Unlock your potential

2021
Annual Report

Empowering
Communities to Progress.
UniCredit

2021

Annual Reports and Accounts

Empowering
Communities to Progress.

Contents

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

Report of the President of the Board

> “With digitalization and constant development of services, we monitor the needs of our clients. From advancing technology while simplifying processes, to empowering those at our forefront to meet the needs of our clients, everything is designed so that clients are firmly at the heart of everything we do.

AMINA MAHMUTOVIĆ
President of the Board

Dear clients, shareholders and business partners,

We are pleased to present the business results that UniCredit Bank d.d. Mostar (hereinafter the Bank) achieved in 2021. Our results are a reflection of our joint work and commitment to the clients who are at the heart of our business.

We have justified the position of the leading bank in Bosnia and Herzegovina in 2021 according to all important financial criteria. Our results are confirmed by numerous awards from renowned and respectable magazines, which have recognized our continuity in excellence.

Although 2021 was a challenging year, the gradual recovery of the market opened up opportunities for lending activity, and we managed to make a step forward in the retail segment, but also in the corporate segment where we placed more loans compared to 2021, as a result of dedicated efforts and commitment, especially given the circumstances in which the business sector finds itself.

Thanks to stable revenues, better commissions during the year and constant cost optimization with a positive impact on cost and revenue efficiency, we were able to achieve an increase in net profit compared to the previous year. The Bank concluded the business year with a total income of KM 238,167 thousand and a net profit of KM 88,099 thousand, which is KM 13,857 more compared to the previous year.

In 2021, the ratio of net loans to deposits was 60.6%, and the Bank confirmed its high capitalization through a capital adequacy ratio of 20.91%, which confirms the stability and security of doing business with the Bank.

Aware of our responsibility as one of the leading banking institutions in the country, we have adapted our business to the circumstances imposed by the pandemic. We have successfully responded to the requests for a moratorium on citizens and legal entities, while continuously taking care of the health of our employees and clients. We have successfully continued to support the community, as a continuation of initiatives launched in the first year of the pandemic, and in cooperation with the UniCredit Foundation we have continued to support the work of associations that care for children and enable them happier childhoods.

Continuity of successful business was awarded by renowned business magazines, and in 2021 we won the title of the best bank on the market of Bosnia and Herzegovina according to the choice of Euromoney magazine. In addition, the proof that we are adapting our business to our clients confirms the recognition we have received for the seventh year in a row from the magazine of the same name for the best Trade Finance Bank in BiH. The title of the best Bank for Financing Trade in BiH was confirmed by the magazine Global Finance, awarding us its prize in this segment for 2021. In a survey conducted by Euromoney magazine, the Bank maintained its long-standing position as a market leader and in 2021 was awarded as the best provider of transaction business services. We are extremely pleased to join our success in the Global Finance Award for the Best Custodian Bank in Bosnia and Herzegovina, bearing in mind that this is our first participation in this election, and that it followed a challenging period that changed the world. We confirmed our banking excellence and crowned 2021 with the title of the best Bank in Bosnia and Herzegovina, chosen by the expert jury of the CFI Journal (Capital Finance International Journal). Also, it is worth mentioning the Golden BAM award for the largest assets and the largest total capital, which we have received for the eighth year in a row according by the domestic magazine "Banke&Biznis". For the second year in a row, a special Golden BAM plaque has been awarded to us for the best mobile application, which we are continuously improving, in accordance with our digitization strategy.

At the heart of our success was the commitment and synergy of our excellent team and our continued focus on providing high quality, tailor-made and digital solutions. Therefore, this year we have not neglected the satisfaction of our employees, and for the 13th year in a row we are the most desirable employer in the financial sector in Bosnia and Herzegovina, according to research by the portal MojPosao.ba. We know that the care and well-being of our employees is the key to our results, so we continuously invest in the education of our people, who are the most valuable resource of the Bank.

In line with our strategy and commitment to environmental, social and governance issues, we strive to raise awareness of the importance of preserving the environment on a daily basis, with a special focus on river conservation. During the year, we organized several actions of cleaning rivers in our country, and we presented to the public a campaign called “If the rivers were turned upside down”, to raise public awareness and point out the importance of clean water and human responsibility to nature. In order to strengthen women's health and fight against breast cancer, this year we continued our pink mission and remained committed to action through the “My Circle of Support” initiative. From the beginning of the initiative, through a series of activities, we tried to draw attention and raise awareness of the importance of prevention and care for women's health, and the initiative itself was an opportunity to respond imo to the needs of our society and be part of the solution.

We exist to support our clients through all the challenges they face and to help them adjust to a world that is constantly changing. With digitalization and constant development of services, we monitor the needs of our clients. From advancing technology while simplifying processes, to empowering those at our forefront to meet the needs of our clients, everything is designed so that clients are firmly at the heart of everything we do.

Regardless of the challenges ahead, we firmly believe that, as a leading Bank, we should be an example of support to clients and the economy, and drivers of recovery and further development in the right way, leading to success, together with our clients.

The special strength of our Bank lies precisely in the combination of the commitment of local staff and the support of the large pan-European system of our group, which, in addition to expertise and experience, provides clients with a unique international reach. At all times we have been recognized as the Bank with a stable and innovative model of work and that is what is most important to clients.

On behalf of the Bank's Management Board and on my own behalf, I would like to thank all clients and business partners for their trust. I would like to express my sincere gratitude to the Bank's employees, who have shown the highest level of commitment and flexibility during the very challenging times we continue to face, as well as their hard work and efforts 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

The road back: after a difficult year for leisure and tourism, UniCredit Zagrebacka's #FirstTime project put Ranč Ramarin back in the public eye where it belongs.

Our Clients
Ranč Ramarin d.o.o
Croatia

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

Economic Environment in Bosnia and Herzegovina

Macroeconomic review of the year 2021

The year 2021 will surely be remembered as a year full of challenges, marked by a historic life-saving effort and a relaunch of the economy. The pandemic remained a major global problem beyond 2020, despite the start of vaccine use. An additional aggravating circumstance are the new variants of the virus that developed during 2021, which led to additional pressure on the health and economic systems of countries. Strict measures in the form of new lockdowns and intensified epidemiological measures have been reintroduced in many countries.

Although after 2020 it seemed that the global economic outlook would improve and largely recover, as time went by it became increasingly clear that 2021 would retain the status of a year of extremely high risk and uncertainty. Significant corrections in the expected GDP and other macroeconomic indicators, which have changed significantly with each new forecast cycle, also tell us how great the uncertainty has been since the beginning of the year.

The pandemic has greatly affected the supply chain, as evidenced by product shortages, delivery times, transport availability and costs. Excessive exposure to individual suppliers or certain geographical areas has proven to be a particular challenge for many organizations. The economy quickly reopened as more and more restrictions were lifted. People started traveling and going to restaurants again, shopping more, spending some of the money they couldn't spend during quarantine. People were making up for the consumption of goods and services that they put off during the pandemic. But not everything went according to the same dynamics. It is difficult for companies to keep up with rapidly growing demand as they rebuild supply chains that have been hit hard by the pandemic. Challenges such as the lack of transport containers mean that transporting goods has become more difficult and expensive. The longer such difficulties last, the more likely it is that companies will pass these costs on to their customers in the form of higher prices. Oil, gas and electricity have become more expensive around the world. Along with growing demand, this has caused prices to rise rapidly. Although the normalization of the inflation rate is expected in 2022, it is possible that massive disruptions in supply chains will last, but energy prices may continue to rise due to the green transition.

Bosnia and Herzegovina did not have any significant restrictive measures during 2021, although the number of patients was quite high and the vaccination rate was quite low, so there were no new lockdowns like those in 2020, and thus no direct negative impact on economic activities.

After a significant correction in the realization of real gross domestic product for 2020 (a smaller decline than previously announced, from -4.3% to -3.2%), corrections of expectations for 2021 followed. According to the latest expectations, 2021 should end with an annual growth rate of around 5.5%. The recovery was driven by a sharp acceleration in exports of goods and services as well as personal consumption. At the same time, a slight slowdown is expected for next year, both due to the lack of a base effect and due to further uncertainty in terms of internal and external economic influences, as well as political tensions in the country.

For Bosnia and Herzegovina, foreign trade as one of the key drivers of GDP growth in 2021 recorded double-digit annual growth rates on both the import and export side (27.9% and 35.7%, respectively), which reflects the recovery and increased demand of major foreign trade partners, but also the direct impact of rising prices.

The retail trade index in 2021 rose at double-digit annual growth rate (18.1%), indicating a return to consumerism after a period of reduced consumption, but consumption is expected to remain strong in 2022.

The increase in prices in Bosnia and Herzegovina reached 6.4% in December compared to the same month last year, with the largest increase in prices recorded in transport, as the sector most directly affected by the increase in oil, followed by rent, electricity and food. Average prices are expected to rise (CPI avg) in 2022 as a result of a very high carryover of growth from 2021 to 2022, while a gradual slowdown in inflation is expected over 2022 (CPI eop).

During the pandemic in 2020, the unemployment rate deteriorated, which was stopped in 2021. According to the latest available data for November, the unemployment rate was 32.6%. However, it will take a long time for Bosnia and Herzegovina to retain the positive trend in the labor market. Social issues, in terms of significant emigration of labor from BiH, are visible and affect the overall labor market.

In Bosnia and Herzegovina, the economic recovery in 2021 has been overshadowed by political turmoil. Three major political issues have arisen: the appointment of a new High Representative, the dispute over changes to the penal code by the outgoing High Representative, and a lack of consensus to change the election law. State institutions have been blocked since 27 July 2021. Also, in December 2021, the RS National Assembly held an extraordinary session at which the main topic was the withdrawal of entity competencies from the level of the state of Bosnia and Herzegovina to the RS entity (judicial institutions, indirect taxation, defense). All this has created quite a lot of political disagreement in the country. However, political problems so far have not prevented a strong economic recovery in BiH, nor caused problems in financing institutions.

IMF financing plays a vital role in catalyzing international financial assistance to Bosnia and Herzegovina, and it is very important to maintain its presence through the new arrangement (above 4% of GDP), but no agreement on a new arrangement was reached in 2021. In April 2020, the IMF approved BiH's latest loan of about 330 million euros, intended to help fight the coronavirus. Also, in August 2021, the IMF deposited about 305 million euros to the account of the Central Bank of BiH, as part of a package of assistance in combating the COVID-19 pandemic to IMF member countries in proportion to their existing quotas in the Fund and IMF membership.

Bosnia and Herzegovina's fiscal position remains sustainable, and is rated better than countries with the same sovereign rating, as confirmed by international rating agencies in their September 2021 assessment. International rating agency Moody's has affirmed Bosnia and Herzegovina's "B3" credit rating with a stable outlook. Also, the international rating agency Standard & Poor's confirmed the credit rating of Bosnia and Herzegovina, "B" with a stable outlook.

Expectations

The projected economic growth rates for 2022 are expected to be lower than in 2021, as a result of the base effect but also the still great uncertainties in the global environment. However, the main expectations for Bosnia and Herzegovina are that foreign trade will continue to record good growth rates, as well as that personal consumption will continue to strengthen and thus contribute to the further recovery of economic indicators. The main risks stem from the unstable political environment in the country, the fact that 2022 is an election year, but also the still uncertain movement of inflation rates and solutions to problems in supply chains.

Banking Sector in 2021

In 2021, the banking sector of Bosnia and Herzegovina achieved a positive financial result, a satisfactory level of bank capital adequacy was maintained, and an increase in the volume of loans and deposits was recorded.

As a continuation of the bank consolidation process, the number of banks in the market decreased by 1, based on the merger of two smaller banks as of 1 December 2021. Also, in 2021, the supervisory framework in the banking sector of Bosnia and Herzegovina was harmonized with the European Union. With this initiative, BiH and Northern Macedonia are added to the list of 'equivalent third countries' in terms of supervisory and regulatory arrangements for credit institutions in those countries, and establish a new list of equivalent third countries for the high exposure framework. Equivalence in the segments of supervision and regulatory framework for the banking system

Macroeconomic review of the year 2021 (continued)

is of particular importance in other assessments and potential long-term effects on BiH status, rating, risk weights for calculating capital requirements to cover banking risks, interest rates, investment security, etc.

For the period I-IX 2021, revenues of the banking sector increased compared to the same period last year by 8%, mainly driven by a significant increase in net non-interest income (15.5%), with a positive trend on the interest income side of the sector (2.2%). Although operating expenses also recorded annual growth (4.8%), the efficiency of the sector has improved due to stronger revenue growth, and the Cost / Revenue ratio has been reduced to 62.4%.

Provisioning costs achieved the largest improvement, with an annual reduction of over 63% for the period I-IX 2021. The share of non-performing loans in total decreased to 5.5% in September 2021.

The volume of loans of the banking sector in November 2021 grew by 3.6% compared to the end of 2020. The growth of loans to individuals amounted to 5.5% and the increase in loans to legal entities amounted to 1.7% compared to the end of 2020. Low growth rates of corporate loans indicate still weak economic activities and investments in the country, especially when the simultaneous significant growth of accumulated corporate deposits is observed.

According to the decision of the CBBH, as of 1 January 2022, the rate of fee for the excess of mandatory reserves will be -0.75%. This measure is planned to support the currency board and encourage banks to more actively use significant financial resources in reserve accounts with the Central Bank to support the country's economic system.

Client deposits in the banking sector of Bosnia and Herzegovina in November 2021 increased compared to the end of 2020 by 10.3%. The growth rate of deposits of Individuals was 5.7%, while that of legal entities was 16.1%. The structure of deposits is on the side of transaction deposits, while time deposits decreased.

Expectations

Given the macroeconomic projections that predict the continuation of positive trends in 2022, the growth of credit volume is expected to continue, but still in a rather uncertain situation in the global environment. Deposit growth rates show a significant accumulation of the corporate side as a result of backlog of investments, which should be significantly reduced in the coming years when investment activities resume.

UniCredit Bank d.d. Mostar (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.

Business Description

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

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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 9 regions, which are further split into branches located throughout Bosnia and Herzegovina, and as of the end of 2021, there were 70 branches.

Business in 2021

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 2021 survey.

In the area of credit operations, the Bank continuously records a growth of the volume of loans by continuously improving processes (enabling loan applications via digital channels). In addition, the Bank continued with approving special measures for the Bank's clients, whose creditworthiness has deteriorated, i.e. whose sources of repayment have been reduced due to the negative impact of the COVID-19 pandemic.

In the card business, the year was marked by activities related to increasing the number of debit card users, with the highest security standards and modern payment solutions, as well as the development of new card services within the mobile banking application – PIN insight, enabling confirmation of Internet card transactions via m-ba / m-token applications and upgrading the m-card service (mobile payment) to a newer and more modern infrastructure in order to follow the latest security standards and ensure faster transactions. Annual growth in the acceptance of card transactions continues to record a growth trend with merchants who have agreed to accept cards with the Bank. A special focus in 2021 is dedicated to support in increasing the number of Internet stores that provide 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 2021, there was an increase in sales and use of MODULA products and services compared to the previous year. In December, the Bank enriched its product offer with new packages – Standard, Silver and Gold, which replaced the existing Modula packages. The standard package is a basic package of products and services that includes a current account, contactless Debit Mastercard card, mobile and electronic banking. The Silver package contains a larger number of products and services compared to the Standard, where the Visa Classic card stands out, while the Gold package offers the widest range of products and services that meet the needs of the most demanding customers.

In the area of insurance representation, in 2021 a new product of life insurance with a one-time payment was introduced, with significant insured amounts per coverage. There was a significant increase in contracting secured loans and real estate insurance, and an increase in contracting current account insurance compared to the previous year. In addition to the above, in 2021 we worked on the development of IT modules for the sale of insurance products whose launch is expected in early January 2022, which will include a release of two additional insurance products, Life protection and Travel health insurance on an annual basis.

In accordance with the long-term strategy of the Bank in the field of development and improvement of digital business channels, during 2021 we continued to develop a number of new functionalities in m-ba application such as:

- Managing card limits
- Overview of PIN codes by cards
- Notifications for incoming/outgoing transactions in the account
- Card activation
- Overview of products in m-ba
- 3DS confirmation of card transactions
- Possibility to send INO orders
- Possibility of contracting standing orders

We strive to provide our clients with the highest quality services for digital business, and 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 2021, realized through continuous sales and promotional activities, resulted at the end of the year with over 210,000 active users of electronic services, a significant increase over 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 forthcoming period.

Through the continuous process of optimizing and improving the Bank's website, which has continued over the past year, we strive to improve the user experience. In the past period, we have enabled the application for products / services through the website. We have improved the design of the website in the parts intended for legal entities, in order to show users information tailored to their needs and thus help them develop their business. By redesigning the Bank's website, we strive to provide users with pleasant and easy navigation, ie searching for the desired information and content in accordance with their needs.

The Bank's ATM network has a total of 267 ATMs, of which we have 81 pay in-pay out ATMs in production at the end of the year. 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.

In line with the trend from previous years, the Bank's business network continued to be arranged in accordance with modern standards of functionality and design, with the aim of ensuring efficient and ultimately comfortable business for our clients.

The most important research and development activities for the Retail segment

- Increase in the number of active clients of the bank
- Improving the client's experience in doing business with the Bank
- Simplification of product catalogs and related processes in accordance with customer needs
- Increase in the use of direct distribution channels

Corporate and Investment Banking Segment

Although the aggravating effects of the COVID-19 pandemic in 2021 on the economic and financial sector of Bosnia and Herzegovina are evident, UniCredit Bank, thanks to its stability, business practices from previous years, and ability to adapt quickly, has achieved outstanding business results.

Total loans to legal entities increased by 1.8% compared to the previous year and amounted to KM 1,489 million. This growth was reflected in the growth of the Bank's market share in the corporate segment, which confirmed the Bank's position as a leading bank in the market as the most important partner in financing government and private companies in significant investments in energy, manufacturing and trade, while maintaining high quality loan portfolio, as a result of the application of quality risk management methods.

Deposits of corporate clients at the end of 2021 amounted to KM 1,973 million and recorded a decline in market share from 15.7% to 14.2%, in line with the strategy of targeted reduction of deposit volume while maintaining a quality business relationship with depositors and avoiding reductions in other revenues .

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 enabling a number of measures to overcome the negative consequences of the pandemic: moratorium on loan repayment, grace period, extending repayment maturity, approval of additional exposure and other measures.

As the largest partner of the Government of the Federation of BiH from the banking system, we provided support in the form of participation in the credit line of the Guarantee Fund, which is of special importance for our businesspeople. 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, in cooperation with the Ministry of Economy of Tuzla Canton, Sarajevo Canton and Una-Sana Canton, three credit lines were realized with interest rate subsidy, which provided support to legal entities performing production, trade or service activities in these areas.

For many years, we have maintained the quality of business that is recognized in the market by the profession and clients, and thus Euromoney has once again declared us the market leader and best provider of cash management services, and market leader and best provider of Trade Finance services in Bosnia and Herzegovina.

We want to continue to support our clients from the private and public sector as a leading bank in the market through deeper knowledge and understanding of clients, recognizing their needs, using the expertise and global presence of UniCredit Group in 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.

The most important research and development activities for the Corporate and Investment Banking segment

- Continue to strengthen market leadership through partnerships with the state and its institutions in key projects important for the further development of Bosnia and Herzegovina, and by providing support to private companies through credit lines and guarantee funds;
- Maintain a high level of credit portfolio quality, and maintain the position of the most active lender in the market with innovative credit models, with continuous commitment to improving the quality of services;
- Maintain the focus on maintaining stable operations through further improvement of our services and responsible risk management – creating individual models of access to each client in direct cooperation with sales staff;
- Focus further on international clients, through activating existing clients and participating in UniCre-

dit Group initiatives to identify potential.

- Provide support to clients in the transition to a sustainable society and strengthen inclusion in society, while holding ESG training and promoting ESG culture

Estimation of expected future development

In 2022, the Bank's operations will focus on:

- Continuation of business excellence that will confirm the Bank as a market leader in all key business parameters.
- Increasing the market share of loans with a focus on the Bank's existing customers and new potential customers through cross-selling
- Simplification of products and processes with emphasis on housing loans to individuals and short-term loans to legal entities
- Continuous activities to increase sales of mobile and Internet banking services through a strict focus on sales in the business network,
- Further automation of the loan approval process
- Increasing the efficiency and productivity of the business network
- Improving the speed of execution in the business relationship with the client – achieving better time for approval and execution of placements, in cooperation with other departments
- Support to BiH's energy transition – Greater flexibility in the area of risk for financing significant investments in clean renewable energy of large public companies
- Optimization of Risk weighted assets – identification of optimization opportunities
- Maintaining the quality of the portfolio while increasing the collection and reducing the non-performing portfolio and shortening and improving the collection process
- Improving the quality of the portfolio by proposing optimal structuring activities
- Retaining the position of a key market participant in the initiation and/or implementation of new banking standards, introduction of new and modifications of existing products;
- Increasing efficiency through participation in Group and local initiatives and projects;
- Business support to clients in these challenging times through a moratorium, credit guarantee program, incentive for EU funds
- Optimization of liquidity and interest rate risk in order to maximize the net interest margin
- Continuation of digital transformation
- Strategic management of funding sources, self-sustainability, L/D ratio below 100%

Information on the purchase of own shares or stakes

Own shares

In the process of integration in accordance with Article 11, item b ii of the decision of the General Assembly of Shareholders of the Bank on the status change of the merger of HVB Central Profit Bank d.d. with UniCredit Zagrebačka banka d.d. no. 01-514-4/08 of 22 January 2008, the Bank acquired 81 own shares (76 ordinary and 5 cumulative preference shares). The Bank reported to the Securities Commission (hereinafter: the Commission) on the acquisition of treasury shares, and submitted a request to the Securities Commission to register its own shares with the Commission, after which the Commission approved the registration of treasury shares with the obligation that the Bank must submit to the Register of Securities (hereinafter: the Register) an application for revocation of these shares in accordance with Article 229 Paragraph 2 and Article 230 of the Companies Act. The Bank submitted an application to the Registry for the revocation of acquired treasury shares, on the basis of which the Registry registered the revocation of treasury shares, which means suspending the right to participate in corporate governance, profit distribution and division of assets remaining after bankruptcy or liquidation. The Rulebook on the Manner of Acquisition and Trading of Own Shares (Official Gazette of FBiH, no. 39/98 and 36/99), Article 7 provides

Corporate and Investment Banking Segment (continued)

that a joint stock company has the right and duty to make a decision on the reduction of share capital for the amount of acquired treasury shares, in the manner prescribed by law, or to make a decision on the sale of treasury shares.

Branches/subsidiaries, associates and other equity interests
On 22 December 2015, the Bank acquired a 49% stake in UniCredit Broker d.o.o. Sarajevo, 100% owned by the associated company UniCredit Insurance Management CEE GmbH, Austria. The cost of acquiring the purchased share amounts to KM 460 thousand (EUR 235 thousand).

Assembly of UniCredit Broker d.o.o. consisting of two members (UniCredit Insurance Management CEE GmbH and UniCredit Bank d.d. Mostar) passed a Decision on the termination of UniCredit Broker d.o.o. brokersko društvo u osiguranju on 9 December 2021. In 2017, after amendments of the legislation, UniCredit Bank d.d. Mostar received a license for insurance representation, and the Bank took over insurance brokerage.

UniCredit Broker d.d. Sarajevo was liquidated in 2021.

Also, in 2021, the Bank sold its shares in Bosna Reosiguranje d.d. Sarajevo (3.19%) and Sarajevo osiguranje d.d. Sarajevo (0.05%).

In addition, during 2021, the Bank did not repurchase its own shares.

Financial Overview and Business Performance

Overview of business operations of the Bank

In 2021, the Bank made a profit before tax in the amount of KM 100.6 million, which is KM 18.0 million higher compared to the previous year (+21.7%).

Profit after tax amounts to KM 88.1 million, which is KM 13.8 million higher compared to the previous year (+18.7).

Income and expenses

The realized revenues of the Bank for 2021 amount to KM 238.2 million and compared to the previous year they record an increase of KM 0.9 million (+0.4%).

Total net interest income amounts to KM 139.5 million, and accounting for 58.6% of total income.

Net income from fees and commissions amounts to KM 77.5 million, accounting for 32.6% of total income. Net gains from the purchase and sale of currencies and exchange rate differences and other revenues amount to KM 21.1 million and account for 0.09% of total revenues.

Net interest income

Realized net interest income in 2021 amounts to KM 139.5 million, which is a decrease (-6.5%) compared to the previous year, mainly due to the decrease of interest margin in accordance with market movements.

Net fee and commission Income

Net income from fees and commissions amounts to KM 77.5 million and recorded an annual growth of KM 6.1 million (+8.5%).

The increase in income from fees and commissions was achieved mainly through the growth of income from card business and 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 2021 amount to KM 14.4 million and recorded an increase of KM 2.7 million compared to last year.

Other income

Other revenues amount to KM 6.7 million and are higher by KM 1.8 million compared to the previous year due to the collection of written-off receivables and sale of tangible assets repossessed in lieu of uncollectable receivables.

Operating expenses

Total operating costs in 2021 amount to KM 127.2 million and are lower by KM 1.7 million (-1.3%) compared to the previous year (decrease in depreciation costs with an increase in deposit insurance costs and decrease in functional costs).

The share of operating expenses in operating income is 53.4%.

Impairment losses and provisions

Total impairment lossess and provisions for 2021 amount to KM 10.3 million.

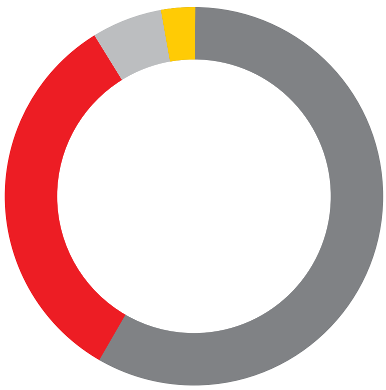
Impairment losses and provisions for loans and receivables amount to KM 9.8 million due to the rise in credit risk caused by COVID-19 pandemic. The net cost of impairment of loans and receivables is the result of KM 31.2 million of the cost of provisions for the non-performing KM portfolio (of which KM 22.1 million relates to legal entities, and to citizens 9.1 million KM of reservation costs), and release of provisions in the amount of KM 21.4 million for the performing portfolio.

Other impairment losses and provisions amount to KM 0.5 million, cost of provisions for securities KM 0.7 million, cost of provisions for litigation KM 0.6 million, cost of tangible assets KM 0.2 million, the cost of provisions for assets repossessed in lieu of outstanding receivables KM 0.2 million, release of provisions for off-balance sheet items KM 1.0 million, release for other assets KM 1.0 million, and the release of provisions for banks KM 0.1 million.

Overview of business operations of the Bank (continued)

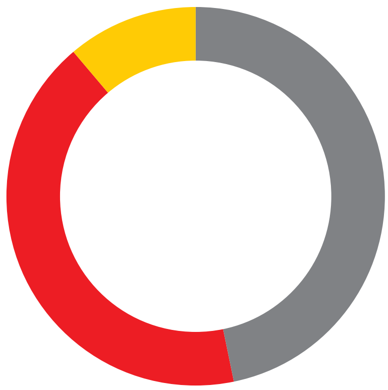
Income and expenses structure for 2021

Structure of income



- Net interest income 58,6%
- Net fee and commision income 32,6%
- Net forexgains 6,03%
- Other income 2,77%

Structure of expenses



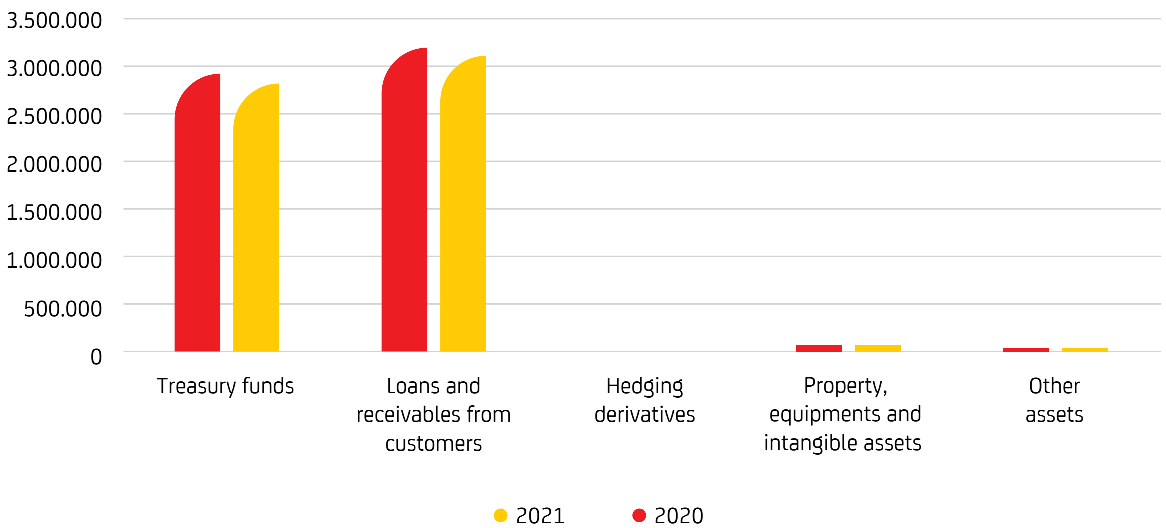
- Staff costs 46,8%
- Other expenses 41,9%
- Depreciation and amortization 11,3%

Bank's assets and liabilities

Bank's assets

The Bank's assets as at 31 December 2021 amount to KM 6,292.7 million and record an increase of KM 193.1 million (+0.03%) compared to the previous year. The significant growth of assets is mainly the result of the growth in assets and liabilities management (+87.2 million KM / +3.1%) and in loans and receivables from customers (KM 96.6 million / +3.1%), compared to the previous year.

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 46.6% of the Bank's total assets, and amount to KM 2,934.9 million.

The structure of these assets is as follows:

(u '000 BAM)	Bank 31 December 2021	Bank 31 December 2020	Change
Cash and cash equivalents	827,658	807,911	2.4%
Obligatory reserve with CBBH	517,867	494,406	4.7%
Placements and loans to other banks	801,470	922,463	(13.1%)
Financial assets at FVOCI	787,867	622,935	26.5%
	2,934,862	**2,847,715**	**3.1%**

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:

(u '000 BAM)	Bank 31 December 2021	Bank 31 December 2020	Change	%
Gross loans				
Corporate	1,489,635	1,463,927	25,708	1.8%
Retail	1,920,363	1,861,171	59,192	3.2%
Total	**3,409,998**	**3,325,098**	**84,900**	**2.6%**
Impairment				
Corporate	114,168	117,309	(3,141)	(2.7%)
Retail	87,187	95,743	(8,556)	(8.9%)
Total	**201,355**	**213,052**	**(11,697)**	**(5.5%)**
Net loans				
Corporate	1,375,467	1,346,618	28 849	2.1%
Retail	1,833,176	1,765,428	67,748	3.8%
Total	**3,208,643**	**3,112,046**	**96,597**	**3.1%**

Gross loans to customers, including receivables from financial lease recorded an increase of +84.9 million KM (+2.6%) on an annual basis, and at the end of 2021 amount to 3,410.0 million KM.

Gross loans to legal entities (including state and public institutions) at the end of 2021 amount to KM 1,489.6 million and have increased for KM 25.7 million (+1.8%). Their share in the total portfolio is 43.7%.

Gross loans to individuals at the end of 2021 amount to KM 1,920.4 million and increased by 59.2 million (+3.2%).

Their share in the total portfolio is 56.3%.

In the entire portfolio of loans to individuals, the largest portion refers to long-term non-purpose loans (66.6%), long-term housing loans (23.4%), and receivables based on current accounts (5.5%) and card loans (2.1%).

Long-term corporate loans participate with 64.8%, while short-term loans participate with 31.4% in total gross corporate loans.

Net loans to customers amount to KM 3,208.6 million and recorded an increase of KM 96.6 million (+3.1%) compared to the previous year and they account for 50.9% of the Bank's total assets.

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

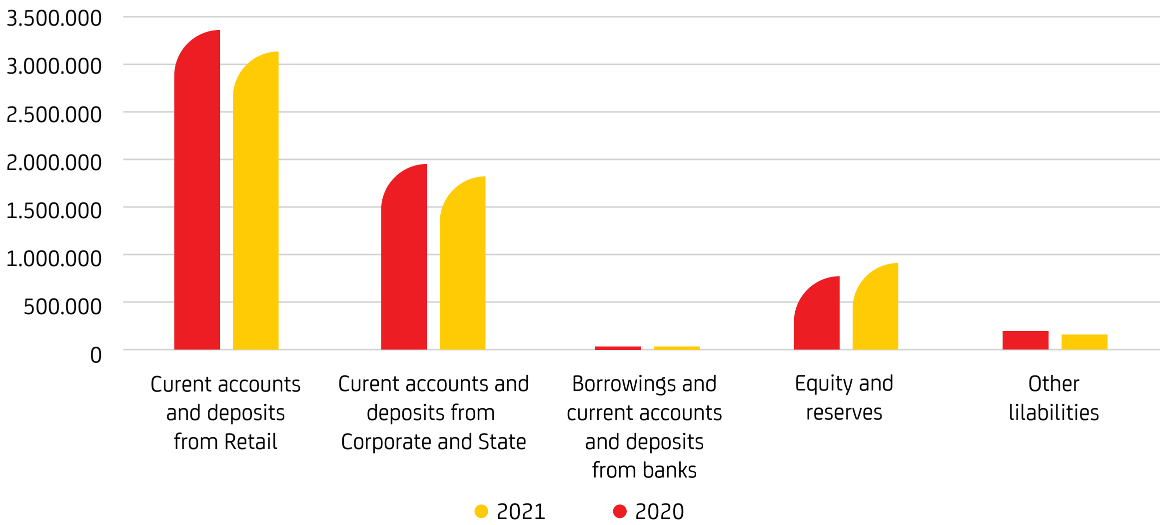
Overview of business operations of the Bank (continued)

Bank's assets and liabilities (continued)

Bank's liabilities

Liabilities, equity and reserves

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 2021 amount to KM 5,294.4 million and are higher by KM 319.6 million (+6.4%) compared to the previous year. This position represents 84.0% of the Bank's total liabilities.

Current accounts and deposits of legal entities (including state and public institutions) amount to KM 1,973.5 million and are higher by KM 134.9 million (+7.3%) compared to the previous year. Their share in total current accounts and customer deposits is 37.3%.

Current accounts, savings and time deposits of citizens at the end of 2021 amount to KM 3,321.0 million and are higher than in the previous year by KM 184.8 million (+5.9%). Their share in total current accounts and customer deposits is 62.7%.

Current accounts and deposits with banks, and borrowings

Current accounts and bank deposits at the end of 2021 amounted to KM 28.7 million, and decreased by KM 718.0 million (-2.4%) compared to the previous year.

Borrowings of the Bank at the end of 2021 amount to KM 16.9 million and decreased by KM 12.4 million compared to the previous year due to servicing regular loan obligations.

The loans taken are liabilities to UniCredit Bank Austria AG, EBRD and IFC.

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

Equity and reserves

The Bank's capital amounts to KM 784.6 million, which is a decrease of KM 132.7 million compared to the end of the previous year as a result of dividend payment to shareholders of the Bank.

In total sources of financing, capital and reserves participate with 12.5%.

Capital adequacy ratio according to the methodology of the local regulator is 20.92%.

Key performance indicators

The ROE profitability ratio is 10.4% and the ROA is 1.6%.

The efficiency indicator (cost / revenue) is 53.4%.

The net loan-to-deposit ratio is 60.6% and continuously confirms the ability to maintain a high level of self-sustainability, i.e. loan financing through own sources.

Profitability per employee (gross operating profit per number of employees) amounts to KM 93.4 thousand.

Management and Corporate governance in 2021

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 2021, 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 2021 are:

1.	Chairman	Spas Blagovestov Vidarkinsky	Zagrebačka banka d.d.
2.	Deputy Chairman	Helmut Franz Haller	UniCredit S.p.A
3.	Member	Graziano Cameli	UniCredit S.p.A
4.	Member	Pierre-Yves Guegan	UniCredit S.p.A
5.	Member	Laurence Fraissinet-Dubois	UniCredit S.p.A
6.	Member	Danimir Gulin	Independent member
7.	Member	Dražena Gašpar	Independent member

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.

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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.

Management and Corporate governance in 2021 (continued)

Members of the Bank's Management Board in 2021 are:

1.	Amina Mahmutović*	President of Board
2.	Dragan Ćavar*	Board Member for Retail
3.	Siniša Adžić	Board Member for Corporate and Investment Banking - until 31 December 2020
	Almir Gredić*	Board Member for Corporate and Investment Banking - since 1 April 2021
4.	Željka Zubčević*	Board Member for Risk Management
5.	Matteo Consalvi**	Board Member for Finance Management
6.	Ornela Bandić	Board Member for Human Resources Management - from 8 February 2021 until 30 November 2021
7.	Ornela Bandić*	Board Member for Banking Support – since 1 December 2021

* Members of the Management Board on 31 December 2021

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 2021, members of the Audit Committee are as follows:

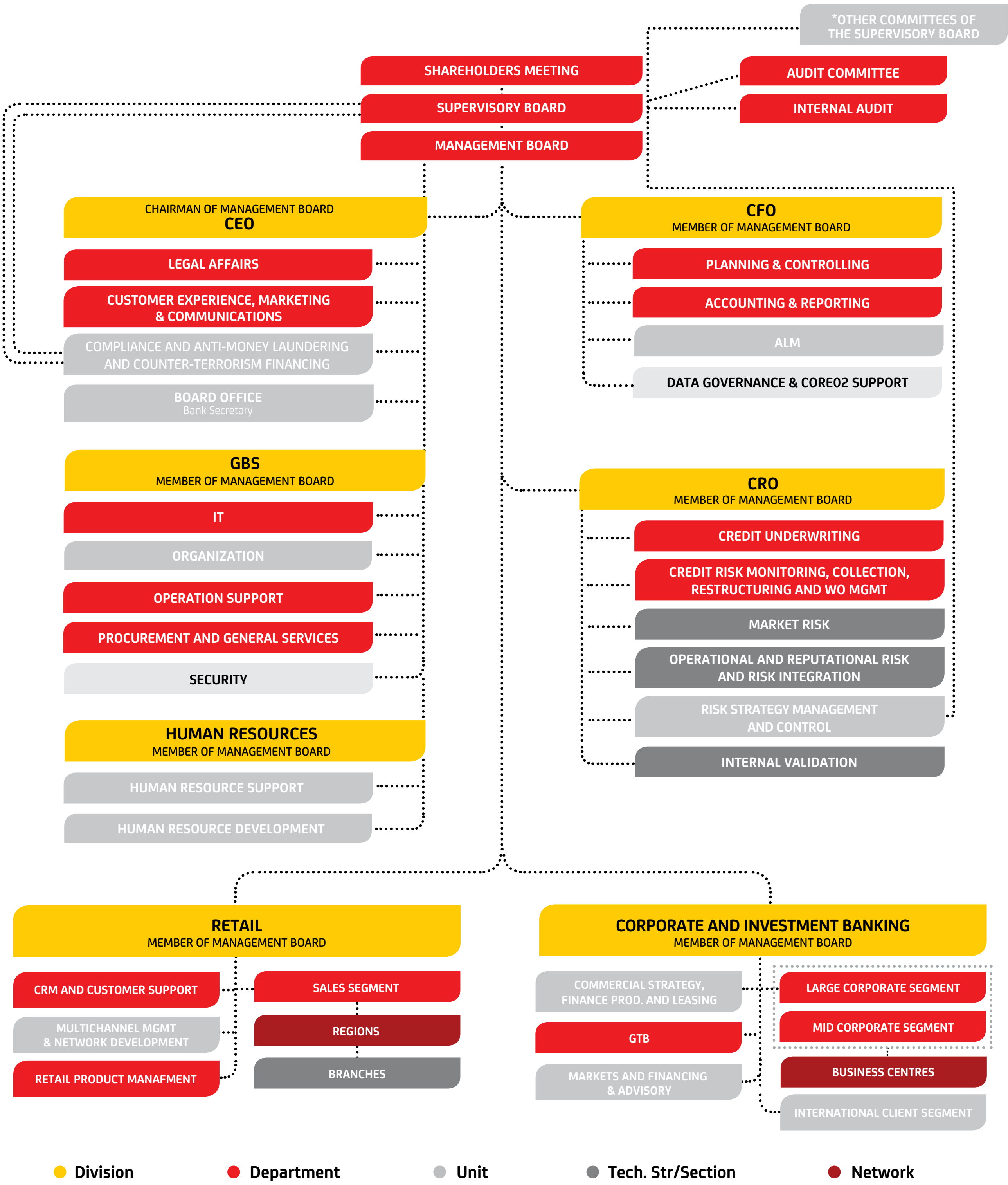
In 2021, members of the Audit Committee are as follows:

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

Following the expiration of the term of the above-mentioned composition of the Audit Committee (as of 12 January 2022), on 17 December 2021, the Supervisory Board passed a Decision on appointing the Chairperson and members of the Audit Committee and approving contracts for them. By the above-mentioned Decision, the following were appointed to the Audit Committee for a term of four years, starting from 19 January 2022:

1.	Mirjana Hladika	(independent member), Chairperson
2.	Ante Križan	(Zagrebačka banka d.d. Zagreb), member
3.	Marijana Brcko	(independent member), member.

Bank's Organisational structure as of 31 of December 2021 – division into key organizational units of the Bank:



Management and Corporate governance in 2021 (continued)

Employees

As of December 31, 2021, the Bank has 1,188 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 2021, 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, Croatia	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 the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, 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.

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 Board
Amina Mahmutović

Member of the Board for Finance Management
Matteo Consalvi

UniCredit Bank d.d.
Kardinala Stepinca b.b.
88000 Mostar
Bosnia and Herzegovina

16 February 2022

Independent Auditor's Report

To the shareholders of UniCredit Bank d.d.

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 2021, separate and consolidated statements of profit 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 financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2021, and their financial performance and their cash flows for the year then ended in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank and Group in accordance with the International Code of Ethics for Professional Accountants (including the International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit matter

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

Loss allowances for financing to and receivables from customers (expected credit losses)

For accounting policies, see Note 2. For additional information regarding the identified key audit matter see notes 4, 13, 20, 34 and 37.

Credit risk represents one of the most important types of financial risks which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management.

In determining both the timing and the amount of the expected credit losses on loans to customers, the Management exercises significant judgement in relation to the following areas:

- Use of historic data in the process of determining risk parameters
- Estimation of the credit risk related to the exposure
- Assessment of credit risk stage allocation for financing exposures and receivables from customers
- Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses
- Assessment of the forward-looking information, including the impact of the "COVID-19" pandemic
- Expected future cash flows from operations, which could be available for recovering given loans
- Valuation of collateral and assessment of the period in which a cash proceeds based on potential repossession and sale for individually assessed credit losses.

Since determination of appropriate loss allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of loss allowances for expected credit losses on loans and receivables from customers, recognized in accordance with the statutory accounting regulations applicable to banks in Federation of Bosnia and Herzegovina as a key audit matter in our audit of the financial statements for the year ended 31 December 2021.

How the Key Audit Matter Was Addressed in Our Audit

In order to address the risks associated with loss allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion

We performed the following audit procedures with respect to area of loans:

- Review and check the Bank's methodology for recognizing loss allowances for expected credit losses and comparing the reviewed methodology against the requirements of the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina;
- Obtain understanding of control environment and internal controls implemented by the Management within the process of measuring loss allowances for expected credit losses, including the used applications and information technology tools,and corresponding internal controls;
- Evaluate the adequacy of the design and inspecting implementation of identified internal controls relevant to the process of measuring loss allowances for expected credit losses;
- Test the operating effectiveness of identified relevant controls;
- Performing substantive tests over recognition and measurement of loss allowances for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2 that are collectively assessed, focusing on:
  - i. Models applied in credit risk stage allocation and transitions between credit risk stages;
  - ii. Assumptions used by the Management in the expected credit loss measurement models;
  - iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19;
  - iv. Assumptions applied to calculate probability of default;
  - v. Methods applied to calculate loss given default;
  - vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19;
  - vii. Recalculation of expected credit losses on a selected sample.
- Performing substantive tests over recognition and measurement of expected credit losses on sample of individually assessed loans allocated to Stage 3 (non-performing loans), which included:
  - i. Assessment of the borrower's financial position and performance following the latest credit reports and available information;
  - ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19;
  - iii. Reviewing and assessing expected future cash flows and periods in which cash proceeds from potential repossession and sale from collateral and estimated realization period;
  - iv. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria;
  - v. Recalculation of expected credit losses on a sample selected using the following criteria: assessment of customer credit risk, industry risk, days of delay in payment of overdue loan receivables and other receivables, etc.

Independent Auditor's Report (continued)

To the shareholders of UniCredit Bank d.d. (continued)

Other Matters

The financial statements of the Bank and the Group for the year ended 31 December 2020 were audited by another auditor, who expressed an unmodified opinion to those financial statements on 17 February 2021

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 separate and consolidated financial statements and our auditor's report.

Our opinion on the separate and consolidated financial statements does not cover 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 Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting and Auditing Act in the Federation of Bosnia and Herzegovina (Accounting and Audit Act). These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 42 of the Accounting and Audit Act.

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 attached separate and consolidated financial statements.

2) Management Report has been prepared, in all material respects, in accordance with the Article 42 of the Accounting and Audit Act.

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.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

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

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

Auditor's 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 about the financial information of entities or business activities within the Bank to express an opinion on these separate and consolidated financial statements. We are responsible for directing, overseeing and conducting the Bank's and the Group's audit. We are 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. 15/21).

The Management Board of the Bank created forms disclosed as an appendix to these separate and consolidated financial statements on pages 164 to 168, and they contain the separate and consolidated statement of financial position as at 31

To the shareholders of UniCredit Bank d.d. (continued)

December 2021, 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 30 to 36. 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 Adna Valjevac.

Deloitte d.o.o. Sarajevo

Yuri Sidorovich, procurator

Deloitte d.o.o. Zmaja od Bosne 12c 71000 Sarajevo ID: 4200047380000

Adna Valjevac, licensed auditor

Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
16 February 2022

Fine-tuning the skills of tomorrow: through RenewAcad, UniCredit Bank Romania helped over a thousand miners to retrain as specialists in wind energy and electricity distribution – thereby supporting the transition.

Our Clients
Wind Power Energy
Romania

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

Separate and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

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

	Notes	Group 2021	Bank 2021	Group 2020	Bank 2020
Interest income	6	161,085	161,085	172,931	172,931
Interest expense	7	(21,599)	(21,599)	(23,746)	(23,746)
Net interest income		**139,486**	**139,486**	**149,185**	**149,185**
Fee and commission income	8	83,141	83,141	76,600	76,600
Fee and commission expenses	9	(5,600)	(5,600)	(5,152)	(5,152)
Net fee and commission income		**77,541**	**77,541**	**71,448**	**71,448**
Dividend income		36	36	31	31
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	14,356	14,356	11,616	11,616
Other income	11	6,748	6,748	4,949	4,949
Operating income		**238,167**	**238,167**	**237,229**	**237,229**
Depreciation and amortization	23,24,25	(14,400)	(14,400)	(15,941)	(15,941)
Operating expenses	12	(112,836)	(112,836)	(112,985)	(112,985)
Profit before impairment losses and income tax		**110,931**	**110,931**	**108,303**	**108,303**
Impairment losses and provisions, net	13	(10,287)	(10,287)	(25,630)	(25,630)
Share in profit of associates		-	-	(42)	-
Profit before taxation		**100,644**	**100,644**	**82,631**	**82,673**
Income tax expense	14	(12,553)	(12,553)	(8,431)	(8,431)
NET PROFIT		**88,091**	**88,091**	**74,200**	**74,242**

Separate and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

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

	Notes	Group 2021	Bank 2021	Group 2020	Bank 2020
Profit for the year		**88,091**	**88,091**	**74,200**	**74,242**
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		(10,475)	(10,475)	1,094	1,094
Deffered taxes	14	1,039	1,039	(81)	(81)
Other changes	14	(117)	(117)	-	-
Changes in impairment of financial assets at fair value through other comprehensive income	18	661	661	1,482	1,482
Changes in fair value of property and equipment	23	3,059	3,059	(3)	(3)
Deferred tax on changes in fair value of property and equipment	14	(295)	(295)	-	-
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		199	199	(288)	(288)
Total other comprehensive income / (loss)		**(5,929)**	**(5,929)**	**2,204**	**2,204**
TOTAL COMPREHENSIVE INCOME		**82,162**	**82,162**	**76,404**	**76,446**
Basic and diluted earnings per share (KM)	33	740.67	740.67	623.87	624.22

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

Separate and consolidated statement of cash flows for the year ended 31 December 2021

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

	Notes	Group 31 December 2021	Bank 31 December 2021	Group 31 December 2020	Bank 31 December 2020
ASSETS					
Cash and cash equivalents	15	827,658	827,658	807,911	807,911
Obligatory reserve at the CBBH	16	517,867	517,867	494,406	494,406
Loans and receivables from banks at amortized cost	17	801,470	801,470	922,463	922,463
Financial assets at fair value through other comprehensive income	18	787,867	787,867	622,935	622,935
Financial assets at fair value through profit or loss	19a	19	19	215	215
Hedging derivatives	19b	1,226	1,226	-	-
Loans and receivables from clients at amortized cost	20	3,208,643	3,208,643	3,112,046	3,112,046
Other assets and receivables	21	48,741	48,741	44,375	44,375
Prepaid tax		565	565	2,664	2,664
Investments in associates	22	-	-	821	460
Property and equipment	23	70,766	70,766	66,864	66,864
Right to use assets	24	6,916	6,916	7,496	7,496
Intangible assets	25	20,986	20,986	17,818	17,818
TOTAL ASSETS		**6,292,724**	**6,292,724**	**6,100,014**	**6,099,653**
LIABILITIES					
Current accounts and deposits from banks at amortized cost	26	28,739	28,739	29,457	29,457
Current accounts and deposits from clients at amortized cost	27	5,294,440	5,294,440	4,974,836	4,974,836
Financial liabilities at fair value through profit or loss	28	1	1	179	179
Borrowings	28	16,982	16,982	29,341	29,341
Other liabilities	29	130,234	130,234	110,406	110,406
Lease liabilities	30	6,819	6,819	7,520	7,520
Provisions for liabilities and charges	31	29,807	29,807	30,467	30,467
Current tax liability		-	-	-	-
Deferred tax liability	14	1,125	1,125	159	159
TOTAL LIABILITIES		**5,508,147**	**5,508,147**	**5,182,365**	**5,182,365**
EQUITY					
Share capital	32	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		1,260	1,260	9,844	9,844
Revaluation reserve for actuarial gain/loss		(406)	(406)	(297)	(297)
Fair value reserve for tangible assets		4,624	4,624	2,140	2,140
Retained earnings		611,668	611,668	738,531	738,531
TOTAL EQUITY		**784,577**	**784,577**	**917,649**	**917,649**
TOTAL LIABILITIES AND EQUITY		**6,292,724**	**6,292,724**	**6,100,014**	**6,100,014**

The accompanying notes form an integral part of these separate and consolidated financial statements.
Signed on behalf of the Management Board on 16 February 2022:

President of the Board
Amina Mahmutović

UniCredit Bank dioničko društvo

Board Member for Finance Management
Matteo Consalvi

Separate and consolidated statement of cash flows for the year ended 31 December 2021

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

	Bank and Group 2021	Bank and Group 2020
Cash flow from operating activities		
Interest received	163,312	178,649
Fee and commission received	82,653	76,014
Interest paid	(21,607)	(24,121)
Fee and commission paid	(5,600)	(5,152)
Operating expenses paid	(107,838)	(112,051)
Net proceeds from trading activities	14,356	11,616
Other proceeds	6,594	4,912
Net cash from operating activities before changes in operating assets and liabilities	**131,870**	**129,867**
(Increase) / decrease in operating assets:		
Obligatory reserve with Central Bank of BiH	(24,042)	41,116
Loans and receivables from banks at amortized cost	122,881	123,145
Loans and receivables from clients and finance lease at amortized cost	(106,313)	402,805
Other assets	(4,912)	6,849
Net increase in operating assets	**(12,386)**	**573,915**
Increase / (decrease) in operating liabilities:		
Current accounts and deposits in banks	(655)	(440,597)
Current accounts and deposits from clients	(305,714)	(60,000)
Other liabilities	15,431	(983)
Net increase in operating liabilities	**320,490**	**(501,580)**
Net increase in cash from operating activities before corporate income tax	**439,974**	**202,202**
Corporate income tax paid	(10,454)	(11,954)
Directly paid tax	-	(2,068)
Net cash from operating activities	**429,520**	**188,180**
Cash flow from investing activities		
Acquisition of property and equipment	(8,507)	(8,301)
Proceeds from sale of property and equipment	670	172
Acquisition of intangible assets	(7,272)	(4,743)
Proceeds from the purchase of available-for-sale financial assets	122,907	133,062
Acquisition of available-for-sale financial assets	(295,897)	(238,456)
Dividend paid	(214,873)	-
Proceeds from sale/purchase of associates	508	-
Dividend receipts	36	31
Net cash (used in) investing activities	**(403,221)**	**(118,235)**

Separate and consolidated statement of cash flows for the year ended 31 December 2021

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

	Bank and Group 2021	Bank and Group 2020
Cash flows from financing activities		
Repayment of long-term lease	(4,212)	(4,329)
Repayment of interest-bearing borrowings	(12,851)	(13,708)
Net cash from / (used in) financing activities	**(17,063)**	**(18,037)**
Net cash inflow / (outflow)	10,029	51,908
Effect of foreign exchange rate fluctuations on cash and cash equivalents	9,661	(3,680)
Net (decrease) / increase in cash and cash equivalents	19,690	48,228
Cash and cash equivalents at the beginning of the year	808,404	760,176
Cash and cash equivalents at the end of the year	828,094	808,404

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 2021

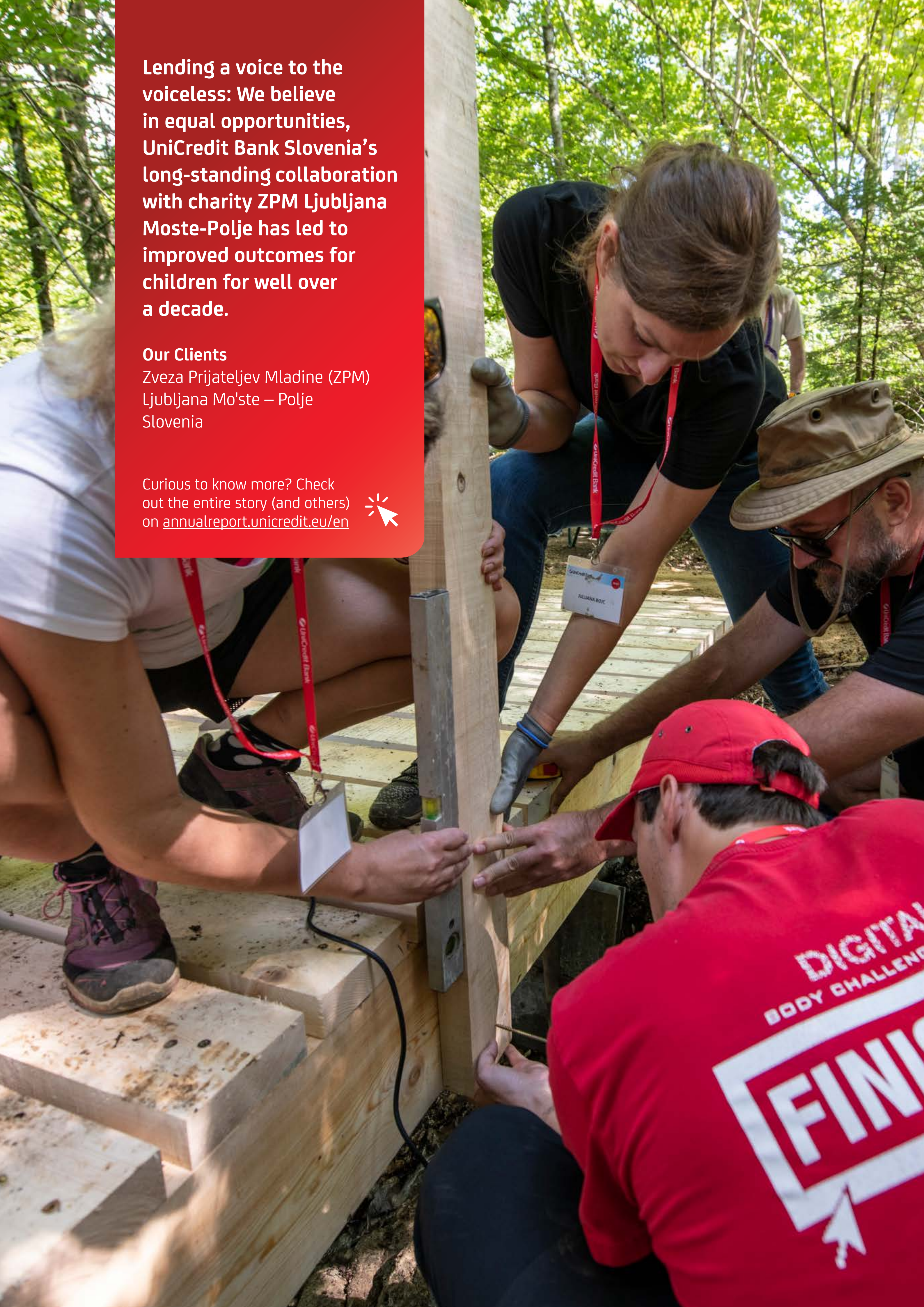
(all amounts are expressed in thousands of KM, unless otherwise stated)

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 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	-	-	-	-	1,482
Exchange differences on provisions for securities	-	-	-	(4)	-	-	-	-	(4)
Changes in fair value by tangible assets	-	-	-	-	-	(3)	-	-	(3)
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
Balance as at 31 December 2020	**119,195**	**(81)**	**48,317**	**9,844**	**(297)**	**2,140**	**-**	**738,170**	**917,288**
Net profit for the year	-	-	-	-	-		-	88,091	88,091
Transfer to retained earnings	-	-	-	-	-	(173)	-	173	-
Cost of provisions for securities for the period	-	-	-	661		-	-	-	661
Changes in fair value by tangible assets	-	-	-	-	-	2,952	-	-	2,952
Deferred tax at fair value through property, plant and equipment	-	-	-	-	-	(295)	-	-	(295)
Change in financial assets at fair value through other comprehensive income	-	-	-	(10,471)	-	-	-	107	(10,364)
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	199	-	-	-	-	199
Change in fair value at actuarial gain / loss	-	-	-	-	(4)	-	-	-	(4)
Other changes	-	-	-	-	(117)	-	-	-	(117)
Deferred tax per rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	12	-	-	-	12
Deferred tax on financial assets through other comprehensive income (Note 14)	**-**	**-**	**-**	**1,027**	**-**	**-**	**-**	**-**	**1,027**
Other comprehensive income	-	-	-	(8,584)	(109)	2,657	-	107	(5,929)
Dividend payment for the year	-	-	-	-	-	-	-	(214,873)	(214,873)
Balance as at 31 December 2021	**119,195**	**(81)**	**48,317**	**1,260**	**(406)**	**4,624**	**-**	**611,668**	**784,577**

Separate and consolidated statement of changes in equity for the year ended 31 December 2021

(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 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	-	-	-	-	1,482
Exchange differences on provisions for securities	-	-	-	(4)	-	-	-	-	(4)
Changes in fair value by tangible assets	-	-	-	-	-	(3)	-	-	(3)
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
Balance as at 31 December 2020	**119,195**	**(81)**	**48,317**	**9,844**	**(297)**	**2,140**	**-**	**738,170**	**917,288**
Net profit for the year	-	-	-	-	-	-	-	88,091	88,091
Transfer to retained earnings	-	-	-	-	-	(173)	-	173	-
Cost of provisions for securities for the period	-	-	-	661	-	-	-	-	661
Changes in fair value by tangible assets	-	-	-	-	-	2,952	-	-	2,952
Deferred tax at fair value through property, plant and equipment	-	-	-	-	-	(295)	-	-	(295)
Change in financial assets at fair value through other comprehensive income	-	-	-	(10,471)	-	-	-	107	(10,364)
Exchange differences on financial assets at fair value through other comprehensive income	-	-	-	199	-	-	-	-	199
Change in fair value at actuarial gain / loss	-	-	-	-	(4)	-	-	-	(4)
Other changes	-	-	-	-	(117)	-	-	-	(117)
Deferred tax per rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	12	-	-	-	12
Deferred tax on financial assets through other comprehensive income (Note 14)	**-**	**-**	**-**	**1,027**	**-**	**-**	**-**	**-**	**1,027**
Other comprehensive income	-	-	-	(8,584)	(109)	2,657	-	107	(5,929)
Dividend payment for the year	-	-	-	-	-	-	-	(214,873)	(214,873)
Balance as at 31 December 2021	**119,195**	**(81)**	**48,317**	**1,260**	**(406)**	**4,624**	**-**	**611,668**	**784,577**



Lending a voice to the voiceless: We believe in equal opportunities, UniCredit Bank Slovenia's long-standing collaboration with charity ZPM Ljubljana Moste-Polje has led to improved outcomes for children for well over a decade.

Our Clients
Zveza Prijateljev Mladine (ZPM)
Ljubljana Mo'ste – Polje
Slovenia

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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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These separate and consolidated financial statements have been prepared in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina.

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.

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 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 financial statements in compliance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina 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 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 financial statements.

2.3.1 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.

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):

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

Classification and measurement of financial instruments

ASSETS	FBA Decision	IFRS 9	Effects of differences between impairments calculated in accordance with IFRS requirements and recognized in accordance with FBA rules
Cash and cash equivalents	827,658	827,951	293
Loans and receivables from banks and obligatory reserve with the Central Bank of BiH	1,319,337	1,319,727	348
Loans and receivables from customers	3,208,643	3,228,715	6,874
Other assets and receivables	48,741	33,663	16
Prepaid income tax	565	629	(72)
LIABILITIES	-	-	-
Provisions for liabilities and charges	29,807	26,401	(2,013)
Retained earnings	523,576	532,179	8,999
Net profit	88,091	89,326	730
Revaluation reserves for securities and actuarial gains and losses	5,472	5,232	(257)

The effects of differences between impairment calculated in accordance with IFRS requirements and recognized in accordance with FBA rules in the Statement of Profit or Loss for 2021 amount to KM 730 thousand.

2.4 Consolidation

Consolidated financial statements for 2021 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 – u likvidaciji) 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.

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 statement of 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.

2.7 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 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 statement of financial position at the reporting dates were as follows:

31 December 2021	EUR 1 = KM 1.95583	USD 1 = KM 1.725631
31 December 2020	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.

2.11 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.

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 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)

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.

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.

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.

2.11.2 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment (continued)

- 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 37.

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.

2.11.2.3 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 client 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 37 Risk management for more details.

2.11.3 Modification and derecognition on 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.3 Modification and derecognition on financial assets (continued)

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.

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 according 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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6 Financial liabilities and equity (continued)

2.11.6.2 Financial liabilities at FVTPL (continued)

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.

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.

2.16 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)

2.19 Derivative financial instruments (continued)

Hedge accounting

For the purpose of hedge accounting, hedging may relate to:

- fair value hedging – protection of exposure from changes in the fair value of recognized assets or liabilities or unrecognized liabilities;
- cash flow hedging – protection of exposure to changes in cash flows associated with a specific risk associated with a recognized asset, liability or certain future transaction;
- hedging of net investments in foreign currency.

The Bank and the Group mainly use fair value hedging to protect themselves from exposure to changes in the fair value of individual assets and liabilities or part of individual assets and liabilities or the portfolio of financial assets and liabilities.

The Bank and the Group use derivative financial instruments to hedge its exposure to changes in fair value through interest rate risk.

Such derivative instruments are initially recognized at their fair value and subsequently measured at fair value. Derivatives are presented as financial assets when their fair value is positive and as a financial liability when their fair value is negative.

When concluding a hedge accounting arrangement, the Bank and the Group formally determine and document the relationship for which they wish to apply hedge accounting and the objective and risk management strategy for undertaking the hedging itself. The documentation shall include the identification of the hedging instrument, the hedged item or transaction, the type of risk against which the Bank and the Group hedge and how the Bank and the Group will monitor the effectiveness of changes in the fair value of the hedging instrument to compensate for changes in fair value or cash flow of the hedged exposure. Such hedges are expected to be effective in achieving compensatory changes in fair value or cash flows and are regularly tested over their lifetime to determine their effectiveness over the reporting periods for which they are designated.

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 2021	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 2021	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.

2.23 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 2.24).

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.

2.27 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

The business results of the segments are regularly monitored by the Bank's Management Board and the Supervisory Board on the basis of financial management information.

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.

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

2.31 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 2021 and 2020 there were no dilution effects.

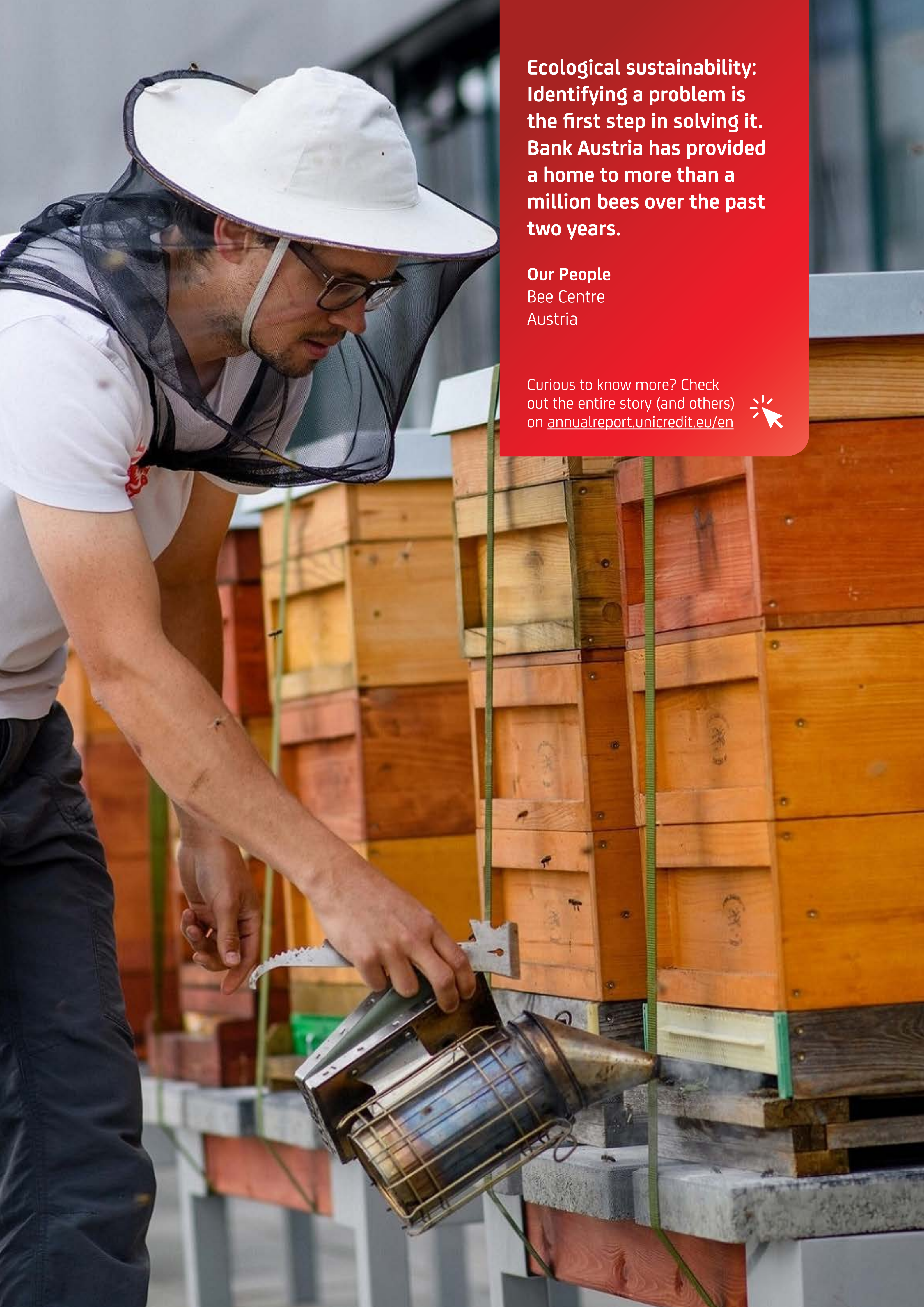
2.32 Borrowing costs

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 2021 and 2020, there were neither qualifying assets nor capitalized borrowing costs.



Ecological sustainability: Identifying a problem is the first step in solving it. Bank Austria has provided a home to more than a million bees over the past two years.

Our People
Bee Centre
Austria

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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 IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),
- Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

Benchmark Interest Rate Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) In August 2020, the IASB published Benchmark Interest Rate Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, concluding their work in response to IBOR reform. The amendments provide temporary relief, which addresses the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near risk-free interest rate (RFR). In particular, the amendments provide for a practical exception when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require an adjustment to the effective interest rate, equivalent to market interest rate movements. The amendments also introduce facilities for termination of a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component.

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:

- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 3 "Business Combinations" - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

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3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 12 “Income Taxes” - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 17 “Insurance contracts” - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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.

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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.

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

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 37.1.

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 KM 9,765,449 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 5,197,197,
- 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 4,295,816,
- 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 228,981 of which KM 190,069 relates to exposures covered by eligible collateral,
- 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 KM 43,455.

In accordance with Article 32 of the Decision, the Bank did not have a lower value of acquired tangible assets as of 31 December 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 20 June 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 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 2021 the Bank and Group have provided KM 11,862,478.96, 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 39, 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.

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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.

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 2021	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	87,625	31,020	12,167	10,818	141,630	(2,144)	139,486
Net fee and commission income	55,898	22,503	(1,759)	899	77,541	-	77,541
Dividend income	-	-	-	36	36	-	36
Net gains from foreign exchange trading and translation of monetary assets and liabilities	8,133	5,943	-	163	14,239	117	14,356
Other income	3,784	2,012	-	(1,398)	4,398	2,350	6,748
Operating income	**155,440**	**61,478**	**10,408**	**10,518**	**237,844**	**323**	**238,167**
Depreciation and amortization	(8,896)	(713)	(8)	(4,309)	(13,926)	(474)	(14,400)
Operating expenses	(95,562)	(24,016)	(2,148)	8,422	(113,304)	468	(112,836)
Profit before impairment losses and taxation	**50,982**	**36,749**	**8,252**	**14,631**	**110,614**	**317**	**110,931**
Impairment losses and provisions, net	6,735	(16,802)	332	1,063	(8,672)	(1,615)	(10,287)
Profit before taxation	**57,717**	**19,947**	**8,584**	**15,694**	**101,942**	**(1,298)**	**100,644**
Income tax expense	(6,645)	(2,345)	(1,015)	(2,609)	(12,614)	61	(12,553)
NET PROFIT	**51,072**	**17,602**	**7,569**	**13,085**	**89,328**	**(1,237)**	**88,091**

Statement of profit or loss per segment

Year ended 31 December 2020	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	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**

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

5. SEGMENT REPORTING (CONTINUED)

Statement of financial position per segment

Bank

31 December 2021	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial statements	Total
Segment assets	1,870,672	1,357,926	2,627,088	443,261	6,299,575	(7,417)	6,292,159
Subscribed income tax	-	-	-	629	629	(64)	565
Total assets	**1,870,672**	**1,357,926**	**2,627,088**	**443,889**	**6,300,204**	**(7,481)**	**6,292,724**
Segment liabilities	3,663,351	1,631,089	45,690	164,894	5,505,024	-	5,507,022
Current tax liability	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	1,160	1,160	(35)	1,125
Total liabilities	**3,663,351**	**1,631,089**	**45,690**	**166,054**	**5,506,184**	**1,963**	**5,508,147**
Acquisition of property, equipment and intangible assets	-	-	-	15,779	-	-	-

Bank

31 December 2020	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial statements	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)	-
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	-	5,182,206
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	-	-	-

6. INTEREST INCOME

Analysis by source

	Bank and Group 2021	Bank and Group 2020
Retail	106,561	114,001
Corporate	35,906	41,270
State and public sector	17,887	16,916
Banks and other financial institiutions	731	744
	161,085	**172,931**

Banks and other financial institutions include Central Bank of BiH.

Analysis by product

	Bank and Group 2021	Bank and Group 2020
Loans and receivables from clients at amortized cost	146,041	160,960
Debt securities (financial assets at FVOCI)	14,313	11,227
Loans to and receivables from banks at amortized cost	731	744
	161,085	**172,931**

Interest income on impaired loans and receivables amounted to KM 5,157 thousand. (2020: KM 8,942 thousand), of which effects of unwinding were recognized in interest income in the amount of KM 305 thousand (2020: KM 303 thousand).

7. INTEREST EXPENSE

Analysis by recipient

	Bank and Group 2021	Bank and Group 2020
Retail	8,857	11,534
Banks and other financial institutions	5,731	3,116
Negative interest on placements to banks and obligatory reserve with the CBBH	4,837	6,007
Corporate	2,127	2,901
State and public sector	47	188
	21,599	**23,746**

Analysis by product

	Bank and Group 2021	Bank and Group 2020
Current accounts and deposits from retail clients	8,857	11,534
Repo activities	5,122	2,252
Current accounts and deposits from banks	5,046	6,458
Current accounts and deposits from corporate, and state and public sector	2,089	2,941
Borrowings	234	413
Interest from hedge accounting	166	-
Long-term lease liabilities	85	148
	21,599	**23,746**

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

8. FEE AND COMMISSION INCOME

	Bank and Group 2021	Bank and Group 2020
Credit cards	26,346	23,371
Foreign payment transactions	17,501	16,412
Product package fees	14,676	13,322
Domestic payment transactions	11,815	11,102
Guarantees and letters of credit	4,461	4,643
Other	8,342	7,750
	83,141	**76,600**

9. FEE AND COMMISSION EXPENSES

	Bank and Group 2021	Bank and Group 2020
Domestic payment transactions	2,879	2,778
Foreign payment transactions	1,463	1,378
Other	1,258	996
	5,600	**5,152**

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

	Bank and Group 2021	Bank and Group 2020
Net foreign exchange spot trading gains	14,254	11,639
Net losses from FX forwards	100	(20)
Net foreign exchange loss from translation of monetary assets and liabilities	(3)	(3)
Net gain from securities trading	5	-
	14,356	**11,616**

11. OTHER INCOME

	Bank and Group 2021	Bank and Group 2020
Collected written-off receivables	4,948	3,052
Net income from repossessed collaterals	680	356
Income from IT services	377	413
Income from expenses recharged to clients	188	111
Net gains on disposal of property and equipment	106	37
Income from claims settled by insurance companies	56	76
Income from shares and business interests	48	-
Rent income	38	50
Write-offs of other liabilities and reversal of accrued expenses	-	525
Other	307	329
	6,748	**4,949**

12. OPERATING EXPENSES

	Bank and Group 2021	Bank and Group 2020
Personnel costs	59,565	59,928
Administration and marketing expenses	37,942	38,401
Savings deposit insurance expenses	12,504	11,580
State contributions (excluding personnel-related)	1,536	1,713
Rental costs	658	703
Other expenses	631	660
	112,836	**112,985**

Personnel costs of the Bank include KM 11,971 thousand of defined contributions paid into the state-owned pension plans (2020: KM 12,170 thousand).

13. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Bank and Group 2021	Bank and Group 2020
Loans and receivables from clients at amortized cost (Note 20)	9,798	31,127
Impairment of securities (Note 18)	661	1,482
Provisions for legal proceedings (Note 32)	637	1,734
Properties acquired in lieu of uncollected receivables (Note 21)	212	1,322
Impairment of property and equipment (Note 23)	159	(168)
Loans and receivables from banks at amortized cost, including the obligatory reserve at the CBBH (Note 16 and Note 17)	(29)	239
Impairment of cash and cash equivalents (Note 15)	(57)	184
Off-balance-sheet exposure to credit risk (Note 31)	(1,018)	(9,558)
Other assets (Note 21)	(76)	(732)
	10,287	**25,630**

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 and Group 2021	Bank and Group 2020
Current income tax	10,834	10,357
Deferred income tax	1,719	(1,926)
Total tax in Statement of profit or loss	**12,553**	**8,431**
Deffered tax through other comprehensive income	744	(79)
Tax paid on credit loss reserves	-	(2,068)

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

14. INCOME TAX EXPENSE (CONTINUED)

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

	Bank and Group 2021	Bank and Group 2020
Profit before income tax	**100,644**	**82,673**
Tax calculated at rate of 10%	10,064	8,267
Effects of non-deductible expenses	963	167
Effects of non-deductible income	(4)	(3)
Effects of deductible depreciation	(215)	(169)
Effects of impairment of assets	-	128
Effects of provisions and receivables	-	1,967
Capital gains	25	-
Additional income tax in subsidiary for the branch in RS	1	-
Current income tax	**10,834**	**10,357**
Average effective income tax rate	**10,8%**	**12,5%**

	Bank and Group Deferred tax assets	Bank and Group Deferred tax liabilities	Bank and Group Net deferred tax assets / (liabilities)
Balance 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**
Change in fair value of financial assets at fair value through other comprehensive income	-	(1,034)	(1,034)
Changes in revaluation reserves at actuarial gain/loss	(12)	-	(12)
Other provisions for loans and receivables from clients through statement of profit or loss	-	1,860	1,860
Net deferred tax liability for depreciation	-	(143)	(143)
Changes in positive fair value of property and equipment recognized in other comprehensive income	-	295	295
Netting tax assets	12	(12)	-
Balance as at 31 December 2021	-	**1,125**	**1,125**

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Deferred tax assets	-	-

Deferred tax liabilities		
Net deferred tax liability for financial assets at FVOCI	228	(806)
Net deferred tax assets for revaluation reserves at actuarial gain	45	33
Net deferred tax assets for property and equipment	650	529
Net deferred tax liability for other provisions for loans and receivables from clients	(755)	919
Net deferred tax liability for property and equipment recognized in other comprehensive income	(514)	(238)
Net deferred tax liability for depreciation	(779)	(595)
Net deferred tax liabilities	**(1,125)**	**(159)**

15. CASH AND CASH EQUIVALENTS

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Cash in hand	304,474	203,817
Current accounts with other banks	291,612	364,252
Giro account with CBBH	232,008	240,335
	828,094	808,404
Less: Impairment allowance	(436)	(493)
	827,658	**807,911**

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
As at 1 January	**493**	**129**
Effect of IFRS 9	-	180
Impairment in the separate and consolidated statement of profit or loss (Note 13)	(57)	184
As at 31 December	**436**	**493**

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

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Obligatory reserve at CBBH	519,538	495,496
Less: Impairment allowance	(1,671)	(1,090)
	517,867	**494,406**

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
As at 1 January	**1,090**	**1,129**
Net expense in the separate and consolidated statement of profit or loss (Note 13)	581	(39)
As at 31 December	**1,671**	**1,090**

In 2021, 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 2021 in accordance with the above was -0.50%.

As of 1 June 2021, the CBBH introduced a fee rate on obligatory reserve funds on the basis of foreign currency and domestic currency with a currency clause at the rate applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate) reduced by 10bp, which amounts to -0.60% for 2021.

17. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Placements with other banks – gross	19,856	239,436
Loans to banks – gross	782,519	684,529
	802,375	**923,965**
Less: Impairment allowance	(905)	(1,502)
	801,470	**922,463**
Expected to be recovered:		
- no more than twelve months after the reporting period	785,038	908,408
- more than twelve months after the reporting period	17,337	15,557
Less: Impairment allowance	(905)	(1,502)
	801,470	**922,463**

As at 31 December 2021, loans and receivables from banks at amortized cost included KM 3,178 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (31 December 2020: KM 2,931 thousand).

As at 31 December 2021, the amount of placements and loans within loans to and receivables from banks was KM 16,678 thousand (31 December 2020: KM 16,309 thousand) to related parties.The movement in impairment allowance for loans to and receivables from banks is as follows:

	Bank and Group 2021	Bank and Group 2020
Balance as at 1 January	**1,502**	**569**
Effects of the FBA Decision	-	780
Forex differences	13	(1)
Impairment in the separate and consolidated statement of profit or loss (Note 13)	(610)	278
Write-offs	-	(124)
Balance as at 31 December	**905**	**1,502**

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

Gross exposure

Bank and Group	31 December 2021				31 December 2020
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	785,697	-	-	785,697	1,398,098
Medium risk	536,216	-	-	536,216	21,263
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**1,321,913**	**-**	**-**	**1,321,913**	**1,419,461**

Bank and Group Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**1,419,461**	**-**	**-**	**1,419,461**
New financing	122,186	-	-	122,186
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(220,357)	-	-	(220,357)
Amounts written off	-	-	-	-
Foreign exchange adjustments	254	-	-	254
Other changes	369	-	-	369
At 31 December 2021	**1,321,913**	**-**	**-**	**1,321,913**

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

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

Bank and Group Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**2,592**	**-**	**-**	**2,592**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	(29)	-	-	(29)
Permanent write-offs during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	13	-	-	13
At 31 December 2021	**2,576**	**-**	**-**	**2,576**

Bank and Group 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	-	-	(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 and Group 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	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**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Debt securities at fair value through other comprehensive income	787,835	622,736
Equity securities at fair value through other comprehensive income	32	199
	787,867	**622,935**

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Balance as at 1 January	**2,592**	**934**
Effects of the FBA Decision	-	182
Net expense in separate and consolidated statement of changes in equity	661	1,482
FX differences (separate and consolidated statement of changes in equity)	-	(8)
Balance as at 31 December	**3,253**	**2,590**

During 2021 and 2020 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 and Group 31 December 2021	Bank and Group 31 December 2020
Bonds of the Government of Federation of BiH	252,010	225,692
Bonds of the Government of Republika Srpska	199,203	88,578
State Bonds of the Republic of Croatia	160,800	148,480
State Bonds of the Republic of Poland	73,039	59,518
Bonds of the Government of Romania	55,921	-
State Bonds of the Republic of Slovenia	46,862	45,532
Treasury bills of the Government of Federation of BiH	-	30,000
Treasury bills of the Government of Republika Srpska	-	24,936
	787,835	**622,736**

Equity securities at fair value through other comprehensive income

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Listed or quoted	32	199
	32	**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 and Group		31 December 2021			31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	336,622	451,213	-	787,835	622,736
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing	-	-	-	-	
Default	-	-	-	-	-
Total	**336,622**	**451,213**	**-**	**787,835**	**622,736**

Bank and Group Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**253,530**	**369,206**	**-**	**622,736**
New financing	91,347	204,550	-	295,897
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)	-	(121,854)	-	(121,854)
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	3,989	-	-	3,989
Other changes	(12,244)	(689)	-	(5,059)
At 31 December 2021	**336,622**	**451,213**	**-**	**787,835**

Bank and Group Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**317**	**2,273**	**-**	**2,590**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	1,275	(614)	-	661
Impact of exchange rate differences	3	-	-	2
Amounts written off	-	-	-	-
At 31 December 2021	**1,596**	**1,659**	**-**	**3,253**

Bank and Group 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			-	-
Decrease 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 and Group 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	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
Exchange rate differences				
Write-offs	(8)			(8)
At 31 December 2020	**317**	**2,273**	**-**	**2,590**

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

A) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Bank and Group	31 December 2021		31 December 2020	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	77,117	-	12,733	215
Foreign exchange swap contracts	713,944	19	650,562	-
	791,061	**19**	**663,295**	**215**
Financial liabilities				
Forward foreign exchange contracts	-	-	12,658	179
Foreign exchange swap contracts	129	1	-	-
	129	**1**	**12,658**	**179**

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

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

B) HEDGING DERIVATIVES

Bank and Group	31 December 2021		31 December 2020	
	Nominal value	Fair value	Nominal value	Fair value
Hedging derivatives	**-**	**1,226**	**-**	**-**

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Corporate (including state and public sector)		
- in domestic currency	1,432,891	1,392,187
- in foreign currency	10,358	9,192
	1,443,249	1,401,379
Retail		
- in domestic currency	1,919,428	1,858,971
- in foreign currency	-	-
	1,919,428	1,858,971
Finance lease receivables		
- in domestic currency	47,321	64,748
	47,321	64,748
Total loans and receivables before allowance	**3,409,998**	**3,325,098**
Less: Impairment allowance	(201,355)	(213,052)
Net loans and receivables	**3,208,643**	**3,112,046**
Percentage of allowances in gross loans to clients	5,90%	6,41%
Expected to be recovered:		
- no more than twelve months after the reporting period	1,272,453	1,248,451
- more than twelve months after the reporting period	2,137,545	2,076,647
Less: Impairment allowance	(201,355)	(213,052)
	3,208,643	**3,112,046**

As at 31 December 2021, included in Bank and Group's retail loans in domestic currency is KM 500,825 thousand of gross loans (31 December 2020: KM 624,123 thousand), and in corporate loans in domestic currency KM 437,328 thousand (31 December 2020: KM 555,184 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.

Bank and Group	31 December 2021	31 December 2020
Loans and receivables from customers		
Corporate entites	1,321,046	1,299,367
State and public sector	122,203	102,012
Individuals	1,919,428	1,858,971
Finance lease	47,321	64,748
	3,409,998	**3,325,098**
Less: Impairment allowance	(201,355)	(213,052)
	3,208,643	**3,112,046**

a) Corporate entities – credit quality

Gross exposure

Bank and Group		31 December 2021			31 December 2020
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	97,260
Medium risk	967,527	284,385	-	1,251,912	1,126,568
High risk	485	1,758	-	2,243	36,536
Non-performing					
Default	-	-	66,891	66,891	39,003
Total	**968,012**	**286,143**	**66,891**	**1,321,046**	**1,299,367**

	Bank and Group			
Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**985,134**	**275,230**	**39,003**	**1,299,367**
New financing	546,437	78,215	302	624,954
Assets derecognised (excluding write offs)				
Transfers to Stage 1	21,492	(21,492)	-	-
Transfers to Stage 2	(88,562)	88,628	(66)	-
Transfers to Stage 3	(335)	(37,980)	38,315	-
Assets repaid	(496,154)	(96,458)	(3,287)	(595,889)
Accounting write-off during the year	-	-	(5,547)	(5,547)
Amounts written off	-	-	(1,823)	(1,823)
Foreign exchange adjustments	-	-	(6)	(6)
Other changes	-	-	-	-
At 31 December 2021	**968,012**	**286,143**	**66,891**	**1,321,046**

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

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

	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**1,161,405**	**295,899**	**113,033**	**1,570,337**
Effects of the FBA Decision and Accounting Write-Off	-	-	(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 during the year	-	-	(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**

Loans and receivables from clients	Bank and Group			
Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**15,696**	**52,515**	**33,127**	**101,338**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	96	(96)	-	-
Transfers to Stage 2	(6,106)	6,433	(327)	-
Transfers to Stage 3	(19)	(364)	383	-
Impairment (Note 13)	(4,883)	(9,699)	26,512	11,930
Accounting write-off during the year	-	-	(5,547)	(5,547)
Amounts written off			(1,823)	(1,823)
Foreign exchange adjustments	-	-	12	12
Other changes	-	-	305	305
At 31 December 2021	**4,784**	**48,789**	**52,642**	**106,215**

Loans and receivables from clients	Bank and Group			
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	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	(4,345)	17,598
Accounting write-off during the year	-	-	(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**

b) State and public sector – credit quality

Bank and Group		31 December 2021			31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	122,203	-	-	122,203	102,012
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**122,203**	**- -**		**122,203**	**102,012**

Movement of gross exposure		Bank and Group		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**102,012**	**-**	**-**	**102,012**
New financing	42,338	-	-	42,338
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(22,147)	-	-	(22,147)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**122,203**	**-**	**-**	**122,203**

Movement of gross exposure		Bank and Group		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**82,364**	**8,881**	**-**	**91,245**
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 during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1	-		1
At 31 December 2020	**102,012**	**-**	**-**	**102,012**

(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 and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**539**	**-**	**-**	**539**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	20	-	-	20
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**559**	**-**	**-**	**559**

Movement of impairment allowance	Bank and Group			
	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	-	(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 during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**401**	**74**	**-**	**475**

c) Retail – credit quality

Bank and Group	31 December 2021				31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	1,762,671	47,411	-	1,810,082	1,770,412
High risk	24,383	11,606	-	35,989	13,381
Non-performing					
Default	-	-	73,357	73,357	75,178
Total	**1,787,054**	**59,017**	**73,357**	**1,919,428**	**1,858,971**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**1,713,757**	**70,036**	**75,178**	**1,858,971**
New financing	661,140	8,961	3,484	673,585
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	32,468	(29,032)	(3,436)	-
Transfers to Stage 3	(36,100)	39,472	(3,372)	-
Assets repaid	(15,747)	(9,193)	24,940	-
Accounting write-off during the year	(568,464)	(21,228)	(14,099)	(603,791)
Amounts written off	-	-	(9,313)	(9,313)
Foreign exchange adjustments	-	-	(26)	(26)
Other changes	-	1	1	2
At 31 December 2021	**1,787,054**	**59,017**	**73,357**	**1,919,428**

Movement of gross exposure	Bank and Group			
	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	-	-	(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 during the year	-	-	-	-
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 impairment allowance	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**27,760**	**9,000**	**57,943**	**94,703**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	490	(412)	(78)	-
Transfers to Stage 2	(746)	1,044	(298)	-
Transfers to Stage 3	(368)	(18)	386	-
Impairment (Note 13)	(4,160)	(3,094)	8,873	1,619
Accounting write-off during the year	-	-	(9,313)	(9,313)
Amounts written off	-	-	(26)	(26)
Foreign exchange adjustments	-	-	70	70
Other changes	-	-	20	20
At 31 December 2021	**22,976**	**6,520**	**57,577**	**87,073**

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

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

c) Retail – credit quality (continued)

Movement of impairment allowance	Bank and Group			
	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	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 during the year	-	-	-	-
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**

d) Finance lease – corporate – credit quality

Bank and Group	31 December 2021				31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	41,946	-	41,946	49,871
High risk	-	15	-	15	208
Non-performing	-	-	-	-	-
Default	-	-	3,780	3,780	12,385
Total	**-**	**41,961**	**3,780**	**45,741**	**62,464**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**-**	**50,079**	**12,385**	**62,464**
New financing	-	13,854	-	13,854
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	114	(114)	-
Transfers to Stage 3	-	(171)	171	-
Assets repaid	-	(21,933)	(4,538)	(26,471)
Accounting write-off during the year	-	-	(4,056)	(4,056)
Amounts written off	-	-	(68)	(68)
Foreign exchange adjustments	-	-	-	-
Other changes	-	18	-	18
At 31 December 2021	**-**	**41,961**	**3,780**	**45,741**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**-**	**64,383**	**11,422**	**75,805**
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 during the year	-	-	-	-
Amounts written off	-	-	(790)	(790)
Foreign exchange adjustments	-	1	(1)	-
At 31 December 2020	**-**	**50,079**	**12,385**	**62,464**

Movement of impairment allowance	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	-	**4,389**	**11,114**	**15,503**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	1	(1)	-
Transfers to Stage 3	-	(3)	3	-
Impairment (Note 13)	-	466	(4,458)	(3,992)
Accounting write-off during the year	-	-	(4,056)	(4056)
Amounts written off	-	-	(68)	(68)
Other changes	-	-	1	1
At 31 December 2021	**-**	**4,853**	**2,535**	**7,388**

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

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

d) Finance lease – corporate – credit quality (continued)

Movement of impairment allowance	Bank and Group			
	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	-	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	2,361
Accounting write-off during the year	-	-	-	-
Foreign exchange adjustments	-	-	(790)	(790)
At 31 December 2020	**-**	**4,389**	**11,114**	**15,503**

e) Finance lease – retail – credit quality

Gross exposure

Bank and Group	31 December 2021				31 December 2020
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	772		772	939
High risk	-	-	-	-	10
Non-performing	-	-	-	-	-
Default	-	-	164	164	1,251
Total	**-**	**772**	**164**	**936**	**2,200**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**-**	**949**	**1,251**	**2,200**
New financing	-	-	237	237
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	193	(193)	-
Transfers to Stage 3	-	(10)	10	-
Assets repaid	-	(359)	-	(359)
Accounting write-off during the year	-	-	(793)	(793)
Amounts written off	-	-	(348)	(348)
Foreign exchange adjustments	-	-	-	-
Other changes	-	(1)	-	(1)
At 31 December 2021	**-**	**772**	**164**	**936**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**-**	**1,726**	**1,150**	**2,876**
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 during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	**-**	**949**	**1,251**	**2,200**

Movement of impairment allowance	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**-**	**18**	**1,022**	**1,040**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	8	(8)	-
Impairment (Note 13)	-	(8)	223	215
Accounting write-off during the year	-	-	(793)	(793)
Amounts written off	-	-	(348)	(348)
Other changes	-	-	-	-
At 31 December 2021	**-**	**18**	**96**	**114**

Movement of impairment allowance	Bank and Group			
	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	-	-	-	-
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 during the year	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2020	**-**	**18**	**1,022**	**1,040**

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

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

f) Finance lease – governments – credit quality

Gross exposure

Bank and Group	31 December 2021				31 December 2020
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	644	-	644	84
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**-**	**644**	**-**	**644**	**84**

Movement of gross exposure	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**-**	**84**	**-**	**84**
New financing	-	560	-	560
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**-**	**644**	**-**	**644**

Movement of impairment allowance	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021				
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	-	6	-	6
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**-**	**6**	**-**	**6**

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Corporate (including state and public sector)		
Industry:		
Electricity, gas and water	74,184	66,456
Wood and paper	74,141	63,375
Metal and engineering	53,539	70,116
Food and drinks	51,451	67,204
Chemicals	34,266	33,645
Textile and leather	16,186	9,035
Electrical and optical equipment	3,313	3,694
Tobacco	150	142
Other manufacturing	25,944	29,832
Total industry	**333,174**	**343,499**
Retail and wholesale trade	492,651	503,006
Health and social care	125,607	105,555
Central and local governments	89,888	102,457
Tourism	67,037	33,374
Real estate	66,840	50,905
Transport and communications	54,585	62,297
Construction	54,374	43,514
Financial intermediaries	30,012	15,383
Agriculture, forestry and fisheries	11,458	14,072
Education and other public services	2,273	4,711
Other	8,575	20,795
Total	**1,003,300**	**956,069**
Total corporate	**1,336,474**	**1,299,568**
Retail		
Non-purpose loans	1,207,502	1,150,317
Housing loans	441,398	423,693
Other retail loans	183,456	190,254
Total retail	**1,832,356**	**1,764,264**
Total loans and receivables from clients	**3,168,830**	**3,063,832**

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

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

Finance lease	Bank 31 December 2021	Bank 31 December 2020
Corporate (including state and public sector)		
Food and drinks	4,210	9,075
Wood and paper	1,190	1,115
Metal and engineering	97	222
Textile and leather	95	332
Electricity, gas and water	368	355
Chemicals	610	1,403
Electrical and optical equipment	-	63
Other manufacturing	110	339
Total industry	**6,680**	**12,904**
Retail and wholesale trade	11,708	336
Agriculture, forestry and fisheries	7,676	11,071
Transport and communications	3,821	2,353
Construction	3,799	381
Financial intermediaries	1,176	4,909
Real estate	637	5,070
Tourism	587	148
Education and other public services	350	6,009
Health and social care	181	830
Central and local governments	87	84
Other	2,290	2,960
Total	**32,312**	**34,151**
Total corporate	**38,992**	**47,055**
Retail		
Other loans to individuals	821	1,159
Total retail	**821**	**1,159**
Total loans and receivables from clients	**39,813**	**48,214**

21. OTHER ASSETS AND RECEIVABLES

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Receivables from card operations	35,279	30,536
Assets acquired in lieu of uncollectible receivables	10,452	10,635
Accrued fees	1,896	1,415
Other assets	9,144	10,461
	56,771	**53,047**
Less: Impairment allowance	(8,030)	(8,672)
	48,741	**44,375**

The movements in impairment allowance are summarized as follows:

	Bank and Group 2021	Bank and Group 2020
Balance as at 1 January	**8,672**	**12,573**
Effects of the FBA Decision and Accounting Write-Off	-	(3,319)
Impairment of assets acquired in lieu of uncollected receivables (Note 13)	212	1,322
Impairment of other assets (Note 13)	(76)	(732)
Write-offs	(175)	(726)
Accounting write-off during the year	(597)	(420)
Other changes	41	(4)
Foreign exchange differences	(47)	(22)
Balance as at 31 December	**8,030**	**8,672**

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).

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 process of liquidation of UniCredit Broker d.o.o. Sarajevo was completed during 2021.

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

23. PROPERTY AND EQUIPMENT

Bank	Land and buildings	Motor vehicles and equipment	Computers	Leasehold improvements	Assets in progress	Total
COST						
Balance as at 31 December 2019	**60,854**	**30,372**	**41,396**	**24,067**	**13,186**	**169,875**
Additions	-	-	-		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
Balance as at 31 December 2020	**62,216**	**30,627**	**44,401**	**23,969**	**15,166**	**176,379**
Additions	-	-	-	-	8,507	8,507
Write-offs	-	(704)	(2,350)	(2,411)	-	(5,465)
Disposals	(1,943)	(410)	-	-	-	(2,353)
Transfers (from) / to / in use	5,782	3,939	3,351	839	(13,913)	(2)
Fair value adjustment	3,537	-	-	-	-	3,537
Transfer between categories	-	-	-	-	(22)	(22)
Other movements	(4)	-	-	-	(10)	(14)
Balance as at 31 December 2021	**69,588**	**33,452**	**45,402**	**22,397**	**9,728**	**180,567**
ACCUMULATED DEPRECIATION						
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**	**22,158**	**-**	**109,515**
Depreciation charge for the year	1,051	1,606	3,455	686	-	6,798
Write-offs	-	(704)	(2,353)	(2,409)	-	(5,466)
Disposals	(1,443)	(347)	-	-	-	(1,790)
Effect of transition to revaluation model	744	-	-	-	-	744
Balance as at 31 December 2021	**29,979**	**24,069**	**35,318**	**20,435**	**-**	**109,801**
NET BOOK VALUE						
31 December 2021	**39,609**	**9,383**	**10,084**	**1,962**	**9,728**	**70,766**
31 December 2020	**32,589**	**7,113**	**10,185**	**1,811**	**15,166**	**66,864**

The carrying value of the Bank's non-depreciating land within land and buildings amounted to KM 5,049 thousand as at 31 December 2021. During 2021, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2021, Bank's property and equipment were not pledged as collateral.

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.

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 2021 is as follows:

Level 1	Level 2	Level 3
39,609	-	-

24. RIGHT TO USE ASSETS

Bank and Group	Right to use buildings
COST	
As at 1 January 2020	**12,702**
Additions	1,560
As at 31 December 2020	**14,262**
Additions	4,146
Disposals	(5,016)
As at 31 December 2021	**13,392**
ACCUMULATED DEPRECIATION	
As at 1 January 2020	**3,638**
Depreciation charge for the year	4,116
Disposals	(988)
As at 31 December 2021	**6,766**
Depreciation charge for the year	3,486
Disposals	(3,776)
As at 31 December 2021	**6,476**
NET BOOK VALUE	
31 December 2021	**6,916**
As at 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)

25. INTANGIBLE ASSETS

Bank and Group	Software	Other intangible assets	Assets in progress	Total
COST				
As at 31 December 2019	**56,913**	**2,622**	**7,485**	**67,020**
Additions	-	-	4,743	4,743
Write-offs	-	-	-	-
Transfers (from) / to	931	146	(1,077)	-
Transfer to property and equipment (Note 23)	-	-	(748)	(748)
Transfer to other assets	-	-	(3)	(3)
As at 31 December 2020	**57,844**	**2,768**	**10,400**	**71,012**
Additions	-	-	7,272	7,272
Disposals	(449)	(72)	-	(521)
Transfers (from) / to	13,041	57	(13,098)	-
Transfer to property and equipment (Note 23)	-	-	22	22
Transfer to other assets	-	-	1	1
As at 31 December 2021	**70,436**	**2,753**	**4,597**	**77,786**
ACCUMULATED DEPRECIATION				
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**
Depreciation charge for the year	3,980	136	-	4,116
Disposals	(449)	(72)	-	(521)
Other movements	-	11	-	11
As at 31 December 2021	**53,759**	**2,489**	**552**	**56,800**
NET BOOK VALUE				
31 December 2020	**7,616**	**354**	**9,848**	**17,818**
31 December 2021	**16,677**	**264**	**4,045**	**20,986**

During 2021 and 2020, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2021 and 2020, intangible assets were not pledged as collateral for the Bank's borrowings.

26. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS AT AMORTIZED COST

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Demand deposits		
- in foreign currency	1,866	1,841
- in KM	10,867	11,541
Fixed-term deposits		
- in foreign currency	-	69
- in KM	16,006	16,006
	28,739	**29,457**

As at 31 December 2021, current accounts and deposits from banks include KM 23,810 thousand due to related parties (31 December 2020: KM 17,669 thousand).

27. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS AT AMORTIZED COST

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Retail		
Current and savings accounts and term deposits - foreign currency	1,485,308	1,499,495
Current and savings accounts and term deposits - KM	1,835,660	1,636,722
	3,320,968	**3,136,217**
Corporate (including state and public sector)		
Demand deposits		
- in KM	1,491,442	1,336,578
- in foreign currency	366,446	363,756
Fixed-term deposits		
- in KM	97,300	118,392
- in foreign currency	18,284	19,893
	1,973,472	**1,838,619**
	5,294,440	**4,974,836**

As at 31 December 2021, the Bank's retail deposits in KM include KM 454 thousand (31 December 2020: KM 480 thousand) and corporate and state deposits in KM include KM 67,892 thousand (31 December 2020: KM 83,665 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 701 clients of the Bank also include KM 701 thousand from related parties (31 December 2020: KM 1,921 thousand).

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

28. BORROWINGS

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Foreign banks	16,982	29,341
	16,982	**29,341**
Maturity analysis:		
Within one year	11,902	12,499
In the second year	3,683	11,762
Third to fifth year	1,397	5,080
	16,982	**29,341**

As at 31 December 2021, Bank's interest-bearing borrowings include KM 2,906 thousand (31 December 2020: KM 6,901 thousand) related to borrowings from related parties.

29. OTHER LIABILITIES

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Liabilities for items in the course of settlement	64,052	54,749
Accrued expenses	20,822	19,610
Unliateral contract termination	16,592	7,952
Liabilities for card operations	14,114	9,482
Deferred income	2,180	2,210
Lease users' down payments	417	426
Other liabilities	12,474	15,977
	130,234	**110,406**

30. LEASE LIABILITIES

Long-term lease payables	Bank and Group 31 December 2021	Bank and Group 31 December 2020
less than 1 year	2,742	3,766
1 to 2 years	1,858	2,030
2 to 3 years	1,378	1,148
3 to 4 years	943	516
4 to 5 years	-	208
Total amount of long-term lease payments	**6,921**	**7,668**
Discounting effects (unearned finance cost)	(102)	(148)
At 31 December 2021	**6,819**	**7,520**

31. PROVISIONS FOR LIABILITIES AND CHARGES

Bank and Group	Provisions for contingencies and commitments	Provisions for legal proceedings	Long-term provisions for employees	Total
Balance at 1 January 2019	22,656	10,827	3,223	36,706
Effects of the FBA Decision	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
Net charge in profit or loss (Note 13)	(1,018)	637	120	(261)
Provisions used during the period	-	(196)	(258)	(454)
Cost/release under IAS 19	-	-	(75)	(75)
Actuarial gain/loss for the period	-	-	4	4
Reclassification from other liabilities	-	(2)	117	115
Foreign currency differences	11	-	-	11
Balance as at 31 December 2021	13,758	12,722	3,327	29,807

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

32. 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**

33. 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 2021	Bank 2021	Group 2020	Bank 2020
Net profit for the year attributable to ordinary shareholders	88,091	88,091	76,383	74,242
Weighted average number of ordinary shares during the period	118,935	118,935	118,935	118,935
Basic earnings per share (KM)	**740.67**	**740.67**	**623.87**	**624.22**

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

34. 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 and Group 31 December 2021	Bank and Group 31 December 2020
Financial guarantees and Letters of credit	330,887	328,255
Other undrawn commitments	709,390	725,973
Total	**1,040,277**	**1,054,228**

a) Financial guarantees and Letters of credit

Bank and Group		31 December 2021			31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	16,146	-	-	16,146	27,107
Medium risk	245,615	67,885	-	313,500	291,192
High risk	134	54	-	188	8,733
Non-performing					
Default	-	-	1,053	1,053	-
Total	**261,895**	**67,939**	**1,053**	**330,887**	**328,255**

a) Financial guarantees and Letters of credit (continued)

Movement of gross exposure

	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**267,118**	**59,915**	**1,222**	**328,255**
New exposure	186,392	46,507	-	232,899
Exposure matured	(190,909)	(39,188)	(170)	(230,267)
Transfers to Stage 1	477	(477)	-	-
Transfers to Stage 2	(1,182)	1,182	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**261,896**	**67,939**	**1,052**	**330,887**

	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**

Movement of provisions

	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**1,159**	**4,920**	**474**	**6,553**
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(177)	177	-	-
Transfers to Stage 3	-	-	-	-
Impairment	(337)	1,618	317	1,598
Foreign exchange adjustments	11	-	-	11
At 31 December 2021	**657**	**6,714**	**791**	**8,162**

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

34. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

	Bank and Group			
	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 (Note 13)	(3,036)	(1,665)	(2,467)	(7,168)
Foreign exchange adjustments	(26)	-	-	(26)
At 31 December 2020	**1,159**	**4,920**	**474**	**6,553**

b) Other undrawn commitments

	31 December 2021				31 December 2020
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	674,611	34,348	-	708,959	689,879
High risk	118	192	-	310	35,702
Non-performing					
Default	-	-	121	121	392
Total	**674,729**	**34,350**	**121**	**709,390**	**725,973**

Movement of gross exposure

	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**673,897**	**51,721**	**354**	**725,973**
New exposure	371,812	28,787	44	400,643
Exposure matured	(370,127)	(46,723)	(363)	(417,213)
Transfers to Stage 1	954	(954)	-	-
Transfers to Stage 2	(1,747)	1,747	-	-
Transfers to Stage 3	(51)	3	48	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	(13)	-	-	(13)
At 31 December 2021	**674,725**	**34,581**	**83**	**709,390**

Movement of provisions

	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**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 2021	**673,897**	**51,721**	**354**	**725,973**

Movement of provisions

	Bank and Group			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**3,339**	**4,681**	**192**	**8,212**
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	(130)	130	-	-
Transfers to Stage 3	-	-	-	-
Impairment	(1,089)	(1,459)	(68)	(2,616)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2021	**2,123**	**3,349**	**124**	**5,596**

	Bank and Group			
	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	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 associate	-	-	-	-
Other changes	-	-	-	-
At 31 December 2020	**3,339**	**4,681**	**192**	**8,212**

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

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

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Assets under custody	489,672	416,123
Loans managed on behalf of third parties	27,787	29,186
	517,459	**445,309**

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.

36. RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholder of the Bank is Zagrebačka banka d.d. with a holding of 99.30% (2020: 99.30%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; Supervisory Board members, Management Board members and other key management personnel (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 2021 is presented in the table below:

	2021		2020	
Bank	Income	Expenses	Income	Expenses
UniCredit Broker d.o.o. Sarajevo, BiH	504	-	-	-
UniCredit Bank a.d. Banja Luka, BiH	422	(369)	1,280	253
UniCredit Bank Austria AG Beč, Austria	87	40	202	5,717
UniCredit S.p.A Milano, Italy	54	1,545	162	4,030
Zagrebačka banka d.d. Zagreb, Croatia	48	1,514	32	1,434
UniCredit Bank AG München, Germany	38	4	2	1,110
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	17	-	51	-
Uctam BH d.o.o. Mostar, BiH	7	-	5	-
ZANE BH d.o.o. Sarajevo, BiH	1	81	3	26
UniCredit Bank Hungary, Budapest, Hungary	1	9	2	-
UniCredit Services GmbH Beč, Austria	-	5,994	-	6
UniCredit Budiness Integrated Solutions S.C.p.A	-	86	-	-
UniCredit Bank Srbija a.d. Beograd, Serbia	-	33	-	27
UniCredit Leasing Slovakia A.S., Bratislava, Slovakia	-	10	-	-
UniCredit Services S.C.p.A Prague, Czech Republic	-	-	-	153
Total related parties	**1,179**	**8,947**	**1,739**	**12,756**
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	94	7,236	109	7,441
	1,273	**16,183**	**1,848**	**20,197**

There were no transactions with the members of the Supervisory Board during 2021 and 2020.

Income from UniCredit Group members in 2021 includes interest income in the amount of KM 7 thousand (2020: KM 544 thousand) and fee and commission income in the amount of KM 231 thousand (2020: KM 777 thousand). Income in 2021 also includes other income in the amount of KM 941 thousand.

Expenses towards UniCredit Group members in 2021 include interest expense in the amount of KM 369 thousand (2020: KM 2,956 thousand), fees in the amount of KM 1,668 thousand (2020: KM 1,561 thousand), other administrative expenses in the amount of KM 7,647 thousand (2020: KM 7,146 thousand) and other expenses in the amount of KM 2 thousand (2020: KM 1,093 thousand).

An overview of balances at 31 December 2021 and 31 December 2020 is presented below:

	31 December 2021		31 December 2020	
Bank	Exposure*	Liabilities	Exposure*	Liabilities
UniCredit S.p.A Milano, Italy	814,815	1,943	729,545	1,909
Zagrebačka banka d.d. Zagreb, Croatia	29,588	3,723	10,967	1,526
UniCredit Bank Austria AG Beč, Austria	18,438	3,400	20,942	7,401
UniCredit Bank a.d. Banja Luka, BiH	16,709	16,010	16,265	16,009
UniCredit Services Beč, Austria	5,171	297	3,266	6,364
UniCredit Bank AG München, Germany	3,118	797	8,747	183
UniCredit Bank Srbija a.d. Beograd, Serbia	1,318	41	673	55
UniCredit Bank Hungary, Budapest, Hungary	554	22	1,215	22
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	283	345	209	180
UniCredit Services S.C.p.A Prague, Czech Republic	70	86	73	153
ZANE BH d.o.o. Sarajevo, BiH	-	-	-	183
UniCredit Bank Czech Republic and Slovakia, a.s. Prague, Czech Republic	-	-	-	134
Uctam BH d.o.o. Mostar, BH	-	-	-	1,737
Total related parties	**890,064**	**27,347**	**791,902**	**35,856**
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	1,284	1,297	3,344	10,069
	891,348	**28,644**	**795,246**	**45,925**

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

Regarding exposure toward the related parties, impairment losses as at 31 December 2021 amount to KM 599 thousand (31 December 2020 was KM 1,370 thousand).

Furthermore, as at 31 December 2021, the Bank has guarantees from: UniCredit Bank Austria AG in the amount of KM 15,561 thousand (31 December 2020: KM 11,393 thousand); UniCredit SpA Milano in the amount of KM 879 thousand (31 December 2020: KM 913 thousand) and from UniCredit Bank AG Munich in the amount of KM 657 thousand (31 December 2020: KM 788 thousand) while as at 31 December 2021 The Bank had no guarantees given (31 December 2020: 0 KM).

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

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Remuneration paid to Management Board and other key management personnel:

	Bank 2021	Bank 2020
Gross salaries	4,493	4,371
Bonuses	1,188	1,454
Other benefits	1,159	1,310
	6,841	**7,135**

51 employees were included in the Management Board and other key management personnel (2020: 54 employees), including personnel that spent only a part of 2021 in such positions.

In 2021, approved loans to members of the Management Board amount to KM 507 thousand. Interest rates for this range from 3.49% to 5.99%. There were no written-off amounts related to approved loans to members of the Management Board and the Supervisory Board.

37. 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.

37.1 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.

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.

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

- **Stage 1 i 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.

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

37. RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

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

PrProbability 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.

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

ECL

Given 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:

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

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:

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

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%**

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%**

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

37. RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

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 4.1.3.

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.

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.

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

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

- not included in the rating system and
- significant.

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.

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

37. RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.1 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 and Group 31 December 2021	Bank and Group 31 December 2020
Statement of financial position		
Current accounts at CBBH and other banks (Note 15)	523,184	604,094
Obligatory reserve at CBBH (Note 16)	517,867	494,406
Loans to and receivables from banks (Note 17)	801,470	922,463
Debt securities at fair value through other comprehensive income (Note 18)	795,708	622,736
Financial assets at fair value through profit or loss (Note 19)	19	215
Loans and receivables from clients (Note 20)	3,208,643	3,112,046
Other assets exposed to credit risk (part of Note 21)	-	-
Total credit risk exposure relating to assets	**46,657**	**42,039**
	5,893,548	**5,797,999**
Off-balance-sheet items (Note 34)		
Unused loan facilities	709,390	725,973
Guarantees	320,378	321,420
Letters of credit	10,509	6,835
Total off-balance sheet credit risk exposure	**1,040,277**	**1,054,228**
	6,928,984	**6,852,227**

The above table represents the maximum credit risk exposure of the Bank and Group as at 31 December 2021 and 2020, 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 2020: 45.4%), while 13.5% refers to loans and receivables from banks (31 December 2020: 13.5%), and investments in financial assets at FVOCI 9.1% (31 December 2020: 9.1%). The Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

37.1.2 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 and Group 31 December 2021	Bank and Group 31 December 2020
Current account with CBBiH (Note 15)	232,008	240,335
Obligatory reserve at CBBiH (Note 16)	517,867	494,406
Bonds of the Government of Federation of Bosnia and Herzegovina (Note 18)	252,010	225,692
Bonds of the Government of Republika Srpska	199,203	88,578
Treasury bills of the Federal Ministry of Finance of BiH	-	30,000
Treasury bills of the Federal Ministry of Finance of Republic of Srpska	-	24,936
Current tax liability	-	-
Subscribed income tax	565	2,664
State and public sector	122,847	101,621
Deferred tax liability (Note 14)	(1,125)	(159)
	1,323,373	**1,208,073**

The Bank and the Group had no off-balance sheet sovereign risk exposure at 31 December 2021 and 31 December 2020.

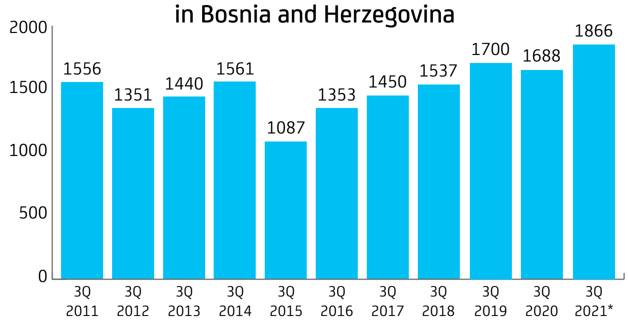
In addition, liabilities to state institutions are as follows:

	Bank 31 December 2021	Bank 31 December 2020
Short-term deposits	(13,972)	(1,129)
Off-balance-sheet exposure	-	5

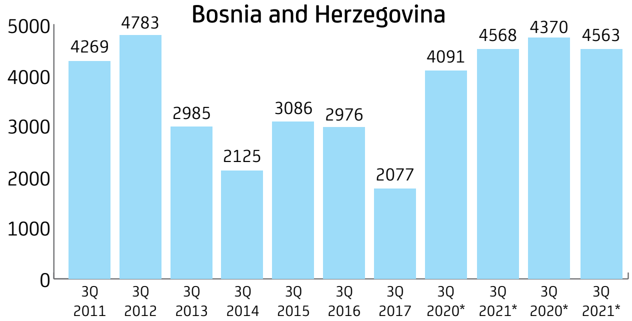
38.1.3 Real estate market trends (unaudited)

According to the latest information from the Agency for Statistics of BH, in the first nine months of 2021, the number of completed apartments was 1,866, which is an increase of 10.5% compared to the same period in 2020. The number of unfinished apartments at the end of the third quarter of 2021 is 4,563 and represents a increase of 4.4% compared to the same period of the last year.

Number of completed dwellings in Bosnia and Herzegovina



Number of uncompleted dwellings in Bosnia and Herzegovina



*Data as at 31 December 2021 have not been published.

The average price of new apartments sold in the third quarter of 2021 is 1,754 KM. Compared to the average price of new dwellings sold in 2020, the average price is higher by 5.3%, and compared to the third quarter of 2020 higher by 6.3%. The number of new apartments sold in the third quarter of 2021 compared to the third quarter of 2020 is higher by 13.7%. Compared to the average number of new apartments sold in 2020, it is higher by 33.3%.

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

37. RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.3 Real estate market trends (unaudited) (continued)

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

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

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 2020 in the Federation of BH is 15,960.

Due to epidemiological measures and orders of the FBiH Crisis Staff in April 2020, the lowest number of sales was recorded. After the gradual reduction of epidemiological measures, the volume of sales continued to grow and already in mid-June it reached the level as before the pandemic. In the first quarter of 2021, an increase in the volume of sales compared to the previous two years was observed. It can be noted that the pandemic did not disrupt the real estate market due to the upward trend in prices, but only changed the type of most sought-after real estate. Despite a smaller number of transactions, real estate prices have retained considerable value, except in the commercial real estate market, which has not recovered as residential.

The largest volume of apartment turnover in 2020 was registered in Novo Sarajevo, Novi grad Sarajevo, Tuzla, Centar Sarajevo, Zenica and Mostar.

37.1.4 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 2021, restructured corporate portfolio amounted to KM 87,792 thousand, with the portfolio coverage by provisions of 40%, while restructured retail portfolio amounted to KM 7,087 thousand, with the portfolio coverage by provisions of 41.6%.

In 2021, the restructured portfolio of legal entities recorded an increase in volume by 23.11% compared to the portfolio of legal entities at the end of 2020. 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.

In 2021, the restructured portfolio of citizens recorded an increase of 61.76% compared to the restructured portfolio at the end of 2020. 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.

Bank and Group	Forborne (Restructured exposures)						
31 December 2021	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
Households	1,920,364	16,056	3,112	1%	87,187	4,290	4.9%
Non-financial companies	1,365,501	90,912	10,112	7,4%	113,537	54,277	47.8%
Other financial companies	1,286	-	-	-	72	-	-
Total	**3,287,151**	**106,968**	**13,224**	**4%**	**200,796**	**58,567**	**29.2%**

Bank and Group	Restructured exposures (risk group)					
	Stage 1		Stage 2		Stage 3	
31 December 2021	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)
Households	101	8	13,143	1,141	5,924	3,141
Non-financial companies	130	19	46,442	14,985	54,452	39,273
Other financial companies	-	-	-	-	-	-
Total	**231**	**27**	**59,585**	**16,126**	**60,376**	**42,414**

Bank and Group	Forborne (Restructured exposures)						
31 December 2020	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
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	-	-	-	256	-	-
Total	**3,223,002**	**77,133**	**18,179**	**3%**	**212,577**	**48,477**	**22.8%**

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

37. RISK MANAGEMENT (CONTINUED)

37.1. Credit risk (continued)

37.1.4 Restructuring Department portfolio (continued)

Bank	Restructured exposures (risk group)					
	Stage 1		Stage 2		Stage 3	
31 December 2020	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)
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**

37.1.5 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.

a) Total exposure

Bank 31 December 2021	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 CBBIH	1,347,632	-	-	-	-	-	-	-	-	-	1,345,525
Loans and receivables from banks	802,375	-	-	-	-	-	-	-	-	-	801,470
Loans and receivables from clients	3,409,998	23,484		137,934	872,737				671,471	1,705,626	3,223,659
- Legal entities	1,366,787	18,058	-	137,934	515,481	-	-	-	362,681	1,034,154	1,267,966
- State	122,847	-	-	-	-	-	-	-	671,472	671,472	122,288
- Individuals and entrepreneurs (citizens)	1,920,364	5,426	-	-	357,256	-	-	-	(362,682)	-	1,833,405
Debt securities at amortized cost			-	-	-	-	-	-	362,682	362,682	-
Total financial assets at amortized cost	**5,560,005**	**23,484**	**-**	**137,934**	**872,737**	**-**	**-**	**-**	**1,034,153**	**2,068,308**	**5,370,654**
Derivative financial assets	1,245		-	-	-	-	-	-	-	-	1,245
Financial assets held for trading											
Financial assets at FVTPL			-	-	-	-	-	-	-	-	-
Total financial assets at FVTPL	**1,245**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities at FVOCI	795,740		-	-	-	-	-	-	-	-	795,740
Total debt securities at FVOCI	**795,740**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**795,740**
Guarantees and letters of credit	330,887	9,304	-	8,272	15,787	-	-	-	(33,363)	-	322,725
Other classic risk off-balance sheet items	709,390	4,620	-	22,065	38,014	-	-	-	(31,336)	33,363	703,794
	1,040,277	**13,924**	**-**	**30,337**	**53,801**	**-**	**-**	**-**	**(64,699)**	**33,363**	**1,026,519**
	7,397,267	**37,408**	**-**	**168,271**	**926,538**	**-**	**-**	**-**	**969,454**	**2,101,671**	**7,194,158**

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

37. RISK MANAGEMENT (CONTINUED)

37.1. Credit risk (continued)

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

a) Total exposure (continued)

		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 CBBIH	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**

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 2021	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 CBBIH	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables from clients	144,192	16	-	-	26,777	-	165	-	-	26,958	36,610
- Legal entities	70,671	-	-	-	19,955	-	165	-	-	20,120	20,570
- State	-	-	-	-	-	-	-	-	-	-	-
- Individuals and entrepreneurs (citizens)	73,521	16	-	-	6,822	-	-	-	-	6,838	16,040
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	**144,192**	**16**	**-**	**-**	**26,777**	**-**	**165**	**-**	**-**	**26,958**	**36,610**
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	1,053	-	-	-	-	-	-	-	-	-	262
Other classic risk off-balance sheet items	121	-	-	-	-	-	-	-	-	-	(3)
	1,174	-	-	-	-	-	-	-	-	-	**259**
	145,366	**16**	**-**	**-**	**26,777**	**-**	**165**	**-**	**-**	**26,958**	**36,869**

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

37. RISK MANAGEMENT (CONTINUED)

37. RISK MANAGEMENT (CONTINUED)

37.1.5 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 (continued)

		Fer vrijednost primljenih instrumenta osiguranja i ostalih instrumenata kreditne zaštite									
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 CBBIH	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables from clients	127,817	80	-	-	15,256	-	-	-	(15,356)	-	48,876
- Legal entities	51,388	33	-	-	8,797	-	-	-	(8,830)	-	29,368
- State	-	-	-	-	-	-	-	-	-	-	-
- Individuals and entrepreneurs (citizens)	76,429	47			6,479				(6,526)	-	19,508
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	127,817	80	-	-	15,276	-	-	-	(15,356)	-	48,876
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	1,223	-	-	-	-	-	-	-	-	-	749
Other classic risk off-balance sheet items	392	-	-	-	-	-	-	-	-	-	200
	1,615	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**949**
	129,432	**80**	**-**	**-**	**15,276**	**-**	**-**	**-**	**(15,356)**	**-**	**49,825**

37.1.6 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

Deposits and properties where mat value is > 0

BANK AND GROUP 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	67	21	91	113	138	4	434
Gross consumer loans	1,224	1	2	3	2	0	1,232
Total	**1,290**	**21**	**93**	**116**	**140**	**4**	**1,665**

BANK AND GROUP 2021 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	60	23	104	133	127	3	450
Gross consumer loans	1,277	1	2	2	1	0	1,284
Total	**1,337**	**24**	**106**	**135**	**128**	**3**	**1,734**

Households

BANK AND GROUP 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	21	27	104	123	153	6	434
Gross consumer loans	1,224	1	2	3	2	0	1,232
Total	**1,245**	**28**	**106**	**126**	**155**	**6**	**1,665**

BANK AND GROUP 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	15	28	114	142	143	7	450
Gross consumer loans	1,277	1	2	2	1	0	1,284
Total	**1,293**	**29**	**116**	**144**	**144**	**7**	**1,734**

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.

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

37. RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.7 Analysis by debt maturity and collateral

Impairment allowance coverage of the non-performing loan portfolio in 2021 is 78.27% for the Bank and Group (31 December 2020: 80.74%).

Total impairment of loans and receivables from customers and finance leases for the Bank and the Group amounts to KM 201,355 thousand (31 December 2020: KM 213,052 thousand), of which KM 112,856 thousand (31 December 2020: KM 103,201 thousand) relates to the impairment the value of loans for which impairment was individually identified, and the remaining value of KM 88,499 thousand (31 December 2020: KM 109,551 thousand) relates to impairment on a portfolio basis.

Retail loans	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Loans that are neither past due nor impaired	1,799,785	1,727,878
Past due loans that are not impaired	46,286	55,915
Impaired loans	73,357	75,178
Gross	**1,919,428**	**1,858,971**
Less: Impairment allowance	(87,073)	(94,703)
Net	**1,832,355**	**1,764,268**

	Bank and Group 31 December 2021	Bank and Group 31 December 2020
Corporate, including state and public sector		
Loans that are neither past due nor impaired	1,374,533	1,330,986
Past due loans that are not impaired	1,825	31,390
Impaired loans	66,891	39,003
Gross	**1,443,249**	**1,401,379**
Less: Impairment allowance	(106,774)	(101,813)
Net	**1,336,475**	**1,299,566**
Finance lease		
Financial lease receivables that are not past due	43,362	50,884
Past due receivables on financial lease that are not impaired (Note 20)	15	228
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	3,944	13,636
Gross	**47,321**	**64,748**
Less: Impairment allowance	(7,508)	(16,536)
Net	**39,813**	**48,212**

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
	Cash and consumer loans	Credit cards and over-drafts	Housing loans	Total	Large	Medium	Small	Total	Total
Bank and Group 31 December 2021									
Standard monitoring	1,008,364	141,400	366,508	1,516,272	668,355	478,469	5,367	36,070	1,152,191
Special monitoring	184,424	26,173	72,916	283,513	201,139	46,764	17,165	7,292	265,068
	1,192,788	**167,573**	**439,424**	**1,799,785**	**869,494**	**525,233**	**22,532**	**43,362**	**1,417,259**
Bank 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**

b) Past due loans that are not impaired

	Retail				Corporate, including state and public sector				Financial lease
Bank and Group	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Total	Large	Medium	Small	Large	Total
31 December 2021									
Past due up to 30 days	30,647	9,039	2,617	42,303	-	365	634	15	999
Past due 31 to 60 days	2,474	390	310	3,174	-	719	107	-	826
Past due 61 to 90 days	624	101	84	809	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-
	33,745	**9,530**	**3,011**	**46,286**	**-**	**1,084**	**741**	**15**	**1,825**
Estimated value of collateral	**-**	**-**	**326**	**326**	**-**	**587**	**25**	**-**	**612**
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**	**-**

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

37. RISK MANAGEMENT (CONTINUED)

37.1 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 as of 31 December 2021 amounts to KM 144.194 thousand (31 December 2020: KM 127,816), while on net level before cash flows from received collateral instruments they amount to KM 31.388 thousand (31 December 2020: KM 24,615 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 2021									
Non-performing loans	11,435	1,124	3,231	15,790	13,366	1,104	563	**1,303**	**16,336**
Estimated value of collateral	**4**	**-**	**3,231**	**3,235**	**5,309**	**878**	**285**	**-**	**6,472**

	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**	**-**

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.

37.1.8 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” 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 March 2021.

The total loan portfolio over which one of the measures was approved in 2020 and 2021 amounts to KM 522.3 million.

In 2021, following the publication of the Decision on Amendments to the Decision on Temporary Measures Applied by Banks to Recover from the Negative Consequences of Viral Diseases “Covid-19”, the Bank started updating the “Program of special measures for clients (legal entities and individuals) who are exposed to negative economic effects caused by the “COVID-19” virus and acted on the same.

In general, in 2021, the situation in the management of the COVID crisis has improved, primarily due to the use of vaccines, which has resulted in a significant demand for some of the measures during 2021.

The Bank continuously and intensively monitors all clients to whom COVID measures have been approved. With a focus on significant exposures affected by the negative economic effects of the pandemic, adequate classification activities into certain risk groups are carried out and, if necessary, timely modification measures are taken to facilitate servicing obligations and continuing regular repayments.

By continuously monitoring the portfolio, the Bank generates an adequate level of coverage in the early stages of the client's deteriorating portfolio, in order to avoid sudden blows to the Bank's profitability and maintain business continuity in case of possible transfer of clients to non-performing assets later.

37.2 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.

37.2.1 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.

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

37. RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity risk (continued)

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.

	(in KM million)			
	31 December 2021		31 December 2020	
ADJUSTED NSFR	>3Y	>5Y	>3Y	>5Y
Items that provide stable funding sources	1,011	979	1,087	1,027
Items that require stable funding sources	1,376	822	1,306	762
NET STL	3,180	3,180	2,790	2,790
Items that provide stable funding sources + NET STL	4,192	4,159	3,877	3,818
Warning level	124.5%	124.5%	124.5%	124.5%
RATIO	**305%**	**506%**	**297%**	**501%**

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.

	(in KM million)	
EUR FX GAP >1G	31 December 2021	31 December 2020
Liabilities in classes >1G	191	238
NET STL	1,056	945
Receivables in classes >1G	708	879
Warning level (max)	(305)	(305)
RATIO	**538**	**304**

	(in KM million)	
OTHER FX GAP >1G	31 December 2021	31 December 2020
Liabilities in classes >1G	6	9
NET STL	176	144
Receivables in classes >1G	9	7
Warning level (max)	(39)	(39)
RATIO	**174**	**146**

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.

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.

	(in KM million)	
NSFR	31 December 2021	31 December 2020
Items that provide stable funding sources	5,092	4,877
Items that require stable funding sources	2,584	2,576
Warning level	104,5%	104%
Limit	101%	101%
Stable funding source ratio requirement (%)	**197%**	**189%**

37.2.2 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 2021**							
Non-interest bearing	-	332,477	209	246	1,163	225	334,319
Variable interest rate instruments	4.86%	1,060,229	42,299	177,064	661,125	414,019	2,354,735
Fixed interest rate instruments	3.80%	1,010,103	327,550	566,630	1,498,538	555,136	3,957,957
		2,402,808	**370,057**	**743,940**	**2,160,826**	**969,380**	**6,647,011**
Bank **31 December 2020**							
Non-interest bearing	-	222,925	50	718	752	-	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**

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)

37. RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

37.2.2 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 2021							
Non-interest bearing	-	2,845	2,278	11,388	7,908	1,689	26,108
Variable interest rate instruments	0.30%	3,583,295	31,357	114,465	144,611	-	3,873,728
Fixed interest rate instruments	0.99%	832,845	64,471	254,044	295,769	4,074	1,451,203
		4,418,985	**98,107**	**379,896**	**448,288**	**5,764**	**5,351,040**
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**

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.

37.3 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.

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.

37.3.1 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 classified under IFRS 9 – fair value through profit or loss (FVtPL) and fair value through other comprehensive income (FVOCI).

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 2021 and 2020 is as follows:

2021 Bank and Group	Minimum 2021	Average 2021	Maximum 2021	End of 2021
FVOCI Total	**776.4**	**1.395**	**3.380.7**	**776.4**
FVtPL Total	**0.3**	**2.5**	**5.8**	**3.5**

2020 Bank and Group	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**

37.3.2 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.

37.4 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.

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

37. RISK MANAGEMENT (CONTINUED)

37.4 Foreign currency risk (continued)

Maturity for non-derivative financial liabilities

Bank As of 31 December 2021	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	488,413	162,427	82,013	94,805	827,658
Obligatory reserve at CBBH	517,867	-	-	-	517,867
Loans and receivables from banks	16,559	781,736	3,175	-	801,470
Financial assets available for sale	228,172	493,315	49,625	16,755	787,867
Financial assets at fair value through profit or loss	-	19	-	-	19
Loans and receivables from clients	2,335,250	873,393	-	-	3,208,643
Hedging derivatives		1,226	-	-	1,226
Other assets and receivables	47,394	1,269	49	29	48,741
Right-of-use assets	6,916	-	-	-	6,916
Prepaid income tax	565	-	-	-	565
Property and equipment and intangible assets	91,752	-	-	-	91,752
	3,732,888	**2,313,385**	**134,862**	**111,589**	**6,292,724**
Liabilities					
Current accounts and deposits in banks	26,873	1,866	-	-	28,739
Current accounts and deposits from clients	3,356,067	1,714,024	130,837	93,512	5,294,440
Lease liabilities	6,819	-	-	-	-
Financial liabilities at fair value through profit or loss	-	1	-	-	1
Borrowings and subordinated debt	-	16,982	-	-	16,982
Deferred tax liability	1,125	-	-	-	1,125
Other liabilities	105,336	20,921	2,655	1,322	130,234
Equity and reserves	784,577	-	-	-	784,577
Provisions for liabilities and expenses	26,291	3,338	102	76	29,807
	4,307,088	**1,757,132**	**133,594**	**94,910**	**6,300,597**
Net position	**(574,200)**	**556,253**	**1,268**	**16,679**	**-**

Bank and Group As of 31 December 2020	KM	EUR	USD	Other currencies	Total
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 at fair value through other comprehensive income	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**

37.4.1 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 2021**	**31 December 2020**
Profit/Loss	(6)	(83)

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

37. RISK MANAGEMENT (CONTINUED)

37.5 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).

37.5.1 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.

BPV sensitivity analysis for the Bank per currency:

Bank 31 December 2021	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 y ears	Over 10 years	Total
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 2021 are presented as absolute values.

BPV sensitivity analysis for the Bank per currency:

Bank 31 December 2020	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 y ears	Over 10 years	Total
KM	-	(21)	(84)	74	(20)	(51)
EUR	(10)	(49)	(3)	98	20	56
USD	-	(1)	(6)	-	-	(7)
Total	**10**	**71**	**93**	**172**	**40**	**114**

Values in 2020 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 2021 %	Bank 31 December 2020 %
Cash and cash equivalents	(0.42%)	(0.46)
Obligatory reserve at CBBH	(0.14%)	0
Financial assets at FVOCI	(1.94%)	1.96
Loans and receivables from banks	(0.62%)	(0.55)
Loans and receivables from clients	(4.39%)	4.60
Current accounts and deposits from banks	(0.74%)	0.14
Current accounts and deposits from clients	(0.22%)	0.33
Interest-bearing borrowings	(0.99%)	1.09

37.6 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.

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

37. RISK MANAGEMENT (CONTINUED)

37.6 Operating risk (CONTINUED)

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.

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.

37.7 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.

38. 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 2021, 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 20.91%.

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 20 June 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.

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.

On 1 October 2021, the European Commission (EC) published an implementing decision confirming the equivalence of the supervisory and regulatory framework in Bosnia and Herzegovina with regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment institutions. company and amending Regulation (EU) no. 648/2012 (CRR) and Directive 2013/36 / EU 2013 of the European Parliament and of the Council on the accession of credit institutions and prudential supervision of credit institutions and investment firms (CRD). This Decision shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

Equivalence in the segments of supervision and regulatory framework for the banking system has wider significance and long-term effects on the status of Bosnia and Herzegovina, investment rating assessments, risk weights for calculating capital requirements to cover banking risks, interest rate levels, investment security, etc.

The capital adequacy ratio under Basel III methodology for 2021 was significantly above the prescribed limit of 12%. The composition of capital and capital ratios as at 31 December 2021 is given in the table below.

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

	Bank 31 December 2021	Bank 31 December 2020
Regulatory capital	**669,899**	**682,236**
Core capital	669,729	682,066
Regular core capital	669,729	682,066
Issued share capital – Ordinary shares	119,011	119,011
Share premium	48,317	48,317
Accumulated comprehensive income	1,260	9,842
Statutory, regulatory and other reserves	523,422	523,422
Deductions from regular core capital		
intangible assets	(20,986)	(17,818)
own shares	(214)	(214)
deferred tax assets	(1,081)	(34)
significant investment in capital of financial sector entities	-	(460)
Deductions from additional core capital exceeding the additional core capital	-	-
Total regular core capital capital	**669,729**	**682,066**
Additional core capital		-
Core capital	**669,729**	**682,066**
Supplementary capital	**-**	**170**
Issued own capital – Priority shares	184	184
Own shares	(14)	(14)
General credit risk allowances	-	-
Missing credit loss provisions	-	-
Deductions from supplementary capital exceeding supplementary capital	-	-
Total regulatory capital	**669,899**	**682,236**
Risk weighted assets (unaudited)	**3,202,204**	**3,258,778**
Capital adequacy ratio	**20.91%**	**20.1%**

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 2021 it is significantly above the stated minimum, amounting to 10.17%.

39. FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

39.1 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 2021	Level 1	Fair values Level 2	Level 3
Financial assets at FVOCI (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	32	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BH	-	252,008	-
Bonds of the Government of Republika Srpska	-	199,203	-
Bonds of the Government of Republic of Croatia	160,905	-	-
State Bonds of the Republic of Poland	73,041	-	-
Bonds of the Government of Romania	55,995	-	-
State Bonds of the Republic of Slovenia	46,862	-	-
Treasury bills of the Government of the Federation of Bosnia and Herzegovina	-	-	-
Treasury bills of the Government of Republika Srpska	-	-	-
Assets	-	-	19
Liabilities	-	1	-
	336,835	**421,211**	**19**

Bank 31 December 2020	Level 1	Fair values 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	-	-
Bonds of the Government of Romania	45,532	-	-
State Bonds of the Republic of Slovenia	-	-	-
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	-
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.

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.

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

39. FAIR VALUE MEASUREMENT (CONTINUED)

39.2 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)

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 2021 and 2020.

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 and Group 31 December 2021		Bank and Group 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
Loans and receivables from clients	3,208,643	3,230,256	3,112,046	3,186,404
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	5,294,440	5,218,371	4,974,836	4,953,929
- Borrowings	16,982	16,738	29,341	29,218

Bank and Group	Fair value hierarchy as at 31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	1,034,965	2,195,291	**3,230,256**
	-	**1,034,965**	**2,195,291**	**3,230,256**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	5,218,371	**5,218,371**
- Borrowings	-	-	16,738	**16,738**
	-	**-**	**5,235,109**	**5,235,109**

The Bank and Group provide finance lease of equipment and vehicles.

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**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2021 are based on requirements of IFRS 13, by applying the methodology developed on UnICredit Group level.

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.

39.3 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.

40. APPROVAL OF THE FINANCIAL SEPARATE AND CONSOLIDATED STATEMENTS

The separate and consolidated financial statements on the pages 30 to 163 were approved by the Management Board on 16 February 2022 for the submission to the Supervisory Board:

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

Caring for our communities: When an earthquake devastated the Croatian region of Banija, the UniCredit Foundation sprang into action and launched a fundraising initiative to support those most affected.

Our People
Earthquake
Croatia

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

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 2021) and Profit and Loss (statement on the overall result for the period from 1 January to 31 December 2021) 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 81/21).

BALANCE SHEET

Statement of financial position as at 31 December 2021

in BAM

ITEM	Code for AOP	Current year – Gross	Current year – 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**	**6.427.641.013**	**212.749.060**	**6.214.891.953**	**6.028.314.887**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0 0 2	882.026.648	1.553.489	880.473.159	858.021.228
a) Cash and cash equivalents in domestic currency	0 0 3	488.413.461	0	488.413.461	389.580.424
b) Other receivables in domestic currency	0 0 4	52.803.313	1.523.256	51.280.057	48.898.913
c) Cash and cash equivalents in foreign currency	0 0 5	339.680.489	0	339.680.489	418.823.718
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	1.092.844	30.233	1.062.611	681.632
2. Deposits and loans in local and foreign currency (009 + 010)	0 0 8	519.537.587	0	519.537.587	495.495.746
a) Deposits and loans in domestic currency	0 0 9	519.537.587	0	519.537.587	495.495.746
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	3.337.905	1.726.570	1.611.335	2.037.152
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0 1 2	3.313.323	1.725.847	1.587.476	2.024.618
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0 1 3	24.582	723	23.859	12.534
4. Loans and deposits (015 to 017)	0 1 4	3.483.614.529	91.656.879	3.391.957.650	3.444.664.287
a) Loans and deposits in local currency	0 1 5	2.005.787.692	60.093.923	1.945.693.769	1.691.967.193
b) Loans and deposits with hedge local currency currency	0 1 6	687.048.106	30.315.282	656.732.824	843.070.190
c) Loans and deposits in foreign currency	0 1 7	790.778.731	1.247.674	789.531.057	909.626.904
5. Securities (019 to 021)	0 1 8	776.043.011	0	776.043.011	616.237.897
a) Securities in local currency	0 1 9	227.387.756	0	227.387.756	257.194.275

ITEM	Code for AOP	Current year			Previous year (initial balance)
		Gross	Impairment value	Net (3-4)	
1	2	3	4	5	6
b) Securities with hedge local currency	0 2 0	85.291.930	0	85.291.930	91.589.327
c) Securities in foreign currency	0 2 1	463.363.325	0	463.363.325	267.454.295
6. Other placements and prepayments (023 to 029)	0 2 2	752.055.698	111.191.833	640.863.865	607.182.926
a) Other placements in local currency	0 2 3	2.307.840	2.307.840	0	81.235
b) Other placements with hedge local currency	0 2 4	27.084.809	11.604.415	15.480.394	28.797.414
c) Due placements and current maturities of long-term placements in local currency	0 2 5	691.321.382	91.734.182	599.587.200	558.697.324
d) Prepayments in local currency	0 2 6	14.173.177	264.140	13.909.037	13.306.641
e) Other placements in foreign currency	0 2 7	5.281.252	5.281.252	0	0
f) Due placements and current maturities of long-term placements in foreign currency	0 2 8	0	0	0	0
g) Prepayments in foreign currency	0 2 9	11.887.238	4	11.887.234	6.300.312
7. Inventories	0 3 0	11.025.635	6.620.289	4.405.346	4.675.651
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**	**271.735.748**	**173.067.376**	**98.668.372**	**92.177.864**
1. Tangible assets and investment in property (037 to 040)	0 3 6	193.954.474	116.272.570	77.681.904	74.359.841
a) Tangible assets owned by the bank	0 3 7	161.835.467	95.842.851	65.992.616	57.387.489
b) Investment in property	0 3 8	22.395.156	20.429.719	1.965.437	1.811.985
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	9.723.851	0	9.723.851	15.160.367
2. Intangible assets (042 to 046)	0 4 1	77.781.274	56.794.806	20.986.468	17.818.023
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	73.186.585	56.794.806	16.391.779	7.419.361
e) Advances and assets acquired but not brought into use	0 4 6	4.594.689	0	4.594.689	10.398.662
C. DEFFERED TAX ASSETS	**0 4 7**	**1.759.185**	**0**	**1.759.185**	**2.527.008**
D. OPERATING ASSETS (001+035+047)	**0 4 8**	**6.701.135.946**	**385.816.436**	**6.315.319.510**	**6.123.019.759**
E. OFF BALANCE SHEET ASSETS	**0 4 9**	**1.040.277.169**	**0**	**1.040.277.169**	**1.054.228.405**
F. TOTAL ASSETS (048+049)	**0 5 0**	**7.741.413.115**	**385.816.436**	**7.355.596.679**	**7.177.248.164**

BALANCE SHEET

Statement of financial position as at 31 December 2021 in BAM

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	**1 0 1**	**5.530.742.049**	**5.205.731.869**
1. Deposits and borrowings (103 to 105)	1 0 2	5.320.981.152	5.013.586.689
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3	3.380.309.384	3.032.875.222
b) Hedging deposits and borrowings	1 0 4	68.053.584	83.779.523
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	1.872.618.184	1.896.931.944
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	209.752.897	192.137.180
a) Salaries and fees	1 1 4	2.510.400	2.480.177
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5	97.911.677	77.587.002
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	2.273.328	3.148.369
d) Current tax liability	1 1 7	10.833.947	10.356.476
e) Deffered tax liability	1 1 8	2.883.984	2.686.023
f) Provisions	1 1 9	29.807.208	30.466.759
g) Accruals in domestic currency	1 2 0	22.157.035	22.577.089
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	258.939	279.516
i) Other liabilities in foreign currency	1 2 2	24.406.664	24.538.797
j) Accruals in foreign currency	1 2 3	4.947.800	5.165.496
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	11.761.915	12.851.476
B. EQUITY (126+132+138+142-148)	**1 2 5**	**784.577.461**	**917.287.890**
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

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions

ITEM 1	Code for AOP 2	Current year 3	Previous year (initial balance) 4
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	523.422.370	523.422.370
a) Reserves from profit	1 3 3	523.422.370	523.422.370
b) Other provisions	1 3 4	0	0
c) Provision for losses	1 3 5	0	0
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	5.477.803	11.686.504
a) Revaluation reserve based on change in value of fixed assets and intangible investments	1 3 9	4.623.768	2.141.677
b) Revaluation reserve based on change in value of securities	1 4 0	854.035	9.544.827
c) Other revaluation resererves	1 4 1	0	0
4. Profit (143 to 147)	1 4 2	88.393.705	214.895.433
a) Profit for the year	1 4 3	88.091.130	74.242.243
b) Unallocated profit from prior years	1 4 4	302.575	140.653.190
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**	**6.315.319.510**	**6.123.019.759**
D. OFF BALANCE SHEET LIABILITIES	**1 5 2**	**1.040.277.169**	**1.054.228.405**
E. TOTAL LIABILITIES (151+152)	**1 5 3**	**7.355.596.679**	**7.177.248.164**

BALANCE SHEET

Statement of financial result for the period 01.01.2021-31.12.2021 u BAM

ITEM	Code for AOP	VALUE	
		Current year	Previous year (initial balance)
1	2	3	4
A. OPERATING INCOME AND EXPENSES 1. Interest income	**2 0 1**	**161.839.152**	**173.108.789**
2. Interest expense	2 0 2	20.966.866	23.226.960
Net interest income (201-202)	2 0 3	140.872.286	149.881.829
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	120.445.288	105.534.291
4. Fee and commissions expense	2 0 6	29.281.806	23.475.797
Net fee and commission income (205-206)	2 0 7	91.163.482	82.058.494
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	232.035.768	231.940.323
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	126.118.714	127.632.927
a) Expenses of gross salaries and contribution expense	2 2 7	50.974.568	50.790.945
b) Expenses of fees for temporary and occasional work contracts	2 2 8	24.033	58.610
c) Other personnel expenses	2 2 9	5.054.131	5.444.427
d) Material expenses	2 3 0	3.441.945	3.573.290
e) Production services expenses	2 3 1	22.767.543	22.886.137
f) Depreciation expenses	2 3 2	14.399.864	15.941.024

ITEM	Code for AOP	VALUE	
		Current year	Previous year (initial balance)
1	2	3	4
g) Expenses from leasing activities	2 3 3	0	0
Non-material expenses (excluding taxes and contributions)	2 3 4	27.282.089	26.695.695
i) Tax and contributions expenses	2 3 5	2.174.541	2.242.799
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	126.118.714	127.632.927
C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)	**2 3 9**	**277.862.008**	**370.890.739**
a) Income from recovered provisions for placements	2 4 0	245.647.010	320.596.372
b) Income from recovered provisions for off-balance sheet items	2 4 1	29.697.673	48.102.014
c) Income from recovered provision for liabilities	2 4 2	2.517.325	2.192.353
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	288.694.794	395.807.508
a) Provisions charges for placements	2 4 5	256.740.717	353.073.258
b) Provision charges for off-balance sheet items	2 4 6	28.679.835	38.544.512
c) Charges based on provisions for liabilities	2 4 7	3.154.578	3.926.546
d) Other provision charges	2 4 8	119.664	263.192
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	10.832.786	24.916.769
D. OTHER INCOME AND EXPENSES 1. Other income (252 to 258)	**2 5 1**	**6.769.914**	**4.981.526**
a) Income from bad debts previously written off	2 5 2	4.953.353	3.053.773
b) Losses from sales of fixed assets, and intangible investments	2 5 3	785.843	392.310
c) Income from reduction in liabilities	2 5 4	0	0
d) Income from dividends and shares	2 5 5	83.160	31.238
e) Surplus	2 5 6	46.423	58.722
f) Other income	2 5 7	901.135	1.445.483
g) Gains grom discounted operations	2 5 8	0	0
2. Other expense (260 to 266)	2 5 9	1.629.807	1.548.776
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	578	232.244
d) Shortfalls	2 6 3	39.089	37.183
e) Inventorywrite-offs	2 6 4	0	0
f) Other expenses	2 6 5	1.590.140	1.279.349
g) Expenses from discontinued operations	2 6 6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2 6 7	5.140.107	3.432.750
LOSS FROM OTHER INCOME AND EXPENSES (259-251)	2 6 8	0	0

ITEM	Code for AOP	VALUE	
		Current year	Previous year (initial balance)
1	2	3	4
OPERATING GAIN (221+237+249+267-222-238-250-268)	2 6 9	100.224.375	82.823.377
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**	**139.598.718**	**173.847.567**
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	139.598.718	173.847.567
2. Expenses from change in value of assets and liabilities (278 to 282)	2 7 7	139.179.267	173.998.001
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	371.241	1.151.392
e) Expenses from unfavorable foreign exchange differences	2 8 2	138.808.026	172.846.609
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2 8 3	419.451	0
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2 8 4	0	150.434
PROFIT BEFORE TAX (269+283-270-284))	2 8 5	100.643.826	82.672.943
LOSS BEFORE TAX (270+284-269-283)	2 8 6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	**2 8 7**	**10.833.945**	**10.356.474**
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	1.718.751	-1.925.774
PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289)	2 9 0	88.091.130	74.242.243
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**	**3.059.332**	**2.285.883**

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions

ITEM	Code for AOP	VALUE	
		Current year	Previous year (initial balance)
1	2	3	4
a) Income from decrease of revalorisation reserves in fixed assets and intangible investments	2 9 3	2.951.931	0
b) Income from change of fair value of securities available for sale	2 9 4	0	2.612.693
c) Income from transferring financial reports of foreign operations	2 9 5	0	0
d) Actuarial income from defined income scheme	2 9 6	0	-326.810
e) Effective part of income based on cash flow hedging	2 9 7	0	0
f) Other capital gains	2 9 8	107.401	0
2. Capital losses (300 to 304)	2 9 9	9.733.157	0
a) Losses from change in fair value of securities available for sale	3 0 0	9.612.465	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	120.692	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	-6.673.825	2.285.883
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3 0 6**	**744.684**	**81.012**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3 0 7	-5.928.941	2.204.871
TOTAL NET PROFIT FOR THE YEAR (290±307)	3 0 8	82.162.190	76.447.114
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	741	624
Diluted earings per share	3 1 3	741	624
Average number of employees based on hours worked	3 1 4	1.201	1.239
Average number of employees based on periods end	3 1 5	1.188	1.241

Address and phone numbers

Headquarters

Address	Kardinala Stepinca b.b. Mostar
Phone	00387 (0) 36 312 112
Fax	00387 (0) 36 356 227
SWITCHBOARD	00387 (0) 36 312 112 00387 (0) 36 312 116
RETAIL	00387 (0) 36 312 112
CORPORATE	00387 (0) 33 491 708
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 2021

Branch/address	Address	Location	PTT	Telephone	Telephone web
BUSINESS CENTER MOSTAR					
Branch 1 Mostar (Mepas)	Križanje ulica Kardinala Stepinca i ulice Kneza Višeslava	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	036/853-306
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880 149	036/880-149
Branch Čitluk	Broćanski trg 1	Čitluk	88260	036/640 439	036/640-435
Branch Konjic	Trg Državnosti Alije Izetbegovića bb	Konjic	88400	036/712 430	036/712-438
BUSINESS CENTRE 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 Ljubuški	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
BUSINESS CENTRE SREDIŠNJA BOSNA					
Branch Vitez	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 - 122	030/877-122
BUSINESS CENTRE 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

Business network of UniCredit Bank d.d. as at 31 December 2021

Branch/address	Address	Location	PTT	Telephone	Telephone web
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 Tešanj	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	032/786-012
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	032/829 530	032/829-530
Branch Maglaj	Aleja ljiljana bb	Maglaj	74250	032/609 811	032/609-810
BUSINESS CENTRE BIHAĆ					
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037 229 280	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	037/515 024	037/515-021
Branch Bosanska Krupa	511. Slavne brdske brigade bb	Bosanska Krupa	77240	037/476 880	037/476-880
Branch 1 Sanski Most	Trg oslobodilaca bb	Sanski Most	79260	037/688 547	037/688-543
BUSINESS CENTRE 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 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
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

Business network of UniCredit Bank d.d. as at 31 December 2021

Branch/address	Address	Location	PTT	Telephone	Telephone web
BUSINESS CENTRE 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
BUSINESS CENTRE POSAVINA					
Branch Orašje	Treća ulica broj 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
BUSINESS CENTRE BANJA LUKA					
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	051/348 063	051/348-063
Branch Prijedor	Zanatska bb	Prijedor	79101	052/240 765	052/240-764
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	053/209 402	053/209-401
Branch Bijeljina	Majora Dragutina Gavrilovića 2 - ulaz s ulice Svetog Save	Bijeljina	76300	055/225 090	055/225-080

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