DEFFERED TAX ASSETS	**0 4 7**	**2,527,008**	**0**	**2,527,008**	**413,321**
D. OPERATING ASSETS (001+035+047)	**0 4 8**	**6,518,101,903**	**394,721,736**	**6,123,380,167**	**6,596,412,955**
E. OFF BALANCE SHEET ASSETS	**0 4 9**	**1,054,228,405**	**0**	**1,054,228,405**	**989,799,805**
F. TOTAL ASSETS (048+049)	**0 5 0**	**7,572,330,308**	**394,721,736**	**7,177,608,572**	**7,586,212,760**
ITEM	AOP Code		Current year		Previous year (initial balance)
1	2		3		4
A. LIABILITIES (102+106+109+113)	**1 0 1**		**5,205,731,869**		**5,743,893,709**
1. Deposits and borrowings (103 to 105)	1 0 2		5,013,586,689		5,539,972,555
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3		3,032,875,222		3,096,670,235
b) Hedging deposits and borrowings	1 0 4		83,779,523		60,182,997
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5		1,896,931,944		2,383,119,323
2. Interests and fees (107+108)	1 0 6		8,000		8,000
a) Interests and fees in domestic currency	1 0 7		8,000		8,000
b) Interests and fees in foreign currency	1 0 8		0		0
3. Securities (110 to 112)	1 0 9		0		0
a) Securities in domestic currency	1 1 0		0		0
b) Hedging securities i domestic currency	1 1 1		0		0
c) Securities in foreign currency	1 1 2		0		0
4. Other liabilities and accruals (114 to 124)	1 1 3		192,137,180		203,913,154
a) Salaries and fees	1 1 4		2,480,177		2,620,107
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5		77,587,002		89,889,012
c) Tax and contributions ,excluding current and deffered income tax	1 1 6		3,148,369		2,869,377
d) Current tax liability	1 1 7		10,356,476		13,513,577
e) Deffered tax liability	1 1 8		2,686,023		2,419,596
f) Provisions	1 1 9		30,466,759		36,706,451
g) Accruals in domestic currency	1 2 0		22,577,089		25,220,332
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1		279,516		267,171
i) Other liabilities in foreign currency	1 2 2		24,538,797		11,740,166
j) Accruals in foreign currency	1 2 3		5,165,496		5,957,859
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4		12,851,476		12,709,506
B. EQUITY (126+132+138+142-148)	**1 2 5**		**917,648,298**		**852,519,246**
1. Issued share capital (127+128+129-130-131)	1 2 6		167,283,583		167,283,583
a) Share capital	1 2 7		119,195,000		119,195,000
b) Other forms of capital	1 2 8		0		0
c) Share premium	1 2 9		48,317,277		48,317,277
d) Registered but uncontributed capital	1 3 0		0		0
e) Repurchase of own shares	1 3 1		228,694		228,694
2. Reserves (133 to 137)	1 3 2		523,825,004		553,886,935
a) Reserves from profit	1 3 3		523,825,004		533,550,683
b) Other provisions	1 3 4		0		0
c) Provision for losses	1 3 5		0		20,336,252
d) General banking risk provisions	1 3 6		0		0
e) Transferred reserves (foreign exchange)	1 3 7		0		0
3. Revaluation reserve (139 to 141)	1 3 8		11,686,504		9,322,082

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (CONTINUED)

a) Revaluation reserve based on change in value of fixed assets and intangible investments	1	3	9	2,141,677	2,164,157
b) Revaluation reserve based on change in value of securities	1	4	0	9,544,827	7,157,925
c) Other revaluation resereves	1	4	1	0	0
4. Profit (143 to 147)	1	4	2	214,853,207	122,026,646
a) Profit for the year	1	4	3	74,200,017	101,079,566
b) Unallocated profit from prior years	1	4	4	140,653,190	20,947,080
c) Surplus of income over expenses for the period	1	4	5	0	0
d) Unallocated surplus of income over expenses for previous years	1	4	6	0	0
e) Retained earnings	1	4	7	0	0
5. Loss (149+150)	1	4	8	0	0
a) Loss for the period	1	4	9	0	0
b) Loss from previous years	1	5	0	0	0
C. LIABILITIES (101+125)	**1**	**5**	**1**	**6,123,380,167**	**6,596,412,955**
D. OFF BALANCE SHEET LIABILITIES	**1**	**5**	**2**	**1,054,228,405**	**989,799,805**
E. TOTAL LIABILITIES (151+152)	**1**	**5**	**3**	**7,177,608,572**	**7,586,212,760**

BALANCE SHEET

Statement of financial result as at 31 December 2020 in BAM

ITEM	Code for AOP	VALUE	
		Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES	**2 0 1**	**173,108,789**	**185,827,111**
1. Interest income			
2. Interest expense	2 0 2	23,226,960	23,747,366
Net interest income (201-202)	2 0 3	149,881,829	162,079,745
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	105,534,291	111,256,386
4. Fee and commissions expense	2 0 6	23,475,797	26,822,996
Net fee and commission income (205-206)	2 0 7	82,058,494	84,433,390
Net fee and commission expense (206-205)	2 0 8	0	0
5.Gains from sale of securities and shares (210 to 213)	2 0 9	0	0
a) Gains from sale of securities at fair value through profit and loss	2 1 0	0	0
b) Gains from sale of available for sale securities	2 1 1	0	0
c) Gains from sale of securities held to maturity	2 1 2	0	0
d) Gains from sale of participation (share)	2 1 3	0	0
6. Losses from sale of securities and shares (215 to 218)	2 1 4	0	0
a) Losses from sale of securities at fair value through profit and loss	2 1 5	0	0
b) Losses from sale of available for sale securities	2 1 6	0	0
c) Losses from sale of securities held to maturity	2 1 7	0	0
d) Losses from sale of participation (share)	2 1 8	0	0
Net gains from sale of securities and shares (209-214)	2 1 9	0	0
Net losses from sale of securities and shares (214-209)	2 2 0	0	0
OPERATING PROFIT (201+205+209-202-206-214)	2 2 1	231,940,323	246,513,135
OPERATING EXPENSE (202+206+214-201-205-209)	2 2 2	0	0
B. OTHER OPERATING INCOME AND EXPENSE	**2 2 3**	**0**	**0**
1. Operating income (224+225)			
a) Income from leasing activities	2 2 4	0	0
b) Other operating income	2 2 5	0	0
2. Operating expense (227 to 236)	2 2 6	127,632,927	125,248,796
a) Expenses of gross salaries and contribution expense	2 2 7	50,790,945	50,940,234
b) Expenses of fees for temporary and occasional work contracts	2 2 8	58,610	68,839
c) Other personnel expenses	2 2 9	5,444,427	4,091,081
d) Material expenses	2 3 0	3,573,290	3,364,320
e) Production services expenses	2 3 1	22,886,137	23,152,820
f) Depreciation expenses	2 3 2	15,941,024	14,920,754
g) Expenses from leasing activities	2 3 3	0	0
h) Non-material expenses (excluding taxes and contributions)	2 3 4	26,695,695	26,599,409
i) Tax and contributions expenses	2 3 5	2,242,799	2,111,339
j) Other expenses	2 3 6	0	0
OTHER OPERATING PROFIT (223-226)	2 3 7	0	0
OTHER OPERATING EXPENSE (226-223)	2 3 8	127,632,927	125,248,796
C) GAIN AND LOSS ON PROVISIONS	**2 3 9**	**370,890,739**	**268,062,219**
1. Bad debts recovered (240 to 243)			
a) Income from recovered provisions for placements	2 4 0	320,596,372	210,352,678
b) Income from recovered provisions for off-balance sheet items	2 4 1	48,102,014	56,955,535
c) Income from recovered provision for liabilities	2 4 2	2,192,353	754,006
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	395,807,508	271,883,315
a) Provisions charges for placements	2 4 5	353,073,258	210,994,783
b) Provision charges for off-balance sheet items	2 4 6	38,544,512	58,598,711
c) Charges based on provisions for liabilities	2 4 7	3,926,546	1,802,493
d) Other provision charges	2 4 8	263,192	487,328
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	24,916,769	3,821,096

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (CONTINUED)

D. OTHER INCOME AND EXPENSES	**2**	**5**	**1**	**4,981,526**	**2,600,508**
1. Other income (252 to 258)					
a) Income from bad debts previously written off	2	5	2	3,053,773	182,844
b) Losses from sales of fixed assets, and intangible investments	2	5	3	392,310	496,172
c) Income from reduction in liabilities	2	5	4	0	0
d) Income from dividends and shares	2	5	5	31,238	198,409
e) Surplus	2	5	6	58,722	28,055
f) Other income	2	5	7	1,445,483	1,695,028
g) Gains grom discounted operations	2	5	8	0	0
2. Other expense (260 to 266)	2	5	9	1,548,776	2,201,814
a) Expense from bad debts written off	2	6	0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2	6	1	0	0
c) Losses from disposals and write-offs of fixed and intangible assets	2	6	2	232,244	1,093,659
d) Shortfalls	2	6	3	37,183	16,870
e) Inventorywrite-offs	2	6	4	0	0
f) Other expenses	2	6	5	1,279,349	1,091,285
g) Expenses from discontinued operations	2	6	6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2	6	7	3,432,750	398,694
LOSS FROM OTHER INCOME AND EXPENSES (259-251)	2	6	8	0	0
OPERATING GAIN (221+237+249+267-222-238-250-268)	2	6	9	82,823,377	117,841,937
OPERATING LOSS (222+238+250+268-221-237-249-267)	2	7	0	0	0
E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES	**2**	**7**	**1**	**173,847,567**	**173,160,230**
1. Income from changes in value of assets and liabilities (272 to 276)					
a) Income based on change in value of placements and receivables	2	7	2	0	0
b) Income based on change in value securities	2	7	3	0	0
c) Income based on change in value of liabilities	2	7	4	0	0
d) Income based on change in value of fixed assets, investment real estate and intangible investments	2	7	5	0	0
e) Income from positive foreign exchange differences	2	7	6	173,847,567	173,160,230
2. Expenses from change in value of assets and liabilities (278 to 282)	2	7	7	173,998,001	176,613,159
a) Expenses from change in value of placements and receivables	2	7	8	0	0
b) Expenses from change in value of securities	2	7	9	0	0
c) Expenses from change in value of liabilities	2	8	0	0	0
d) Expenses from change in value of fixed assets, investment real estate and intangible investments	2	8	1	1,151,392	4,363,296
e) Expenses from unfavorable foreign exchange differences	2	8	2	172,846,609	172,249,863
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2	8	3	0	0
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2	8	4	150,434	3,452,929
PROFIT BEFORE TAX (269+283-270-284))	2	8	5	82,672,943	114,389,008
LOSS BEFORE TAX (270+284-269-283)	2	8	6	0	0
F. CURRENT AND DEFFERED INCOME TAX	**2**	**8**	**7**	**10,356,474**	**13,513,575**
1. Income tax					
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2	8	8	0	0
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2	8	9	-1,925,774	-196,023
PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289)	2	9	0	74,242,243	101,071,456
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2	9	1		0
G. OTHER PROFIT AND LOSSES FOR THE PERIOD	**2**	**9**	**2**	**2,285,883**	**7,687,870**
1. Capital gains (293 to 298)					
a) Income from decrease of revalorisation reserves in fixed assets and intangible investments	2	9	3	0	2,404,619
b) Income from change of fair value of securities available for sale	2	9	4	2,612,693	5,350,903
c) Income from transferring financial reports of foreign operations	2	9	5	0	0
d) Actuarial income from defined income scheme	2	9	6	-326,810	-67,652
e) Effective part of income based on cash flow hedging	2	9	7	0	0
f) Other capital gains	2	9	8	0	0
2. Capital losses (300 to 304)	2	9	9	0	0
a) Losses from change in fair value of securities available for sale	3	0	0	0	0
b) Losses from transferring financial reports of foreign operations	3	0	1	0	0
c) Actuarial loss from defined income scheme	3	0	2	0	0
d) Effective part of loss from cash flow hedging	3	0	3	0	0
e) Other capital gains	3	0	4	0	0
NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) or (299-292)	3	0	5	2,285,883	7,687,870

H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3**	**0**	**6**	**81,012**	**768,787**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3	0	7	2,204,871	6,919,083
TOTAL NET PROFIT FOR THE YEAR (290±307)	3	0	8	76,447,114	107,990,539
TOTAL NET LOSS FOR THE PERIOD (291±307)	3	0	9	0	0
Part od profit/loss attributable to majority shareholders	3	1	0	0	0
Part od profit/loss attributable to minority shareholders	3	1	1	0	0
Basic earnings per share	3	1	2	624	850
Diluted earings per share	3	1	3	624	850
Average number of employees based on hours worked	3	1	4	1,239	1,252
Average number of employees based on periods end	3	1	5	1,241	1,249

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (CONTINUED)

CONSOLIDATED BALANCE SHEET

Statement of financial result as at 31 December 2020

in BAM

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES 1. Interest income	**2 0 1**	**173,108,789**	**185,827,111**
2. Interest expense	2 0 2	23,226,960	23,747,366
Net interest income (201-202)	2 0 3	149,881,829	162,079,745
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	105,534,291	111,256,386
4. Fee and commissions expense	2 0 6	23,475,797	26,822,996
Net fee and commission income (205-206)	2 0 7	82,058,494	84,433,390
Net fee and commission expense (206-205)	2 0 8	0	0
5.Gains from sale of securities and shares (210 to 213)	2 0 9	0	0
a) Gains from sale of securities at fair value through profit and loss	2 1 0	0	0
b) Gains from sale of available for sale securities	2 1 1	0	0
c) Gains from sale of securities held to maturity	2 1 2	0	0
d) Gains from sale of participation (share)	2 1 3	0	0
6. Losses from sale of securities and shares (215 to 218)	2 1 4	0	0
a) Losses from sale of securities at fair value through profit and loss	2 1 5	0	0
b) Losses from sale of available for sale securities	2 1 6	0	0
c) Losses from sale of securities held to maturity	2 1 7	0	0
d) Losses from sale of participation (share)	2 1 8	0	0
Net gains from sale of securities and shares (209-214)	2 1 9	0	0
Net losses from sale of securities and shares (214-209)	2 2 0	0	0
OPERATING PROFIT (201+205+209-202-206-214)	2 2 1	231,940,323	246,513,135
OPERATING EXPENSE (202+206+214-201-205-209)	2 2 2	0	0
B. OTHER OPERATING INCOME AND EXPENSE 1. Operating income (224+225)	**2 2 3**	**0**	**0**
a) Income from leasing activities	2 2 4	0	0
b) Other operating income	2 2 5	0	0
2. Operating expense (227 to 236)	2 2 6	127,632,927	125,248,796
a) Expenses of gross salaries and contribution expense	2 2 7	50,790,945	50,940,234
b) Expenses of fees for temporary and occasional work contracts	2 2 8	58,610	68,839
c) Other personnel expenses	2 2 9	5,444,427	4,091,081
d) Material expenses	2 3 0	3,573,290	3,364,320
e) Production services expenses	2 3 1	22,886,137	23,152,820
f) Depreciation expenses	2 3 2	15,941,024	14,920,754
g) Expenses from leasing activities	2 3 3	0	0
h) Non-material expenses (excluding taxes and contributions)	2 3 4	26,695,695	26,599,409
i) Tax and contributions expenses	2 3 5	2,242,799	2,111,339
j) Other expenses	2 3 6	0	0
OTHER OPERATING PROFIT (223-226)	2 3 7	0	0
OTHER OPERATING EXPENSE (226-223)	2 3 8	127,632,927	125,248,796
C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)	**2 3 9**	**370,890,739**	**268,062,219**
a) Income from recovered provisions for placements	2 4 0	320,596,372	210,352,678
b) Income from recovered provisions for off-balance sheet items	2 4 1	48,102,014	56,955,535
c) Income from recovered provision for liabilities	2 4 2	2,192,353	754,006
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	395,807,508	271,883,315
a) Provisions charges for placements	2 4 5	353,073,258	210,994,783
b) Provision charges for off-balance sheet items	2 4 6	38,544,512	58,598,711
c) Charges based on provisions for liabilities	2 4 7	3,926,546	1,802,493
d) Other provision charges	2 4 8	263,192	487,328
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	24,916,769	3,821,096

D. OTHER INCOME AND EXPENSES **1. Other income (252 to 258)**	**2**	**5**	**1**	**4,981,526**	**2,608,618**
a) Income from bad debts previously written off	2	5	2	3,053,773	182,844
b) Losses from sales of fixed assets, and intangible investments	2	5	3	392,310	496,172
c) Income from reduction in liabilities	2	5	4	0	0
d) Income from dividends and shares	2	5	5	31,238	206,519
e) Surplus	2	5	6	58,722	28,055
f) Other income	2	5	7	1,445,483	1,695,028
g) Gains grom discounted operations	2	5	8	0	0
2. Other expense (260 to 266)	2	5	9	1,591,002	2,201,814
a) Expense from bad debts written off	2	6	0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2	6	1	0	0
c) Losses from disposals and write-offs of fixed and intangible assets	2	6	2	232,244	1,093,659
d) Shortfalls	2	6	3	37,183	16,870
e) Inventorywrite-offs	2	6	4	0	0
f) Other expenses	2	6	5	1,321,575	1,091,285
g) Expenses from discontinued operations	2	6	6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2	6	7	3,390,524	406,804
LOSS FROM OTHER INCOME AND EXPENSES (259-251)	2	6	8	0	0
OPERATING GAIN (221+237+249+267-222-238-250-268)	2	6	9	82,781,151	117,850,047
OPERATING LOSS (222+238+250+268-221-237-249-267)	2	7	0	0	0
E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES **1. Income from changes in value of assets and liabilities (272 to 276)**	**2**	**7**	**1**	**173,847,567**	**173,160,230**
a) Income based on change in value of placements and receivables	2	7	2	0	0
b) Income based on change in value securities	2	7	3	0	0
c) Income based on change in value of liabilities	2	7	4	0	0
d) Income based on change in value of fixed assets, investment real estate and intangible investments	2	7	5	0	0
e) Income from positive foreign exchange differences	2	7	6	173,847,567	173,160,230
2. Expenses from change in value of assets and liabilities (278 to 282)	2	7	7	173,998,001	176,613,159
a) Expenses from change in value of placements and receivables	2	7	8	0	0
b) Expenses from change in value of securities	2	7	9	0	0
c) Expenses from change in value of liabilities	2	8	0	0	0
d) Expenses from change in value of fixed assets, investment real estate and intangible investments	2	8	1	1,151,392	4,363,296
e) Expenses from unfavorable foreign exchange differences	2	8	2	172,846,609	172,249,863
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2	8	3	0	0
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2	8	4	150,434	3,452,929
PROFIT BEFORE TAX (269+283-270-284))	2	8	5	82,630,717	114,397,118
LOSS BEFORE TAX (270+284-269-283)	2	8	6	0	0
F. CURRENT AND DEFFERED INCOME TAX **1. Income tax**	**2**	**8**	**7**	**10,356,474**	**13,513,575**
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2	8	8	0	0
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2	8	9	-1,925,774	-196,023
PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289)	2	9	0	74,200,017	101,079,566
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2	9	1		0
G. OTHER PROFIT AND LOSSES FOR THE PERIOD **1. Capital gains (293 to 298)**	**2**	**9**	**2**	**2,285,883**	**7,687,870**
a) Income from decrease of revalorisation reserves in fixed assets and intangible investments	2	9	3	0	2,404,619
b) Income from change of fair value of securities available for sale	2	9	4	2,612,693	5,350,903
c) Income from transferring financial reports of foreign operations	2	9	5	0	0
d) Actuarial income from defined income scheme	2	9	6	-326,810	-67,652
e) Effective part of income based on cash flow hedging	2	9	7	0	0
f) Other capital gains	2	9	8	0	0
2. Capital losses (300 to 304)	2	9	9	0	0
a) Losses from change in fair value of securities available for sale	3	0	0	0	0
b) Losses from transferring financial reports of foreign operations	3	0	1	0	0
c) Actuarial loss from defined income scheme	3	0	2	0	0
d) Effective part of loss from cash flow hedging	3	0	3	0	0
e) Other capital gains	3	0	4	0	0

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (CONTINUED)

NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) or (299-292)	3	0	5	2,285,883	7,687,870
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3**	**0**	**6**	**81,012**	**768,787**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3	0	7	2,204,871	6,919,083
TOTAL NET PROFIT FOR THE YEAR (290±307)	3	0	8	76,404,888	107,998,649
TOTAL NET LOSS FOR THE PERIOD (291±307)	3	0	9	0	0
Part od profit/loss attributable to majority shareholders	3	1	0	0	0
Part od profit/loss attributable to minority shareholders	3	1	1	0	0
Basic earnings per share	3	1	2	624	850
Diluted earings per share	3	1	3	624	850
Average number of employees based on hours worked	3	1	4	1,239	1,252
Average number of employees based on periods end	3	1	5	1,241	1,249

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.

Address and phone numbers

HEADQUARTERS

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RISK MANAGEMENT	00387 (0) 36 312 112
FINANCE	00387 (0) 36 312 112
GBS	00387 (0) 36 312 112

Business network of UniCredit Bank d.d. as at 31 December 2020

Branch/address	Address	City	PTT	Phone	Phone web
REGION MOSTAR					
Branch 1 Mostar (Mepas)	Kardinala Stepinca bb	Mostar (Mepas mall)	88000	036/356 277	036/356 545
Branch 2 Mostar - Mostarka	Dubrovačka 4	Mostar (Mostarka)	88000	036/325 702	036/323 424
Branch 3 Mostar - Revija	Mostarskog bataljona 4	Mostar (Revija)	88000	036/501 412	036/501 418
Branch 5 Mostar (Rondo)	Kralja Petra Krešimira IV B2	Mostar (Rondo)	88000	036/333 902	036/333 902
Branch Čapljina	Gojka Šuška bb	Čapljina	88300	036/810 712	036/810 710
Branch Stolac	Hrvatskih branitelja bb	Stolac	88360	036/858 444 036/810 712	036/853 306
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880 149	036/880 149
Branch Čitluk	Kralja Tvrtka 1	Čitluk	88260	036/640 439	036/640 435
Branch Konjic	Trg Državnosti Alije Izetbegovića bb	Konjic	88400	036/712 430	036/712 438
REGION ZAPADNA HERCEGOVINA					
Branch Grude	Dr. Franje Tuđmana br. 124	Grude	88340	039/660 123	039/660 746
Branch 1 Široki Brijeg	Fra Didaka Buntića 13	Široki Brijeg	88220	039/702 532	039/705 546
Branch Ljubuši	Ulica IV. Brigade HVO Stjepana Radića br.63	Ljubuški	88320	039/831 340	039/835 933
Branch Livno	Kralja Tvrtka bb	Livno	80101	034/208 222	034/208 220
Branch Tomislavgrad	Brigade Kralja Tomislava bb	Tomislavgrad	80240	034/356 201	034/356 209
Branch Posušje	Fra Grge Martića 28	Posušje	88240	039/685 415	039/685 157
REGION SREDIŠNJA BOSNA					
Branch Vitezu	Petra Krešimira IV	Vitez	72250	030/718 744	030/718 741
Branch Uskoplje	Bana Jelačića bb	Uskoplje	70240	030/496 596	030/494 181
Branch Donji Vakuf	770 Slavne Brdske brigade 23	Donji Vakuf	70220	030/259 661	030/259 660
Branch Novi Travnik	Kralja Tvrtka bb	Novi Travnik	72290	030/795 500	030/795 500
Branch Fojnica	Mehmeda Spahe 18	Fojnica	71270	030/547 022	030/547 022
Branch 1 Travnik	Bosanska 56	Travnik	72270	030/547 017	030/547 012
Branch Jajce	Maršala Tita bb	Jajce	70101	030/654 564	030/654 562
Branch Rama	Kralja Tomislava bb	Rama	88440	036/770 919	036/771 990
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259 577	030/259 576
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877 124	030/877 124
REGION ZENICA					
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/887 903	032/887 903
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730 057	032/730 061
Branch Zenica	Školska bb	Zenica	72000	032/449 340	032/449 340
Branch 1 Zenica	Londža 81	Zenica	72000	032/202 623	032/202 620
Branch Kakanj	Alije Izetbegovića bb	Kakanj	72240	032/557 212	032/557 211
Branch Tešnjak	Braće Pobrić bb	Tešanj	74260	032/665 197	032/665 197
Branch Jelah	Mustafe Ćemana 7	Jelah	74264	032/667 892	032/667 892
Branch Breza	Alije Izetbegovića 80	Breza	71370	032/786 014	032/786 011
Branch Zavidovići	Pinkasa Bandta bb	Zavidovići	72220	032/869 200	032/869 200
Branch Vareš	Zvijezda 63	Vareš	71330	032/848 032	032/848 031
Branch Olovo	Branilaca 17	Olovo	71340	032/829 535	032/829 530
Branch Maglaj	Aleja ljiljana bb	Maglaj	74250	032/609 811	032/609 810

Business network of UniCredit Bank d.d. as at 31 December 2020

REGION BIHAĆ					
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037/229 988	037/229 970
Branch 1 Bihać	Bosanska bb	Bihać	77000	037/229 975	037/229 270
Branch Velika Kladuša	Maršala Tita 23	Velika Kladuša	77230	037/776 606	037/776 600
Branch 1 Cazin	Cazinskih brigada bb	Cazin	77220	037/515 016	037/515 021
Branch Bosanska Krupa	511. Slavne brdske brigade bb	Bosanska Krupa	77240	037/229 282	037/476 885
Branch 1 Sanski Most	Trg oslobodilaca bb	Sanski Most	79260	037/688 544	037/688 543
REGION SARAJEVO STARI GRAD					
Branch 1 Sarajevo	Maršala Tita 48	Sarajevo.	71000	033 253 383 033/253 378	033/253 372
Branch 4 Sarajevo	Alipašina 45a	Sarajevo (Ciglane)	71000	033/560 790	033/560 795
Branch 11 Sarajevo	Gajev trg 2	Sarajevo	71000	033/251 955	033/251 955
Branch 12 Sarajevo	Zelenih beretki 24	Sarajevo	71000	033/491 636	033/491 600
Branch 13 Sarajevo	Branilaca Sarajeva 53	Sarajevo	71000	033/491 997	033/491 931
Branch 16 Sarajevo	Zmaja od Bosne 4	Sarajevo (hotel Holiday)	71000	033/252 288	033/491 754
REGION NOVO SARAJEVO					
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo	71000	033/776 130	033/776 134
Branch 17 Sarajevo	Džemala Bijedića b.b. (PC Capital Tower)	Sarajevo (OTOKA)	71000	033/721 815	033/721 800
Branch 18 Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/727 022	033/727 021
Branch 19 Sarajevo	Mustafe Kamerića 5	Sarajevo (Dobrinja)	71000	033/775 851	033/775 851
Branch Vogošća	Igmanska 60	Vogošća	71320	033/476 361	033/476 360
Branch Ilidža	Mala Aleja 10	Ilidža	71210	033/627 937 033/776 140	033/776 157
Branch Hadžići	Hadželi 177	Hadžići	71240	033/475 396	033/475 390
REGION TUZLA					
Branch 1 Tuzla	Džafer Mahala 53-55	Tuzla	75000	035/259 059	035/259 037
Branch 2 Tuzla	Armije BiH 3	Tuzla	75000	035/306 478	035/306 472
Branch Gradačac	Ulica šehida 1	Gradačac	76250	035/822 500	035/822 500
Branch Lukavac	Kulina Bana 2	Lukavac	75300	035/551 331	035/551 331
Branch Gračanica	22 Divizije bb	Gračanica	75320	035/701 471	035/701 470
Branch Srebrenik	Bosanskih Branilaca bb	Srebrenik	75350	035/646 093	035/646 093
Branch Živinice	Ulica Oslobođenja bb	Živinice	75270	035/743 143	035/743 143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610 111	035/610 110
REGION POSAVINA					
Branch Orašje	Treća ulica 47	Orašje	76270	031/716 713	031/716 713
Branch Odžak	Titova 17	Odžak	76290	031/762 437	031/762 437
Branch Brčko	Trg mladih 1	Brčko	76120	049/233 760	049/233 760
REGION BANJA LUKA					
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	053/209 402	051/348 063
Branch Prijedor	Zanatska bb	Prijedor	79101	052/240 764	052/240 764
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	051/348 063	053/209 401
Branch Bijeljina	Majora Dragutina Gavrilovića 2 – ulaz s ulice Svetog Save	Bijeljina	76300	055/225 090	055/225 080

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!