

# **ANNUAL REPORT**

**2021**





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Nova banka a.d. Banja Luka



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# About us

Nova banka AD Banja Luka has been operating in Bosnia and Herzegovina since 1999. From then until today, the Bank has grown into one of the leading banks in Bosnia and Herzegovina, and the leading bank in the Republic of Srpska (especially when it comes to the amount of assets).

The Bank is 100% domestically owned, and the Bank's largest shareholder is the renowned company MG MIND doo.

The Bank offers a wide portfolio of traditional banking services (including various types of loans, documentary business, deposits and savings, payment transactions and money transfers, foreign exchange transactions, etc.), but also performs a large number of primarily non-banking activities such as brokerage, custody operations, factoring.

So far, the Bank has largely based its growth on corporate and retail banking. In the structure of the Bank's operations, the dominant place is occupied by products and services related to placements to corporate and retail clients, as well as payment services, which also serve these clients of the Bank.

The Bank's offer to clients is differentiated depending on the segment to which the client belongs by its nature, and in accordance with the above, the following differ: Retail segment, Small and medium enterprises (SME) segment, Corporate clients segment and Public sector.

The Bank's standard product offering for the retail segment includes credit and savings products, as well as retail packages. Within the Bank's product offer, card products stand out. As the Bank is focused on digitization through the implementation of the Smart Nova project and the introduction of the Smart Nova mobile application in the Bank's offer, within which the e-Wallet service has been implemented, the Bank has introduced a digital card in its offer. All cards currently issued by the Bank have contactless functionality and 3DDS protection when paying online. The Bank is constantly improving and expanding its payment card acceptance network. Following the market trends and the growing need for online trade, the Bank continued to develop and expand its network of clients in E-commerce. In the area of retail banking, Nova banka also offers a product called Authorized exchange office.







In the SME segment, the standard offer consists of loans for various purposes (fixed and current assets, maintenance of current liquidity, refinancing of existing loans, project financing), where the maturity and method of loan repayment are adjusted to the client's creditworthiness. A large share in the loan portfolio of this segment consists of loans from the funds of the Investment Development Bank of the Republic of Srpska. Nova banka is also actively participating in the implementation of the Guarantee program to support the economy for mitigating the consequences of the COVID-19 pandemic, which is being implemented by the Government of the Republic of Srpska. Other products on offer are documentary business (guarantees, letters of credit), purchase of receivables, time deposits, domestic and international payment operations, electronic banking services, business cards and POS terminals. The Authorized exchange office product is also available to the SME segment.

The basic services provided to the Corporate clients segment and the Public sector segment are loans, purchase of receivables, guarantees, letters of credit, framework placements, deposits, and payment operations. Nova banka is recognized in the market as one of the few that provides purchase of receivables services. Over time, this type of banking services has grown into a very important profitable factor of cooperation with corporate clients.

In the securities business segment, custody bank and brokerage services are available to clients. The Bank also offers its clients access to the domestic capital market, as well as the purchase and sale of debt and equity securities, with the mediation of the Branch Office for trade in securities "Broker Nova".

The organizational structure of the Bank consists of the Bank's Head Office in Banja Luka and 65 other organizational units, i.e. 13 Branch Offices, Branch Office for trade in securities "Broker Nova", 15 sub-branches, 19 separate counters and 17 agencies. Today, the Bank's organizational units are located in Banja Luka, Mrkonjić Grad, Gradiška, Sanski Most, Novi Grad, Prnjavor, Laktaši, Prijedor, Kozarska Dubica, Bijeljina, Ugljevik, Doboj, Teslić, Modriča, Brod, Derventa, Stanari, Brčko, Lončari, East Sarajevo, Pale, Rogatica, Sokolac, Sarajevo, Ključ, Zvornik, Milići, Bratunac, Šekovici, Vlasenica, Trebinje, Gacko, Foča, Višegrad, Tuzla, Međugorje and Mostar. A larger number of organizational units of the Bank is located in the Republic of Srpska, while a slightly smaller number is located in the Federation of Bosnia and Herzegovina. All organizational units are channels of distribution of the Bank's products to clients, who are primarily retail and SME clients, and secondarily large corporate clients.

The Bank has made a significant step forward in the introduction of digital applications in business with clients, and in the period of the Strategic plan it intends to make a digital transformation of all banking processes.

Also, the new organizational scheme adapted to the modern banking organization is in the focus of improvement in terms of better and more efficient work in all segments. In the period of the Strategic plan, higher profitability, lower CIR, improvement and simplification of relations with clients are expected in order to increase their satisfaction.

The Bank still has the ambition to strengthen and create the largest domestic banking group in BiH. Nova banka AD Banja Luka wants to be a strong, reliable domestic bank that is equally attractive to investors, clients and its employees.

# Introduction

„Managers work to see numbers grow. Leaders work to see people grow.“ - Simon Sinek

Summing up the past year, I am proud to see Nova banka as a great place to work where business challenges become challenges for each of us, and the successes we make are the result not only of our work but also of the positive energy we create together. Establishing and promoting our values and desire to find a new generation of professionals is slowly creating a unique competitive advantage. Corporate values, such as client care, integrity, respect, trust and team spirit, are the postulates on which our business philosophy is based and the first-class principles on which we have continued to operate. We strive to incorporate each of these values into our business processes, to inspire the people who lead them, to make decisions with a view to the future, to strive to achieve a balance between work and life, between short-term and long-term goals. We are aware that our life does not begin when we finish work and head home. It lasts while we are at work, as well, and we want it to be imbued with happiness and contentment. Our mission is to beautify and enrich each other's lives as much as possible.

With the new organizational structure, we have achieved harmonization of communication, decisions and actions, which has enabled us to be more efficient and focused on achieving organizational goals. Changes in the structure have redefined the manner and scope in which duties and responsibilities are delegated, coordinated and controlled, which has significantly accelerated work processes and increased the degree of safety, and quality of work.

The year 2021 is especially important for Nova banka, because the best business indicators since its establishment have been achieved. In this year, the Bank's assets reached the amount of 2.6 billion BAM, which is an increase of 10% compared to the previous year. Along with the Bank's assets, the percentage of use of all the Bank's products, as well as the number of users, grew.

The strength of that success lies in the partnerships we build over the years. We pay special attention to the needs of our clients and strive to facilitate their access to financial services. We plan to continue the trend of growth and development in the years to come, and to be a leader in innovative solutions whose benefits will primarily be felt by our customers, as well as employees who will facilitate process activities.

I strongly believe in all employees. I am proud of the ease with which they have adopted corporate values, and how they, thanks to their acceptance, have become a central dimension of our organization's culture. During 2021, we tried to improve the conditions in which we work, to enable all employees to progress, and to gain new knowledge and experience. The successes achieved did not come from the work of any individual, but are the result of joint work, for which I am immensely grateful.

Sincerely,

Siniša Adžić

President of the Management Board of Nova banka





**Siniša Adžić**

President of the Management  
Board of Nova banka



# MANAGEMENT BOARD OF THE BANK

## **Siniša Adžić, President of the Management Board**



Siniša Adžić was born in Prijedor, on July 19, 1974. He finished elementary school and high school in Prijedor and earned the title of BSc in Economics at the Faculty of Economics of the University of Banja Luka in 1999. He has exceptional professional experience, seventeen years of work in banking, with a special emphasis on the field of Corporate and Investment Banking. During his rich work experience, he has been continuously improving in his profession, participating in numerous seminars, educational workshops and the like.

He started his career in the Mira Biscuit Factory from Prijedor, where he spent three years and gained significant experience in understanding the way the BH market works. He started his banking career in UniCredit bank dd in 2004, as the head of the Branch Office in Prijedor, then as the director of the Personal and Entrepreneurial Banking Segment. In the period from 2009 to 2017 he was the Executive Director / Member of the Management Board for Corporate and Investment Banking of UniCredit Bank ad Banja Luka. In 2017 he became responsible for Retail, and from August 2020 he was a member of the Management Board for Corporate and Investment Banking in UniCredit bank ad.

Mr. Adžić took over the position of the President of the Management Board of Nova banka AD Banja Luka in mid-February 2021, with the goal of continuing to work on improving all indicators in the Bank with a special emphasis on employee satisfaction, through improving the processes.

## **Jasna Zrilić, Member of the Management Board**



Jasna Zrilić was born on September 19, 1975, in Banja Luka, where she finished primary and secondary school, and at the Faculty of Economics of the University of Banja Luka, she earned the title of BSc in Economics. At the Faculty of Economics of the University of Novi Sad she obtained the title of Master Economist for Finance, Banking and Insurance by defending the thesis "Asset and Liability Management Strategy of the Bank".

She holds the licenses of a broker and investment manager.

She has been working in Nova banka AD since November 1, 2000, and since 2003 as the Director of the Branch Office for trade in Securities "Broker Nova". Since 2009, she has been appointed Director of the Treasury Division and was responsible for the following processes: Bank asset and liability management, liquidity management, foreign exchange position management, capital management, strategic planning, securities in the Bank's portfolio, correspondent banking, credit lines, and custody and depository operations. From January 2019 to November 2020, she was a member of the Management Board of the Bank responsible for assets, finances, risks, AML/CFT, and compliance.

She has been the President of the Management Board of the Bank since September 2020 to the end of December 2020.

He has been a member of the Group for the implementation of the Basel directives related to capital and LCR in Nova banka, as well as a member of the Management Board of the Banja Luka Stock Exchange AD since August 2014.

### **Nenad Nenadić, Member of the Management Board**



Nenad Nenadić was born on April 18, 1982, in Bosansko Grahovo. After graduating from the Grammar School in Banja Luka, he obtained the title of BSc in Economics at the Faculty of Economics of the University of Banja Luka, majoring in Banking.

He started his professional career in 2006 in Hypo Alpe Adria Leasing DOO, and in 2009 he continued his work in UniCredit Bank AD Banja Luka, primarily in the segment of small and medium enterprises, and corporate and investment banking. Since 2016, he has been the Director of the Segment of Domestic Business Entities, Corporate and Investment Banking, and since June 2020,

the Acting Director of the Segment of the Public and Financial Sector and International Entities, Corporate and Investment Banking. In March 2021, he was appointed a member of the Management Board of Nova banka AD Banja Luka, thus becoming a superior for Business with legal entities.

Commitment to clients, establishing and maintaining business relationships with clients from various fields, both business and geographical areas, are his most pronounced competencies.

### **Dejan Vukosavljević, member of the Management Board of the Bank**



Dejan Vukosavljević was born on 1 October 1978 in Banja Luka, where after graduating from Economics High School, he graduated from the Faculty of Economics in Banja Luka, majoring in General Management, while his professional knowledge and skills, during his professional career, expanded through continuing education in finance and management, sales and human resources.

He started his professional career in Citizens' Association and Microcredit Organization "Sinergija", as a Loan Officer in the period from 2005-2007. In May

2007, he started working for Hypo Alpe Adria bank AD Banja Luka in the position of SME Manager. From December 2008 to December 2010, he was employed by Balkan Investment Bank AD Banja Luka, where he held the position of Director of the Banja Luka Branch Office until his employment with Nova Banka on 1 January 2011. In Nova banka, he continues his career in the position of Head of the SME Sales Management Department, and from 1 December 2013 he was appointed Director of Retail and Network Management Division and was responsible for the overall business process in the Retail and SME segment, as well as for the operation of the branch network, which accounts for almost 60% of the Bank's employees. Since 16 January 2020 he has been a member of the Management Board of the Bank and is superior for the Bank's operations with Retail and SME clients, then for the management of the Bank's information technologies, and for the management of restructuring and collection operations.

### **Borislav Trampa, member of the Management Board of the Bank**



Borislav Trampa was born on 21 August 1978 in Banja Luka, where he earned the title of BSc in Economics, and in 2007 he passed the brokerage exam. After that, he defended his Master's thesis at the Faculty of Economics in Subotica, University of Novi Sad.

He has gained work experience in banking since 2007 in Zepter Komerc Bank, Volksbank AD Banja Luka, and Sberbank AD Banja Luka. His employment in Nova banka started on 16 September 2013 as the Head of the Large Clients Department within the Corporate Banking Division. From 11 July 2016 he was appointed

Director of the Corporate Banking Division. Within his authority, he was responsible for doing business with large clients and public companies.

Since 16 January 2020 he has been a member of the Management Board of the Bank and is superior for the Bank's operations with large clients and public companies, as well as for payment operations and business support.

# Bank

## Vision

To be part of the largest domestic banking group that operates simply, safely and responsibly, to be a reliable partner and the Bank of first choice for our clients and employees.

## Mision

We are a strong and reliable domestic bank, ready to grow together with its clients and their ideas, but also to support those who are just starting out. We direct our business in a simple, accessible and responsible way, so that care for people and economic progress are woven into our corporate values, and our activities confirm that we are a socially responsible partner of the community.

## Values

Values are a set of guiding principles and core beliefs that help people in an organization function together as a team and work toward a common business goal. Values are related to business relationships, employee relationships, customer relationships, and company growth. It is values that unite us and define our culture!



### Customer care

Caring for people is our number one priority. Through our daily business, we strive to build good long-term relationships.



### Integrity

Moral values and legal duties are important to us. We approach our work professionally and fairly.



### Respect

We treat you with respect from day one. It is important to show respect for the achievements of others.



### Trust

We build relationships on mutual trust by respecting other people's opinions and views. Agreements are respected.



### Team spirit

We only reach our goal together! We rely on internal knowledge and your ideas and initiatives are important to us to move forward.

## We provide our services

- Through **65** business units
- At over **2000** POS terminals for card payments
- At **107** ATMs
- **24/7** via electronic and mobile banking
- We are proud to serve more than **200,000** clients



## Management bodies

### Board of Management

**Siniša Adžić**  
CEO

**Jasna Zrilić**  
Board Member

**Nenad Nenadić**  
Board Member

**Dejan Vukosavljević**  
Board Member

**Borislav Trampa**  
Board Member

### Supervisory Board

**Goran Radanović**  
Chairman of the Supervisory Board

**Prof. dr Branko Krsmanović**  
member

**Miroslav Lazarević**  
member

**Ljupko Miletić**  
member

**Avram Milenković**  
member

### Bank

**Ivana Kantar**  
Secretary of the Bank

**Aleksandar Pekez**  
Internal Auditor



# Macroeconomic environment

## 2.1. Macroeconomic environment today

Monitoring macroeconomic indicators is of particular importance in the context of interest rate movements and other changes in international markets, which may be reflected in the BiH market.

The crisis caused by the pandemic is the biggest economic crisis since the Second World War, and it marked 2020, and left its mark in 2021. The global economic recovery continued with a somewhat weaker momentum due to the pandemic, resulting in longer-than-expected global supply chain disruptions, further boosting inflation in many countries.

Economic growth is projected to remain strong over the next three years despite unfavorable short-term factors. The sharp rise in coronavirus infection (COVID - 19) in several euro area countries has led to the reintroduction of restrictions and increased uncertainty related to the duration of the pandemic. The emergence of a new strain of Omicron contributed to this uncertainty. In addition, the problem of bottlenecks in supply chains is growing and is now expected to take longer, to be gradually addressed from the second quarter of 2022 and then to disappear completely by 2023. In these projections it is expected that the real GDP will exceed the pre-crisis level in the first quarter of 2022, which is one quarter later than projected in the September 2021 projections. Nevertheless, growth is expected to intensify again from mid-2022 amid easing supply constraints, reducing constraints and the associated uncertainties caused by the pandemic. Personal consumption will continue to be a key driver of economic growth, driven by rising real disposable income, some reduction in accumulated savings and stable labor market conditions, with the lowest unemployment rate at the end of the projection period since the eurozone was established in 1999. Compared to the September 2021 projections, short-term growth has been revised downwards due to increasing bottlenecks in global supply chains and stricter constraints caused by the pandemic. The gradual weakening of these adverse factors should support a stronger recovery from the second quarter of 2022, leading to real GDP growth by the end of 2022 above projected in the September 2021 projections, and annual growth in 2023 would be significantly revised upwards due to transmission effects. Inflation is expected to be higher over the long term. According to the IMF forecasts from October 2021, on average, the total inflation of developed countries will reach a peak of 3.8% in the last months of 2021, and by mid-2022 will decrease to a level of about 2 %. Forecasts for developing countries and emerging economies similarly show a decline in headline inflation to around 4% by mid-2022, following a 6.8% peak to be reached in late 2021. However, given the long-term supply disruptions, significant shocks related to commodity and housing prices, conflicts in Ukraine and sanctions against certain countries, etc., it is expected that inflation could be significantly higher than projected.

After, according to the IMF data, the annual average consumer price index in BiH in 2020 was -1.1%, according to the Agency for Statistics of BiH, in December 2021 the rate of change in the consumer price index was 6.4% in compared to December of the previous year. Compared to December of the previous year, the highest average price growth in December 2021 was recorded in the sections transport (14.1%), food and non-alcoholic beverages (10.6%), and housing and overheads (5%), while the average decline in prices was recorded in the clothing and footwear divisions (6.3%), and communications (0.2%). Further forecasts of trends of economic parameters are subject to significant changes due to the situation in Ukraine. Conflicts in this country will have the greatest impact on energy prices, primarily natural gas from Russia, as well as on rising inflation, which could affect the tightening of monetary policy of central banks, and thus slow down GDP growth at the global level. In many developed countries, fiscal policy continues to adapt to current opportunities and is aimed at strengthening the economy through investment in green transitions and digital transformation, as well as other long-term investments. Large fiscal packages announced or approved by the EU and the US could add up to \$ 4.6 trillion cumulatively to global GDP between 2021 and 2026. On the other hand, higher interest rates and lower government revenues have burdened the capacities of low-income developing countries, making it impossible for them to provide adequate fiscal support and service their debt. Overall, fiscal policy continues to provide support, with the deficit declining, by an average of about two percentage points of GDP in 2021. However, deficits remain well above pre-pandemic levels, especially in developed countries, and are projected to reduce further by almost three percentage points in 2022 and return to pre-pandemic levels by 2026.

Real GDP growth remained strong in the third quarter of 2021, close to the rate projected in the June 2021 projections. Continued growth was driven primarily by domestic demand, especially demand for consumer services, due to high vaccination rates and associated reductions in fear of infection and easing the constraints caused by the pandemic. It is also driven by an increase in real disposable income and a significant reduction in the savings rate. In the third quarter, this growth, which was the largest in the service sector, more than offset the growing importance of bottlenecks in supply chains as a factor hampering industrial activities.



Chart: Real GDP growth in the euro area; Source: ECB

Notes: Data are seasonal and calendar adjusted. Historical data may differ from the latest Eurostat data if these data are published after the end date of the projections. The beginning of the projection period is marked by a vertical line.

## Bosnia and Herzegovina

From an initially moderate recovery to significant expansion, the economy of Bosnia and Herzegovina recorded real growth in gross domestic product (GDP) at the end of 2021, significantly exceeding the record pre-pandemic level of GDP from 2019. The economic dynamics in 2021 brought a key turning point and a good recovery of the economy, and enabled the compensation of what was lost during the recession in 2020. The result of the recovery is a record level of GDP with a recorded real GDP growth of 7.1% per year. Strong growth was driven by the outstanding performance of exports of goods and services with growth of 42.3% per year. This is a direct result of the good positioning of exporters in the conditions of increased global demand caused by the negative consequences of the pandemic, especially when it comes to exports to the EU. GDP growth was also influenced by private consumption, the largest category of this economic indicator, which strongly correlates with the overall GDP trend, achieving growth of 6.1% per year. The inflow of remittances from abroad, the continuous growth of wages at the level of 4.5% in 2021, and credit growth, especially in the retail segment (5.5% per year), have significantly contributed to the recovery of consumption. The contribution of private consumption amounted to 4.3 percentage points of total economic growth, while the contribution of net exports amounted to 1.5 percentage points. The growth intensity of government spending was 1.6% per year, which is above average growth compared to the years before the pandemic. The deep contraction of gross investment in the first quarter of 2021 prevented a stronger expected recovery of gross investment on an annual basis, so the recorded growth of 4.4% per year was not enough to fill the negative gap from 2020. The great uncertainty related to the pandemic in 2021 additionally burdened the recovery of the domestic investment segment of the BiH economy. Trends in the global market have had a positive impact on BiH's economic recovery in 2021 in terms of its impact on net exports. However, price shocks from global markets spilled over into the domestic market, and the fourth quarter of 2021 brought strong inflationary pressures with average inflation of 5.4% with an increased risk of culmination in the first part of 2022. Accelerated and uncontrolled price growth as the main threat to the expected moderate recovery in 2022 has been deepened by unfortunate events and conflicts in Ukraine. The consequences of economic sanctions between Europe and Russia are still being measured and considered. Although Bosnia and Herzegovina has limited economic ties

and direct exposure to Russia in terms of foreign trade, financing and foreign direct investment, the global inflation shock caused by the conflicts in Ukraine will inevitably affect key pores of the economy. Accordingly, real GDP growth in 2022 is projected at a moderate level of 3.2% per year (at the level of BiH), followed by continuously rising inflation that will reach record levels in the first half of 2022 and ultimately result in the expected average inflation of 6.1% per year.

## 2.2. Financial health indicators of the banking sector of Bosnia and Herzegovina

Based on the report of the banks of the banking sector of the Republic of Srpska, the total net assets as at December 31, 2021 amounts to 9,551 million BAM. Seven banks reported net profit (gross profit less calculated tax) in the total amount of 122.8 million BAM, which is higher by 62.0 million BAM or 102% compared to 2020. The rate of return on equity (ROE) is 10.34% (for 2020: 5.01%). Total income (net interest income and operating income) increased by 9.8% compared to 2020, while total expenses increased by 7.1% compared to 2020.

At the level of the banking sector in FBiH, total net assets as of December 31, 2021 amounted to 25,891 million BAM. For 2021, a positive financial result was reported in the amount of 293.6 million BAM, which is 119.3 million BAM more than in 2020, when the pandemic significantly affected the profitability of banks. All banks based in FBiH showed a positive financial result for 2021.

Non-performing loans of the RS banking sector, i.e. loans classified in credit risk level 3 (NPL) amount to 226.8 million BAM and compared to the end of 2020 they are lower by 60.7 million BAM or 21%. The share of NPLs in total loans was reduced from 5.23% to 3.98%, mostly as a result of the application of new regulations defining the obligation to write off non-performing loans.

The coverage ratio of total loans with value adjustments of the RS banking sector is 5.65% and is lower by 0.85 percentage points compared to the end of 2020. The coverage ratio of total NPLs with value adjustments is 81.6%.

Credit portfolio of the banking sector of the Federation of BiH in the level of credit risk 3 (NPL) as at December 31, 2021 amounts to 1,021 million BAM and accounts for 6.43% of the total loan portfolio, and has the same share as in 2020. The ECL coverage ratio for credit risk level 3 is 77.5%, and, compared to December 31, 2020 is lower by 0.2 percentage points. Of the total loans to legal entities, NPLs account for 582 million BAM or 3.66% of total loans, which is 0.1% more than at the end of 2020. For the retail sector, the NPL amounts to 439 million BAM or 2.76%, which is 0.11% less than at the end of 2020.

Observing the basic liquidity indicators, qualitative and quantitative requirements, as well as other factors that affect the liquidity position of banks, it can be concluded that the liquidity of the banking sector of RS, i.e. BiH as at December 31, 2021, despite the negative effects on the economy caused by the pandemic, is still satisfactory.

# Most important financial indicators

## 1. Statement of financial position

	in 000 BAM		
	2021.	2020.	Ind 21/20
Cash and funds held with the Central Bank	825.788	502.958	164
Financial assets	299.311	281.468	106
Loans and receivables due from customers	1.450.528	1.430.622	101
Tangible and intangible assets	48.570	54.814	89
Assets acquired in lieu of debt collection	8.742	18.089	48
Other assets	30.359	29.350	103
<b>Total assets</b>	<b>2.663.298</b>	<b>2.317.301</b>	<b>115</b>
Deposits	2.068.719	1.771.271	117
Credit lines	293.435	279.301	105
Subordinated debt	37.600	37.600	100
Other liabilities	48.176	45.098	107
<b>Equity</b>	<b>215.368</b>	<b>184.031</b>	<b>117</b>
<b>Total liabilities</b>	<b>2.663.298</b>	<b>2.317.301</b>	<b>115</b>
<b>Off-balance sheet</b>	<b>357.645</b>	<b>324.205</b>	<b>110</b>

The level of net assets as at December 31, 2021 was realized in the amount of 2,663,298 thousand BAM and is 15% higher than the realization for 2020. Assets grew as a result of higher cash flow compared to the previous year.

Cash amounted to 825,788 thousand BAM and is 64% higher than the previous year. Cash grew due to the growth of bank deposits in all segments.

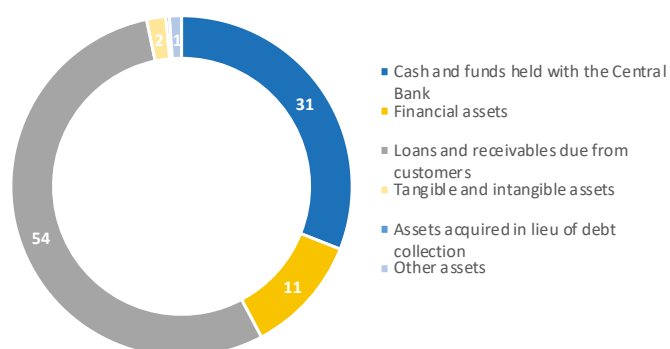
Financial assets include assets measured at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income. This position was realized 6% higher than the previous year: 299,311 thousand BAM was realized (2020: 281,468 thousand BAM), which was achieved due to the purchase of bonds of the company Elektrokraina AD Banja Luka, in the amount of 16,000 thousand BAM, in August 2021, for a period of 10 years, at an interest rate of 3.5%.

Loans and due receivables on loans (net) were realized 1% higher compared to the previous year: realization as at December 31, 2021 was 1,450,528 thousand BAM (2020: 1,430,622 thousand BAM).

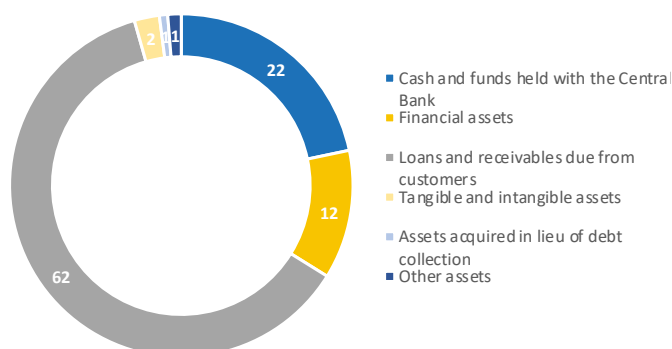
The level of fixed assets was realized in the amount of 48,570 thousand BAM (2020: 54,814 thousand BAM). The lower realization during 2021 was conditioned by the lower need of the Bank for investments and procurement of fixed assets.

The level of net value of acquired tangible assets as at December 31, 2021 was realized at a significantly lower level than the previous year: 8,742 thousand BAM (2020: 18,090 thousand BAM). The Bank sold a number of items of acquired tangible assets, and at the same time set aside a significant amount for impairment. Also, the Bank intends to continue this practice in the future and reduce the net value of acquired tangible assets to the lowest possible value. The coverage of acquired tangible assets by value adjustments / impairments for 2021 is 76.37% (the rate for 2020 was 66.73%).

#### • assets position structure for 2021



#### • assets position structure for 2020



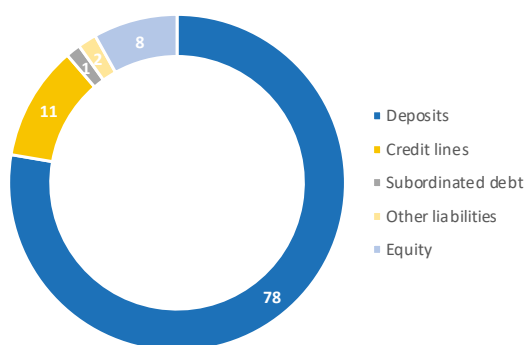
Deposits grew by 17% compared to 2020, and by segments as at December 31, 2021 is the following:

- Public sector 663,203 thousand BAM or 30% higher than in 2020,
- Corporate clients 132,552 thousand BAM or 20% higher than in 2020
- SME clients 266,361 thousand BAM or 39% higher than in 2020
- Retail 1,002,457 thousand BAM or 5% higher than in 2020 (noting that 48.46% of the Bank's deposits are retail deposits).

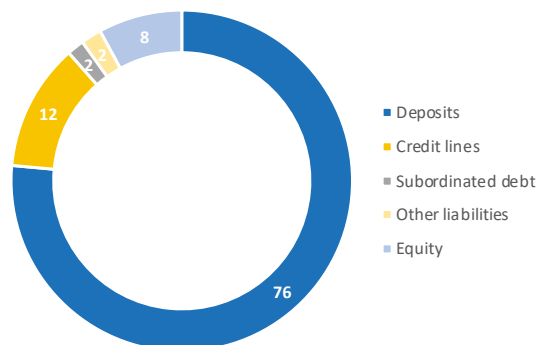
Liabilities on credit lines amounted to 293,435 thousand BAM (2020: 279,301 thousand BAM), i.e. 5% higher than in 2020. This position depends on the client's demand for loans from other sources (IRB RS credit lines).

The off-balance sheet is also higher than the realization for 2020 and amounts to 357,645 thousand BAM (2020: 324,205 thousand BAM), mostly due to the growth of payment and performance guarantees.

#### • liabilities position structure for 2021



#### • liabilities position structure for 2020





## 2. Income statement (profit or loss) and other overall result

	in 000 BAM		
	2021.	2020.	Ind 21/20
Net interest income	63.115	60.737	104
Net income from fees and exchange rate differences	25.761	22.207	116
Other operating income	6.247	5.698	110
Operating and other expenses	(51.757)	(52.185)	99
Impairment of assets acquired through collection of receivables	(6.549)	(12.587)	52
Net impairment expense and provision for expected credit losses	(12.113)	(10.655)	114
<b>Profit before taxes</b>	<b>24.704</b>	<b>13.215</b>	<b>187</b>
Income tax expenses	(1.414)	(591)	239
<b>Profit for the year</b>	<b>23.290</b>	<b>12.624</b>	<b>184</b>
Other gains and losses for the year	(1.953)	2.162	-90
<b>Total comprehensive income for the year</b>	<b>21.337</b>	<b>14.786</b>	<b>144</b>

The income statement followed the growth in the balance sheet, and the income in the income statement was significantly higher than in 2020.

Net interest income amounted to 63,115 thousand BAM and was 4% higher than in 2020 (60,737 thousand BAM).

Net income from fees and exchange rate differences increased by 16% compared to the previous year and amounted to 25,761 thousand BAM (2020: 22,207 thousand BAM). All business processes have increased profitability compared to 2020: in line with the growth of guarantees, revenues from off-balance sheet transactions have increased by 10%, revenues from domestic payment operations (DPO) fees have grown by 12%, revenues from international payment operations (IPO) fees have grown by 10%, revenues from foreign exchange 31%, revenues from foreign exchange and conversion operations 66%, and revenues from payment cards 28% higher compared to the plan. In 2021, there was a larger volume of business operations, mostly due to the increased volume of business operations in all segments compared to last year, when there was a significant impact of the pandemic, but also the digitization of services provided by the bank (increased number of electronic orders in DPO).

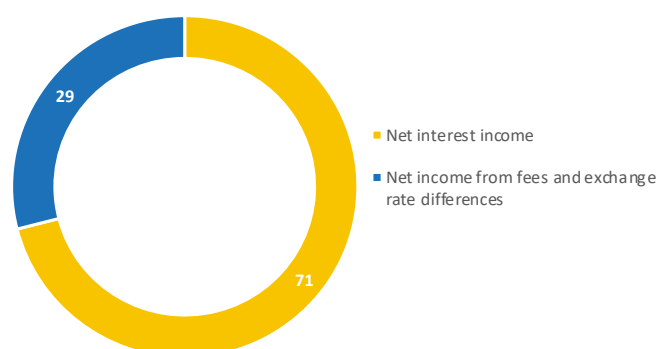
Net income from financial transactions is 7% higher than in 2020: it amounted to 88,876 thousand BAM in 2021, or 82,944 thousand BAM in 2020. From financial transactions, the bank generated a higher net income of 5,932 thousand BAM compared to the same period last year.

Other operating income was realized in the amount of 6,247 thousand BAM, or 10% higher than in 2020. This year the impact of the assessment of securities amounted to only 122 thousand BAM (in the same period last year, it was 1,873 thousand BAM). A significant effect was achieved from the sale of tangible assets, i.e. 3,148 thousand BAM (in the same period last year, it was 1,023 thousand BAM).

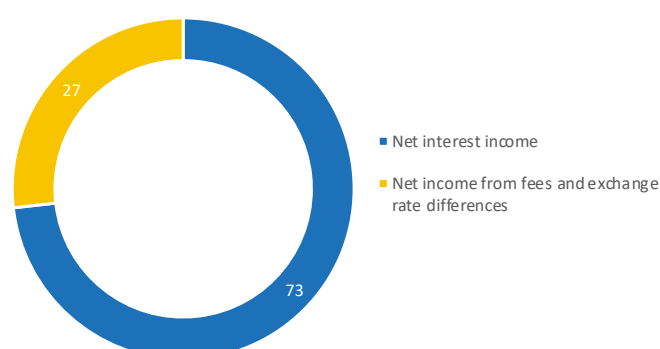
Operating and other expenses were incurred at a slightly lower level compared to 2020 and amounted to 51,757 thousand BAM (2020: 52,185 thousand BAM).

Net profit for 2021 amounts to 23,290 thousand BAM and is 84% higher than the previous year. For 2020, the bank made a net profit of 12,624 thousand BAM.

• **structure of net income from financial transactions in 2021**



• **structure of net income from financial transactions in 2020**



### 3. Key Performance Indicators (KPI)

	in 000 BAM		
	2021.	2020.	Ind 21/20
Cost Income Ratio CIR	61,14%	72,95%	84
Operating and other expenses/Total income	38,04%	41,61%	91
ROE (Return on Equity)	12,61%	7,67%	165
ROA (Return on Assets)	0,87%	0,54%	161
Share of net interest in total net income from financial transactions	71,02%	73,23%	97
Share of net fees in total net income from financial transactions	28,98%	26,77%	108
Share of capital in total assets	8,09%	7,94%	102
Net loans as % of total assets	54,46%	61,74%	88
Regulatory capital rate (min 12%) + minimum protective capital layers (min 14,5%)	17,98%	16,33%	110
Core capital ratio (min 9%)	15,41%	13,10%	118
Regular core capital ratio + protective layers of capital (min 11,5%)	15,41%	13,10%	118
Financial leverage ratio	7,44%	7,41%	100
Cash and deposit ratio	39,95%	28,42%	141

During 2021, the Bank reduced its C/I ratio by 16%, which was mostly due to the reduction of impairment of acquired tangible assets due to its sale.

The higher profit for 2021 also affected the growth of ROE and ROA from 7.67% to 12.61% for ROE, and from 0.54% to 0.87% for ROA.

The growth of cash during 2021 affected the share of loans in total assets by 12% and in 2021 the share was 54.46% (2020: 61.74%).

The core capital ratio is 15.41% (2020: 13.10%) and the regulatory capital ratio is 17.98% (2020: 16.33%). Higher ratios in 2021 were realized due to the increased net profit realized in 2021.

The level of financial leverage was achieved at the level of 7.44% (2020: 7.41%). The financial leverage ratio was lower in 2021 due to the growth of assets (in terms of cash).

# Quantitative achievement of business strategy

Retaining one of the leading positions in the banking market of Bosnia and Herzegovina, emphasizing the stability and strengthening of liquidity, thanks to the continuous growth and development achieved in previous years, Nova banka in 2021 achieved growth in almost all business segments.

The growth trend of clients remained in all segments, for natural persons, SMEs and corporate clients, as well as for the public sector, which was the case with credit placements and deposits. The Bank has placed great emphasis on improving the quality of the loan portfolio, increasing collection activity and retaining existing and attracting new, desirable clients for the Bank.

## Retail operations

### **Trend in the number of clients**

During 2021, Nova banka continued with the activities of establishing and improving relations with existing clients, but also attracting new ones who will become active and loyal users of the Bank's products and services.

As of the business year 2021, the number of clients has increased to 182,208, which compared to the number of clients at the end of 2020, which was 180,15, represents a growth of 1.14%. Similar trends are evident in the number of active current account users. The number of current account users in 2020 was 95,775 which, compared to the number of clients at the end of 2021, which amounted to 98,028, represents an increase of 2.35%.

Nova banka will continue to actively work on establishing a quality base of clients strongly connected with the Bank, who use a wide range of products.

### **Trend of placements**

Balance of retail loan portfolio with loans due on December 31, 2021, amounts to 582,974,370 BAM and is higher compared to the same period in 2020 by 3.36%, when it amounted to 563,410,239 BAM. In 2021, the net growth of placements was 19,564,131 BAM. Of the total portfolio of placements, 98.81% or 576,025 million BAM refers to income placements of clients who are regular in repaying their obligations.

**Placement growth levels from 2011 to 2021**

in thousands BAM

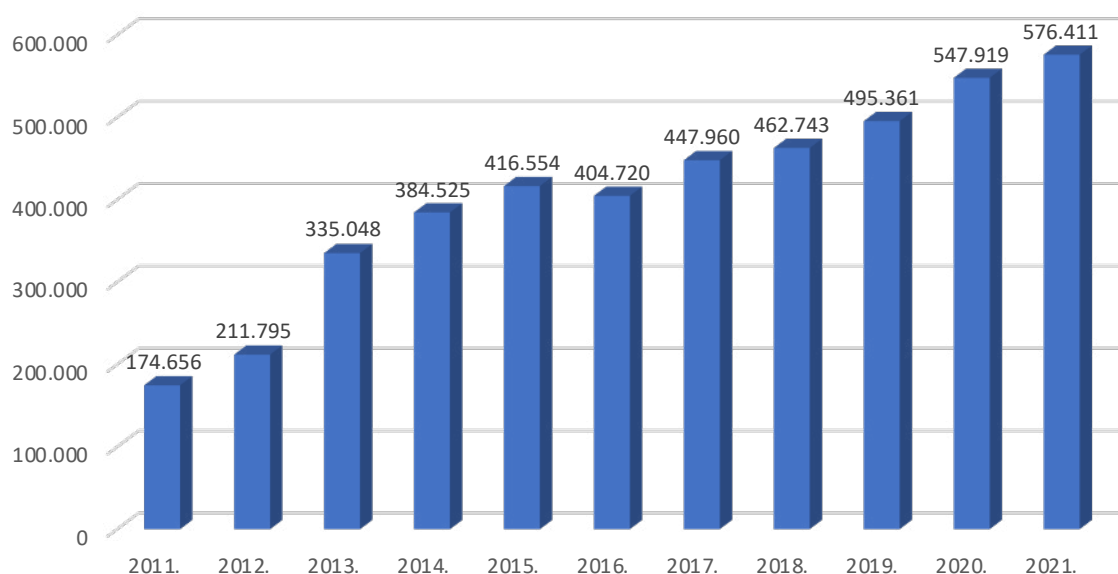


Chart 1 – Placement trend levels from 2011 to 2021 (without due placements)

The achieved growth is the result of a well-conducted action of placing loans, primarily non-purpose and replacement, as well as housing loans from own and funds of the Investment Development Bank of the Republic of Srpska (IRB RS).

In 2021, the Bank maintained its leading position in the market, as the financial institution that placed the most housing loans from the IRB RS funds. At the end of the business year 2021, the Bank placed 25.8 million BAM of loans to all groups of beneficiaries or 44% of total housing loans from the IRB RS funds.

In 2021, special attention was paid to higher collection and restructuring of non-performing loans, which at the end of 2021 resulted in a decrease in the level of overdue uncollected loans compared to December 31, 2020. The amount of NPL as of December 31, 2021 for loans that are in the status of outstanding liabilities amounts to 18,248,668 BAM or 3.13%.

**Trend of deposits**

In the period from 2010 to 2021, the Bank recorded a significant increase in the level of retail deposits. The key goal was to diversify the risk on a larger number of smaller deposits of natural persons. Also, one of the strategic goals is to allocate large corporate deposits to a larger number of smaller retail deposits. The corporate-retail deposit ratio in 2021 was 51.5% to 48.5% in favor of corporate deposits. In the coming period, the focus will be on increasing the level of retail deposits as a stable source of financing.

In 2021, the Bank recorded a portfolio growth of 5.00% and total retail deposits at the end of 2021 amounted to 1,002,457,853 BAM. Avista deposits as a cheap source of funds had a significant growth in 2021. Avista deposits from year to year record a significant share in total retail deposits. At the end of 2020, the share in total deposits was 31.97%, while at the end of 2021 the share increased to 36.12%.

In order to achieve the goals and increase the level of deposits, the key role is played by long-term successful business activities, continuous growth, building trust and leadership position in the market of the Republic of Srpska and Bosnia and Herzegovina. The Bank is recognized as a reliable and secure partner in retail banking. As a member of the Deposit Insurance Agency, the Bank provided additional security to its clients, which resulted in the creation of confidence and trust in the Bank.



**Deposit growth level from 2011 to 2021**

in thousands BAM

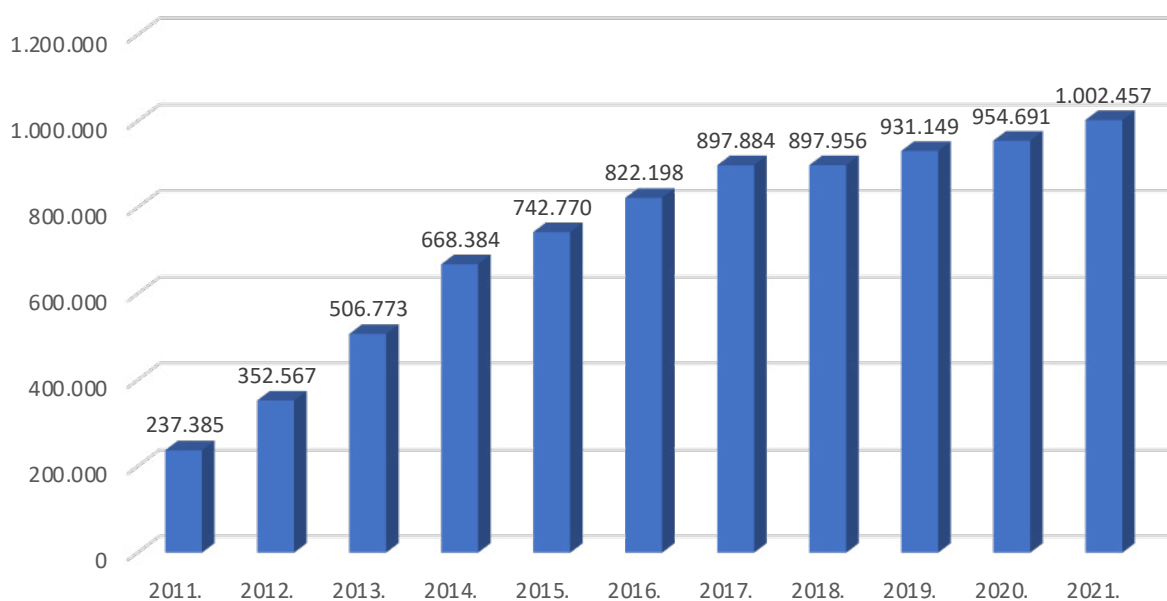


Chart 2 - Deposit trend levels from 2011 to 2021

**Account packages**

A more attractive offer of services within individual account packages resulted in an increase in the number of account packages in 2021. At the end of 2020, the number of packages was 63,593, while at the end of 2021 the total number of packages was 65,881, which is an increase of 3.60%. This number of packages, according to the latest calculation, brings the Bank significant non-interest-bearing monthly income.

**Quality of service**

In 2021, the Bank continued to focus on establishing and measuring the quality of service provided by employees to clients, with special reference to the behavior of employees who are in direct contact with clients in their daily work, their behavior, sales of services, absences, replacements, rotations, all with the aim of providing the highest quality service by which the Bank achieves client loyalty. The main goal of establishing and measuring service quality is to retain existing clients and attract new ones by improving service quality, because only in this way will the Bank be able to grow and maintain its leading role in the market.

The quality of service will be monitored through the quality index, which includes the following items:

- mystery shopping visits
- assessment of the working environment
- level of migration
- customer attrition rate
- test results.

## Corporate banking

Corporate Banking Division includes business operations with large corporate clients, the public sector, public companies, as well as business operations with small and medium enterprises. Significant business activities of the Division are aimed at maintaining stable market growth and development, through continuous improvement of business cooperation and support in doing business with clients.

In 2021, the Bank continued to expand its corporate client base. Compared to 2020, the total number of clients increased by 3.55%, and there is a noticeable growth in all sectors within the Division. A similar trend was achieved when it comes to the number of transaction accounts. The significant increase in the client base in the observed year is the result of continuous adjustment to the needs of clients and acquisition activities in the market.

During 2021, the Bank placed 2.4% more loans to legal entities compared to 2020, with a constant tendency to increase the rate of loans. In the observed year, the Bank approved over 352 million BAM to legal entities, where the Small and Medium Enterprises Banking Sector approved more than 125 million BAM of loans. Over 100 million BAM were approved to the public sector, which is 14% more than in 2020, while 127 million BAM loans were issued to corporate clients.

Along with the quantitative growth of the portfolio, a significant result was achieved in the field of portfolio quality. During 2021, the Bank's focus was on reducing non-performing loans in the total portfolio, and the share of NPL loans to legal entities through various activities, compared to 2020 decreased by 2.5%.

The Bank maintained a stable market share in the field of corporate loans in 2021, with the first place in total loans in the Republic of Srpska, while in the level of Bosnia and Herzegovina it is in the fourth place. The market share of corporate loans is 31.9% in the Republic of Srpska, i.e. 8.3% in Bosnia and Herzegovina.

The Bank is recognized by clients as a reliable partner in the efficient execution of their requests, which shows a significant increase in the field of guarantees. The bank ended 2021 with 193 million BAM of guarantees for legal entities, which is over 20% more than at the end of 2020.

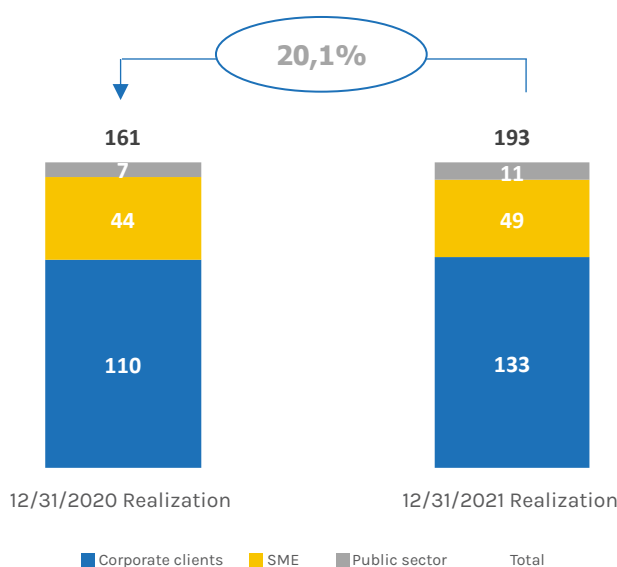


Chart 3 - Comparison of guarantees Dec 2021 compared to Dec 2020

During the observed year, the Corporate Banking Division issued over 225 million BAM of guarantees, with corporate clients having the largest share in the issued guarantees.

The Bank's market share is also significant in the part of guarantees, and in the Republic of Srpska, in 2021 it amounts to 35.4%, i.e. 9.8% at the level of Bosnia and Herzegovina.

In 2021, there was a strong growth of deposits (+30.7% vs. 2020), which is noticeable in all sectors of doing business with legal entities. Clients' confidence in the Bank's security is best shown by the Bank's position in the market, with it ranking first in the Republic of Srpska and third in Bosnia and Herzegovina. The market share of corporate deposits in the Republic of Srpska is 31.3%, i.e. 7.6% in Bosnia and Herzegovina.

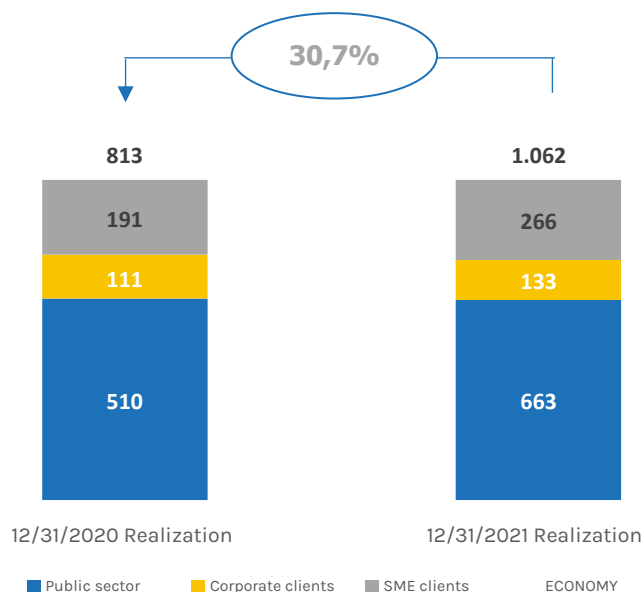


Chart 4 - Comparison of the deposits realized in 2021 in relation to the previous year and the Plan

Following modern trends, the Bank continued with the process of improving the so-called alternative channels and increasing the number of their users, which resulted in an increase in sales of other products of the Bank (transaction accounts, foreign exchange accounts, e-banking, business cards). One of the indicators of the positive trend is the increase in the volume of transactions by 12.4% and the number of transactions by 6% compared to 2020.

## Retail banking products

During 2021, the Bank offered a wide range of traditional banking services (including various types of loans, deposits and savings, payment transactions and money transfers and foreign exchange transactions), as well as products and services of direct channels (mobile, electronic and card).

The focus during 2021 was on simplifying products and processes, and adjusting them to market standards, supported by the implementation of regular monitoring of profitability for each individual product/service and monthly monitoring of market trends.

In 2021, the Bank continued with campaigns to promote its products, from which the attractive offer of credit products stands out, for which the Bank has created offers tailored to the requirements and needs of clients. In addition to expanding the product range, the Bank continued to actively participate in programs at the level of Bosnia and Herzegovina, which aim to support individuals. In 2021, the Bank participated with 44% in the total placement of housing loans placed on the market of the Republic of Srpska from the funds of the Investment Development Bank of the Republic of Srpska (a total of 53.3 million BAM was placed, of which 25.8 million BAM was placed through Nova banka).



Jednostavno i brzo rješavanje  
stambenog pitanja



During 2021, in the area of development, a special focus was on digital transformation, which is the primary goal of the Bank's future business operations. In accordance with the above, a set of activities was implemented:

- Implementation of the Smart Nova project and introduction of the Smart Nova mobile application within which the e-Wallet service has been implemented. E-Wallet provides easy digitization of cards without coming to the Bank's branch and offers contactless payment and cash withdrawal via mobile phone. The focus is, of course, on redirecting clients to make more use of more affordable and accessible electronic channels compared to the counter.
- The Bank is constantly working with card companies to improve and increase the level of protection of payment cards. All cards currently issued by the Bank have contactless functionality and 3DDS protection when paying online. The Bank is constantly improving and expanding its payment card acceptance network.
- Contact center as client support and sales channel. The Bank recognized the need for clients to have information and support provided at all times and strengthened its support to clients through staff strengthening and transformation of the contact center. The Bank will continue to develop this type of communication in the future, with the aim of raising the level of availability and quality of services.
- In order to improve the contact center, the Bank started implementing contact center tools (LIVE software) during the year. The effects of implementation in the future, through work in the Live application, will be reflected in raising the efficiency of contact center agents as well as opening a new sales channel.
- SMART Nova zona offers its services to clients 24/7, which is not the case with other classic organizational parts and contributes to increasing the availability of banking products and services on self-service devices. The Bank has already developed the technology of banking multifunctional devices, which in the field of payment systems provide clients with insight into the balances, transactions and statements of all accounts in the Bank, as well as payment of utility bills for natural persons. In the coming period, the direction of activities in this domain will be towards upgrading the functionality of multifunctional devices, i.e. expanding the network. By developing a network of multifunctional devices, the Bank will increase the number of places where it sells its services to clients, without opening traditional counters.

Nova banka will certainly direct the future development and investments towards further investments in digitization and improvement of both user experience and client satisfaction.





## Product development - legal entities

During 2021, the Bank, taking into account its clients and respecting the applicable regulations that is applied to doing business with legal entities, offered a wide range of traditional banking products and services defined by the Product Catalog (loans, purchase of receivables/factoring, guarantees, letters of credit, framework placements, deposits, payment transactions), as well as products and services of direct sales channels (electronic and mobile banking, cards, POS, internet POS).

In 2021, there was a change in the organizational structure, which in doing business with corporate and public companies, and small and medium enterprises, meant a change in the organization of work, with the sole aim of achieving full orientation of the Bank towards the client. This approach is intended to be maintained in the coming years. The goal is to achieve maximum customer satisfaction, with as few complaints as possible. To this end, the Bank will work on continuous improvement of processes, products and services, as well as improving the knowledge of sales and operational staff.

In the part of lending activity, still a significant part of the loan portfolio consists of loans from the Investment Development Bank of the Republic of Srpska (IRB RS), which are in great demand by clients due to favorable interest rates and long repayment periods.

Nova banka also participated in the implementation of the Guarantee program to support the economy for mitigating the consequences of the COVID-19 pandemic, implemented by the Government of the Republic of Srpska, in order to help clients overcome business problems caused by the pandemic.

In addition to standard loan products, the Bank offered project financing loans as a specific type of financial support, where the use of funds is adjusted to the needs of construction of residential, business, residential-business, infrastructure or industrial projects, while, on the other hand, repayment is adapted to market placement of the subject of financing.

The Bank maintained its visibility in the activity of operations with guarantees, as well as in the activity of providing domestic and foreign payment services, which significantly contributed to the Bank's revenues.

In 2021, the Bank provided a new credit line to its clients, which it is implementing through the IRB RS, and these are loans for the implementation of the Firm Recovery and Support Project from the World Bank funds intended for small and medium enterprises which had a decline in gross turnover of at least 20% in the period between April 1 and June 30, 2020, compared to the same period in 2019, then which are inclusive for women (more than 50% is owned by women or managed by women (i.e. with at least one woman at the top of the management or with at least 25% representation of women at the middle level of management), or employs a percentage of women higher than the average in the relevant sector, or increased the share of women by at least 5% in the previous year), and which are young companies (companies with less than 5 years from the date of registration, but which was not established after January 1 for the year before the submission of application) or which are based in less developed regions.

In 2021, the Bank made a decision, with effect from January 1, 2022, on the introduction of a variable fee for account management, as a consequence, or reaction to the introduction of a fee of the Central Bank of BiH on bank surpluses above required reserves, in the amount of 0.75% for accounts with an average monthly balance of funds above the amount of 1,000,000 BAM.

The Bank successfully implemented the introduction of the fee, in such a way that there was no client attrition and outflow of their funds.

In the area of providing services in direct sales channels, in 2021 the application of electronic banking Smart Nova, web and mobile was successfully completed and introduced, which is expected to have an increasing number of users, especially since further investment in improving the application's functionality is planned.

The Bank has made significant efforts to expand the network of POS terminals, increase sales of POS products and monitor network activities, and product profitability. Thanks to all efforts, the Bank has become recognizable through its network. In the future, the development of the network and POS as a product is planned. In this business segment, the internet POS service, i.e. online payment (e-commerce), by which the Bank is unique in the entire banking sector, stands out.

# Treasury management

## Liquidity management

The main role of the Assets and Liabilities Management Department is to plan and manage the Bank's assets and liabilities, in order to achieve adequate/optimal liquidity and profitability, in accordance with the defined tolerance of risk exposure (interest rate risk and liquidity risk).

The key items under the responsibility of the Assets and Liabilities Management Department are:

- Planning and managing the Bank's liquidity position and funding sources
- Strategic management and planning of deposit potential from the aspect of maturity structure, concentration, interest rates
- Defining internal transfer prices in accordance with market conditions, determining the minimum price of credit products and the maximum price of deposit products
- Capital position management.

Liquidity and deposit potential management is based on maintaining optimal liquidity, while minimizing costs and maintaining an adequate structure of funds, but also liquid reserves, in order to ensure an adequate level and uninterrupted payment of due liabilities in regular and stressful circumstances.

In the funding sources management, the greatest emphasis is on deposits (share as at December 31, 2021 amounts to 86.2% or 2.068 billion BAM). The deposit management policy is based on managing the structure in order to reduce concentration, optimal maturity structure, and defining a stable level of deposits.

As at December 31, 2021, funds amounted to 827 million BAM, consisting of cash (106 million BAM or 12.82%), funds with the CBBH (705 million BAM or 85.31%), funds with foreign banks (13 million BAM or 1.62%), while observed with securities (298 million BAM), liquid reserves amount to 1.12 billion BAM with the share of cash (9.42%), funds with the CBBH (62.7%), funds with foreign banks (1.19%) and securities (26.5%).

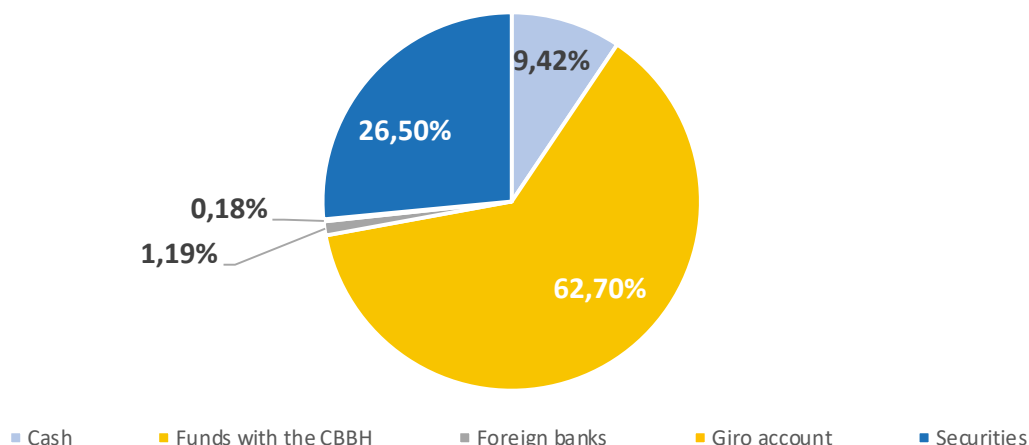


Chart 5 - Structure of liquid reserves as at December 31, 2021

Regarding liquidity management, the Bank paid special attention to investing in the securities portfolio in order to generate interest income. Shares of domestic and foreign issuers participate in the structure of securities with 4.18%, while bonds have a share of 95.82%. By investing in low-risk securities - government bonds, the Bank profitably invests surplus funds and increases interest income.

## Foreign exchange risk management

Foreign exchange risk represents the possibility of negative effects on the Bank's financial result due to adverse changes in foreign exchange rates. Foreign exchange risk arises when the Bank has an open foreign exchange position that may lead to a loss due to changes in intercurrency relations, i.e. changes in the price of BAM in relation to other currencies. The Bank's foreign exchange position is managed on a daily basis in accordance with the Bank's internal limits as well as standards and limits set and prescribed by the regulator.

During 2021, exchange rate differences recovered after the fall of this type of income during the 2020 pandemic. Calming the spread of the virus, opening borders and normalizing the flow of goods and people were the most significant factors in the growth of exchange rate differences in 2021. During 2021, a total of 9.365 million BAM of exchange rate differences were realized, which is an increase of 44.7% compared to 2020. Transactions with authorized exchange offices have the largest share in revenues in the percentage of 62.2%. During 2021, the work of an authorized exchange office profited the most after the stabilization of the situation regarding the corona virus, where this type of income recorded a growth of 97.1% compared to the previous 2020. In 2021, Nova banka maintained its leading position in terms of turnover and the number of authorized exchange offices.

# Capital management

As capital is a scarce economic and strategic resource, capital management is one of the most important components of prudent, efficient and strategic planning and management of the Bank.

The goal of capital management is based on providing and maintaining the optimal volume, structure and sources of capital, in such a way that the Bank is committed to strengthening regular core capital, which will enable

- Fulfillment regulatory limits,
- Fulfillment of limits defined by the Decision on acceptable level of risk,
- Fulfillment of strategic goals.

As at December 31, 2021, the Bank fulfilled the legal ratios, as well as internally defined indicators, so the total recognized capital amounted to 243.7 million BAM, of which the regular core capital is 208.9 million BAM (85.69%).

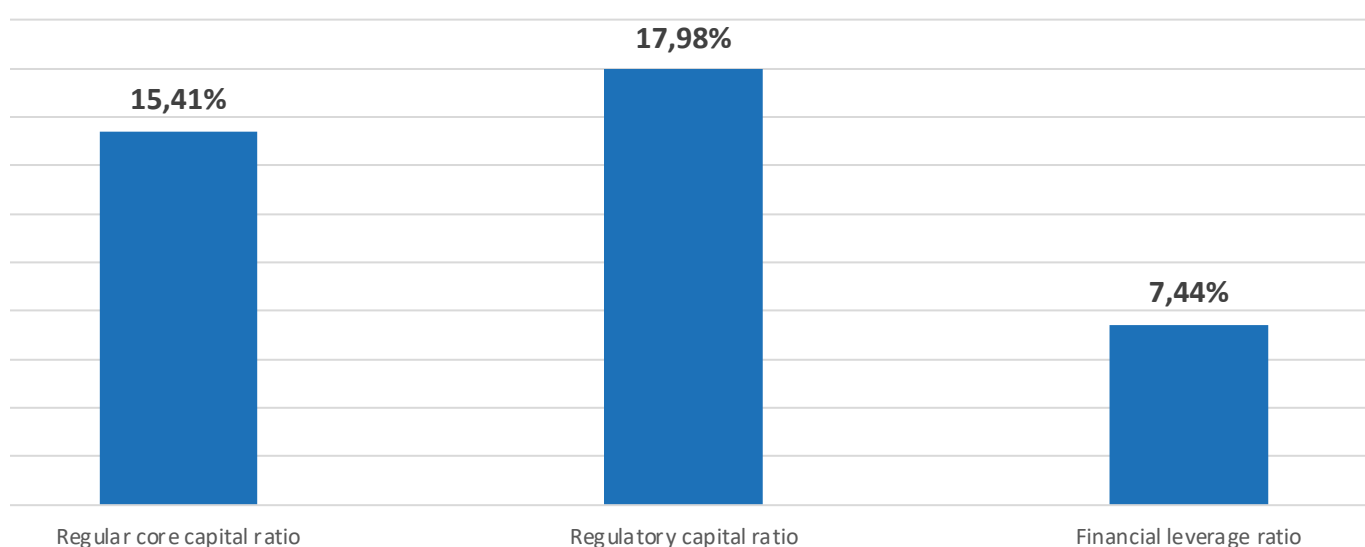


Chart 6 - Capital ratios as at December 31, 2021

# Risk management

## Risk management framework and system

The Bank's risk management framework includes:

1. risk identification,
2. risk assessment, i.e. measurement,
3. risk monitoring, analysis and control, and
4. risk reporting.

The Bank's comprehensive, reliable and efficient risk management system includes the following:

1. Identifying significant risks to which the Bank is exposed or could be exposed in its operations.
2. Measurement, i.e. risk assessment through established programs, procedures and methods.
3. Measures to limit and mitigate risks in a way that will minimize negative impacts on the Bank's operations and creditworthiness.
4. Risk monitoring, analysis and control.
5. Establishing an appropriate organization of work for the effective implementation of risk management processes and procedures with clearly defined, transparent and consistent powers and responsibilities within the Bank.
6. Appropriate lines for timely and continuous reporting of the Bank's management bodies on risks.
7. Providing an information system that enables comprehensive and reliable collection of data necessary for monitoring and analysis of all risks to which the Bank is exposed.
8. Conducting stress testing, taking into account assumptions about changes in external and internal factors that may have a significant impact on the risks in the Bank's operations.
9. Making plans for dealing with unforeseen, i.e. emergency situations in the Bank's operations, such as the Contingency Liquidity Plan and the Recovery Plan.

## Risk management organization

Risk management is organized in such a way that independence in work is ensured by the division of tasks, responsibilities and duties of employees, which prevents conflicts of interest.

The organizational units responsible for risk management are:

- Risk Management and Control Sector,
- Underwriting Sector, and
- Restructuring and Collection Sector.

In accordance with the applicable regulations (Decision on the Bank's Management System), the Risk Management and Control Sector was established as a control function of the Bank's risk management and is organized independently of business processes and activities in which risk arises.

In addition to monitoring and reporting on all significant risks, it is responsible for defining and proposing risk management strategies and policies and is also responsible for overseeing the functioning of risk management methods and procedures.

The Underwriting Sector is responsible for credit risk assessment in approving placements to legal entities and natural persons, and for monitoring credit risks through control and analysis of credit risk exposure to existing placements of the Bank's clients, in order to minimize credit risk costs.

The Restructuring and Collection Sector is responsible for managing non-performing loans, primarily through restructuring and forced collection procedures, in order to reduce uncollected receivables from clients to minimize losses related to credit risk.

## Credit risks

In the ordinary course of business, the Bank is exposed to credit risk, which is defined as the possibility of adverse effects on the financial results and capital of the Bank due to default of a debtor on its obligations to the Bank.

In implementing its credit policy, the Bank adheres to certain principles established by the Bank's business and credit policy and thus protects itself from excessive exposure to credit risk.

Through independent separate sectors, the Bank manages credit risk at the level of individual transactions through approval and monitoring within the Underwriting Sector, restructuring and collection of non-performing loans within the Restructuring and Collection Sector, while within the Risk Management and Control Sector it manages credit risk at the level of the Bank's entire portfolio.

The Bank's goal is to approve low-risk placements to the greatest extent possible through credit policy and credit risk management program, using risk assessment models.

The Bank continuously assesses and measures the amount of expected credit losses for on-balance sheet and off-balance sheet exposures in accordance with the Methodology for Classification and Measurement of Financial Instruments, Methodology for Valuation of Financial Instruments and Credit Risk Classification Policy, respecting the provisions of the standard IFRS 9.

## Non-credit risks

**Market risk** is the risk of possible negative effects on the financial result and capital of the Bank due to changes in market prices, and includes:

- Foreign exchange risk, which refers to the risk of changes in foreign exchange rates and changes in the price of gold;
- Position risk, which represents the risk of changes in the price of securities or in the case of a derivative financial instrument, changes in the price of the respective (underlying) instrument;
- Commodity risk, which is the risk of changes in the price of goods.

As the Bank does not have a trading book or a position in commodities, the capital requirement and measuring market risk exposure refers to measuring foreign exchange risk exposure.

Foreign exchange risk management involves optimizing the foreign exchange structure of assets and liabilities, in a way that allows that fluctuations in exchange rates do not jeopardize business continuity and do not have a significant impact on the Bank's business results.

The Bank regularly monitors and analyzes relevant factors that may affect exchange rate fluctuations and maintains compliance with regulatory requirements regarding foreign exchange risk management and continuously monitors regulatory regulations related to foreign exchange risk.

In order to prevent possible losses due to unfavorable movements in intercurrency relations on the market, the Bank introduced internal limits as an additional level of protection.

In addition to the defined limits, the Bank regularly performs stress testing of changes in foreign exchange rates. Stress tests relate to the analysis of the impact of sudden changes in the exchange rates of individual currencies on the value of the foreign exchange portfolio and the Bank's business results.

For the purposes of foreign exchange risk, the Bank calculates the request for additional capital. In accordance with the regulations of the regulator, the Bank calculates the capital requirement for foreign exchange risk if the sum of its total net open foreign exchange position exceeds 2% of its regulatory capital.

**Interest rate risk**, in the banking book represents the risk of the possibility of negative effects on the financial result and capital of the Bank, based on positions in the banking book due to changes in interest rates. Increased interest rate risk can pose a significant threat to the Bank's earnings and its core capital, through a reduction in interest income or an increase in interest expenses.

In order to ensure adequate interest rate risk management, the Bank has established a system for identifying, assessing, monitoring and reporting on interest rate risk. In this sense, the Bank analyzes and controls the relation-



ship between changes in the economic value of the banking book and the Bank's regulatory capital as well as the impact of changes in interest rates on the Bank's net interest income.

The Bank also regularly conducts stress tests, which are an important indicator of the Bank's sensitivity to changes in market interest rates.

When managing **liquidity risk**, the Bank identifies the sources, scope and structure of liquid assets required to ensure its continuous and stable operations in accordance with the defined risk appetite.

In order to optimally manage liquidity risk, the Bank maintains an adequate level of liquidity reserves, i.e. funds allocated for possible sudden withdrawals of a significant level of concentrated deposits.

The Bank's primary sources of financing are domestic market deposits and partially contracted credit lines also of the domestic market. The Bank takes into account the concentration of deposits and prescribes maximum levels of concentration of deposits within internal limits.

With the Liquidity Risk Management Strategy and Policy as well as the Contingency Liquidity Plan, the Bank has, among other things, defined rules and established a system of responsibilities for liquidity risk management.

Monitoring and reporting on liquidity risk is performed on an intraday, daily, weekly, decadal, monthly, quarterly, semi-annual and annual basis through regulatory and internal reports.

The Bank regularly monitors indicators that may indicate an increase in liquidity risk and conducts regular stress tests based on which it determines the amount of liquidity reserves in normal and stressful circumstances.

**Operational risk** is the risk of negative effects on the financial result and capital of the bank due to failures in business processes, human errors, system errors or external factors.

The role of the operational risk management process is to identify, assess, control and reduce the possibility of occurrence and impact of operational risks and losses. The Bank cannot eliminate all operational risks, but through the process of recording and analyzing operating losses it identifies shortcomings in its processes, products and procedures and by improving them reduces the frequency and negative impact of operating losses on the Bank's operations and profitability.

The Bank continuously mitigates operational risk, which means maintaining the risk at an acceptable level, by establishing measures to minimize operational risk, which include:

1. Monitoring of control of technical protection systems;
2. Management of rights and privileges;
3. Incident management;
4. Collection and analysis of key risk indicators (KRI);
5. Control of the cash balance in the network and initiating the implementation of measures to maintain cash within the allowed maximum and reporting to the Management Board;
6. Information security management.

## ICAAP - Internal Capital Adequacy Assessment Process

The Bank's internal capital adequacy assessment has been established as a comprehensive, continuous process of monitoring and managing risks. In addition to including and covering risks according to the standardized approach, it includes all other risks to which the Bank is exposed. This process is part of business planning, strategy and anticipation of potential stressful events that would affect the sustainability of operations and capital of the Bank.

Through the ICAAP process, the Bank continuously identifies relevant and material risks, and defines and, if necessary, reviews its risk appetite, and assesses the level of capital necessary to cover material risks. ICAAP as a process has sublimated and established a balance between the defined risk profile of the Bank, the risk management system and the capital available to the Bank.

The Bank's internal capital adequacy assessment process is conducted at least once a year, and more often if necessary.

## ILAAP - Internal Liquidity Adequacy Assessment Process

Internal Liquidity Adequacy Assessment (ILAAP) is an internal liquidity adequacy and funding assessment process conducted by the Bank on an ongoing basis, which is an assessment of strategies, policies, processes and systems to identify, measure, manage and monitor risks affecting the Bank's liquidity.

The Internal Liquidity Adequacy Assessment (ILAAP) process contributes to the continuity of the Bank's operations by ensuring liquidity adequacy and includes two significant parts related to the qualitative elements and quantitative elements of the process.

Qualitative elements of the process relate to the management, strategies, policies, procedures, methodologies, processes, measures and constraints used in the Bank to monitor and manage liquidity risk.

Quantitative aspects of ILAAP are directly related to qualitative elements and include regulatory and internally defined minimum management restrictions, exposure measurements, stress test, liquidity ratios and monitoring tools used in the Bank.

Internal Liquidity Adequacy Assessment (ILAAP) process is conducted at least once a year, and more often if necessary.

# Business Continuity Plan

Nova banka has developed a Business Continuity Plan (BCP) in accordance with regulatory requirements and international standards, as well as a set of individual service recovery plans (DR). The plan is supported by significant capacity at a backup location that is fully equipped to continue business operations in case the primary location is unavailable for any reason. The backup location is located at a distance of approximately 250 kilometers from the primary location. Copying data between the primary and secondary location is in online replication mode.

The primary and secondary locations are equipped with electric generators with significant autonomy and power reserve, air conditioners and automatic fire extinguishing systems, with the application of legal measures of physical and technical security.

In addition to the equipment, human resources sufficient for initiating and maintaining operations during the possible crisis have been deployed at the secondary location.

Standard reasons for initiating a business continuity plan are natural disasters, supply chain disruptions, environmental infrastructure failures, terrorist attacks, and all other reasons that may lead to the unavailability of the primary location.

Elements of these plans are regularly tested according to the dynamics approved by the Management Board of the Bank in accordance with the legal and regulatory framework. During 2021, complete testing of the BCP plan was performed by servicing and testing uninterruptible power supply systems, air conditioning systems and systems for automatic fire extinguishing at the primary and secondary location. As part of the testing, the simulation of the interruption of operations at the primary location was performed, and the operation and testing of critical and key services from the backup location was started and tested. The report on the test results was submitted to the Banking Agency of the Republic of Srpska.

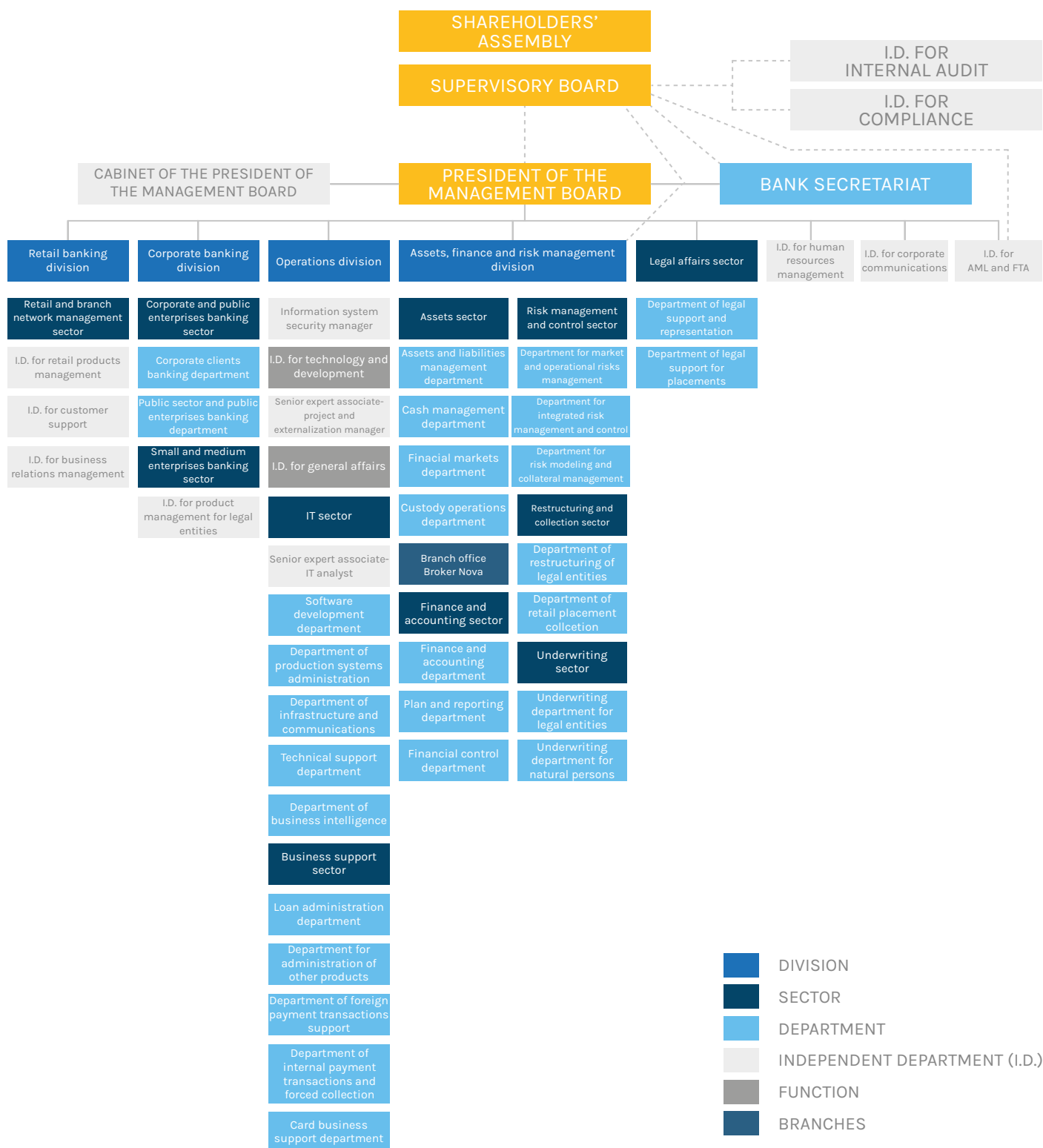
# Human Resource Management

Internal organization of the Bank as of December 31, 2021

- 5 members of the Management Board who have in their competence
- 11 sectors
- 12 independent departments

Within the Retail and Branch Network Management Sector there are:

- 13 Branch Offices within which there are 61 agencies/sub-branch offices/separate counters



## Employee structure and turnover

On December 31, 2021, the Bank had 686 employees, of which 655 full-time employees. The average age of employees is 40 years.

During 2021, the Bank decided on significant changes and entered the process of reorganization and changes in the internal organization of the Bank, all with the aim of functional grouping of processes and tasks, i.e. increasing efficiency in work and simplifying groups of tasks.

By optimizing the process due to changes in the internal organization and partly by automating the process, the number of employees was reduced compared to December 31, 2020.

According to the data on the qualification structure of the Bank's employees, 73.5% of employees have a university degree or a master's degree or a doctorate, while 26.5% of employees have a high school diploma or lower education. Compared to the previous year, it is evident that the number of employees with a university degree and higher levels of education is increasing, while there is a noticeable downward trend in the number of employees with the high school diploma and lower levels of education.

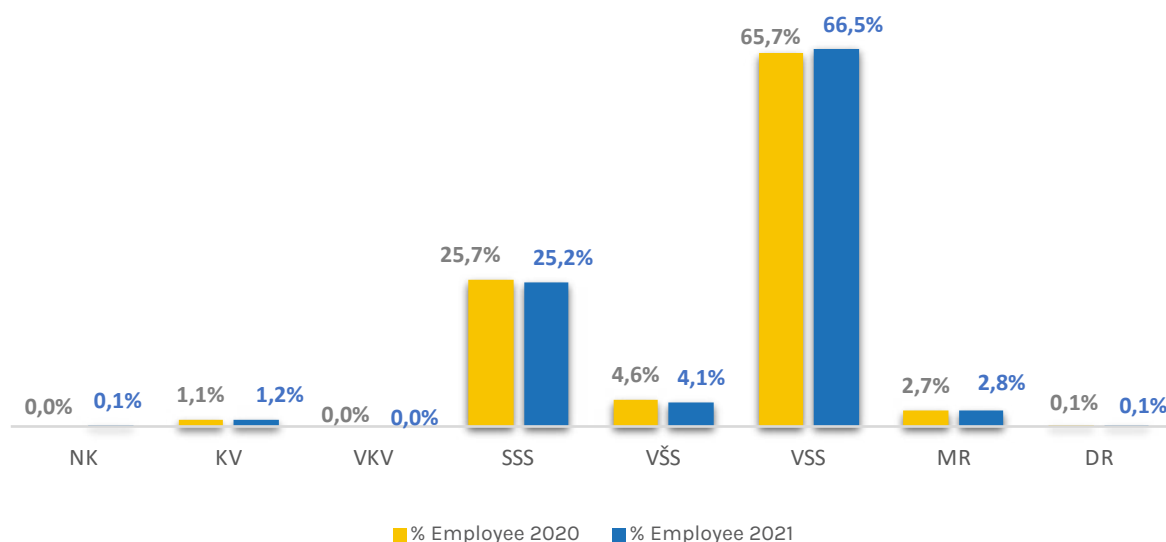


Chart 7 - Qualification structure

By gender, the Bank employs 511 women, of which 86 hold managerial positions in the Bank, and 175 men.

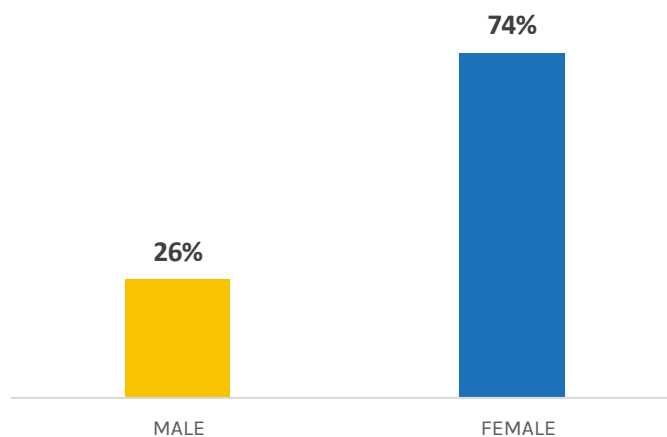


Chart 8 - Employee structure by gender



## Employee education

During 2021, a large number of internal and external educations was organized for employees with a focus on efficiency and optimization of the work process, while at the senior management level the focus was on organizational climate and strategic management.

The availability of education and the provision of learning anywhere at any time is of great importance to the Bank, because it is an organization that invests significant resources in the competencies and knowledge of employees and that continuously learns.

At the end of the year an online platform for education has been implemented, which employees can use for educational and informational purposes, and which is available to them as a desktop version and mobile application. 30 employees have been trained to be creators of educational content and internal trainers for creating online multimedia education.



Type/manner of conducting education	Number of participants in the education	Total number of hours of education
<b>EXTERNAL TRAINING</b>	<b>193</b>	<b>1,994</b>
classroom	44	424
online	149	1,570
<b>INTERNAL TRAINING</b>	<b>1,105</b>	<b>2,876</b>
classroom	551	1,676
online	554	1,200
	<b>1,298</b>	<b>4,870</b>

Type of education	Number of educations
<b>EXTERNAL TRAINING</b>	<b>65</b>
<b>INTERNAL TRAINING</b>	<b>17</b>
<b>TOTAL</b>	<b>82</b>

The average number of hours of training per employee is 7.

## Program of introducing new employees to the job

Nova banka wants to enable new employees to start their experience in the Bank with the support to adapt to the new environment and get involved in the regular work process as soon as possible, by creating an individual work and development plan and assigning a mentor who together with the manager and with the support of the Independent Department for Human Resources Management monitors the work of employees by giving feedback on progress and development needs.



# Corporate social responsibility

Nova banka is committed to planning and implementing responsible and transparent corporate activities that include social, ethical, environmental and economic efforts, with the aim of improving the quality of life of its employees, as well as economic stability and development of the local community and society as a whole. This, in its essence, implies a business contribution to sustainable development. Business based on such a paradigm has influenced the fact that in 2021, there was no lack of public recognition, which Nova banka is especially proud of.

The Chamber of Commerce of the Republic of Srpska, at the traditional event "Selection of the most successful in the RS economy for 2021", awarded the Bank the recognition for the largest loan placement in the economy of the Republic of Srpska. Although the Bank has lent to the economy of the whole of Bosnia and Herzegovina, the amount of funds placed in the economy of the Republic of Srpska stands out, in the amount of 691.6 million KM. This award is a confirmation that the Bank has been achieving extremely positive business results for many years, with a high degree of professionalism and ethics, respecting its business partners and clients.



Cooperation with domestic companies, which is reflected in joint projects in the field of civil engineering and construction, energy projects, as well as monitoring the regular operations of domestic companies, resulted in the Golden BAM award for the bank with the largest amount of assets with mostly domestic capital. The position of Nova banka is that domestic companies are the pride of our economy, and that as a domestic bank it is obliged to be a reliable partner in every phase of the company's life cycle.

The socially responsible business standards developed by Nova banka regulate the management of business processes, employee relations, aspects of the environment, health, safety, as well as other important issues. In 2021, one of the biggest challenges for the Bank was overcoming the difficulties caused by the coronavirus pandemic. Vaccination of employees was successfully organized, which also served as an occasion to point out the importance of raising citizens' awareness of the importance of vaccination as a process of acquiring collective immunity and protecting the health of employees, their families and clients.



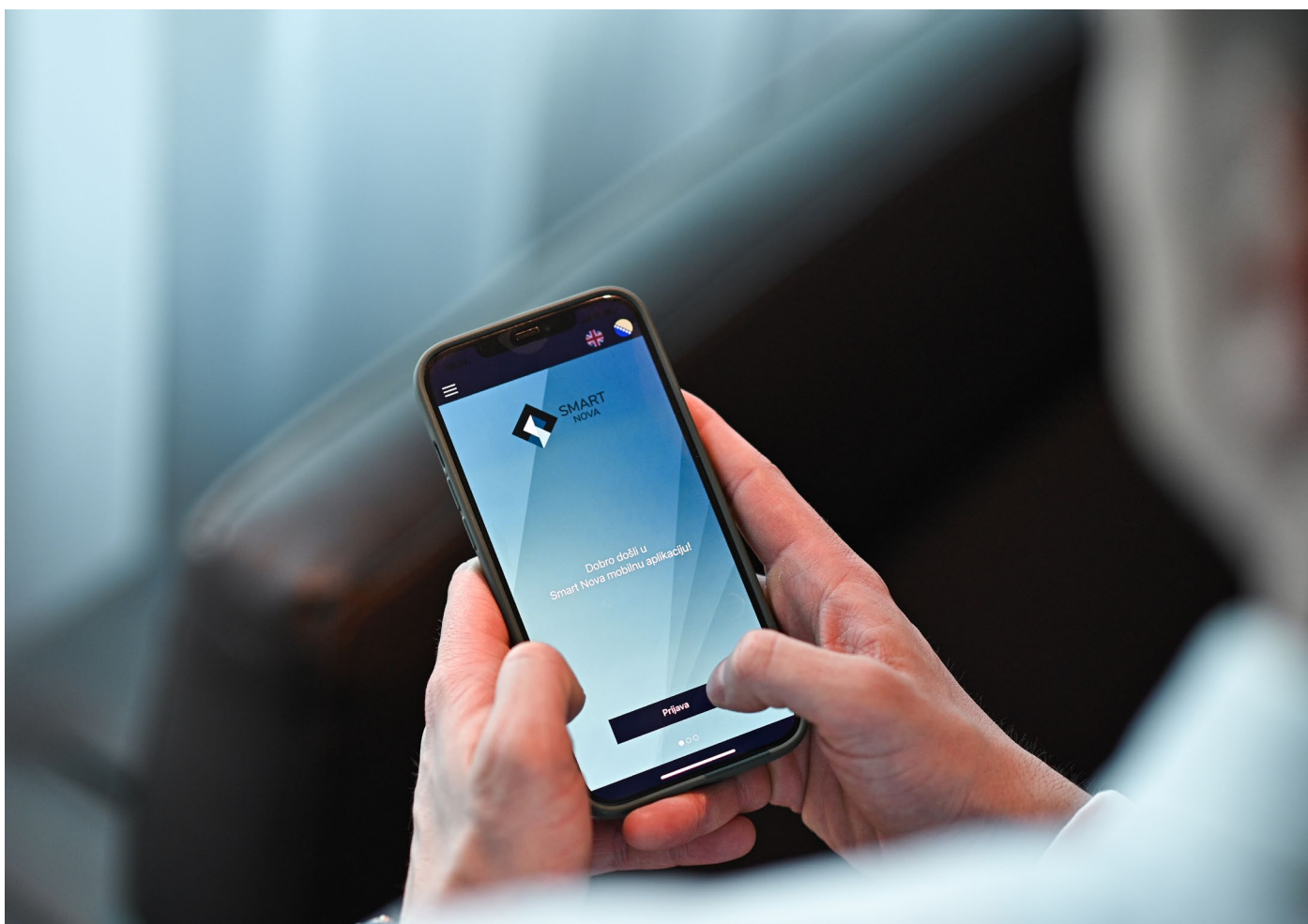
In parallel with preventive activities, the Bank actively worked on providing support to business entities and concluded a Subsidiary Financing Agreement with the Investment Development Bank of the Republic of Srpska, which aimed to place funds for the implementation of the Recovery Project and support to companies/businesses in Bosnia and Herzegovina.



To encourage sustainable development and success, Nova banka is making significant efforts to meet clients' needs, improve products and services, and improve internal processes. To achieve this, a balanced approach is needed, which includes a financial perspective, a user perspective, an internal business perspective and an innovation and learning perspective. A good example is the project of introducing the mobile and digital banking service Smart Nova, which enabled clients to have access to their accounts as well as the products they use at any time, without coming to the branch.



As a logical sequence of further investment in innovative solutions, in 2021, functionality was implemented within the Smart Nova application, called e-Wallet, which enables contactless payments by mobile phone with the Android operating system. The mobile wallet represents the present of modern banking as it offers speed, convenience and security for clients.





In today's culture, it is extremely important to preserve the presence and influence of sport on different categories of the population. Sport has a unique ability to attract and mobilize. It carries with it values such as respect for opponents, respect for rules, and teamwork. In this way, sport can significantly increase the quality of life, and recognizing its importance, Nova banka provides support to numerous sports teams in Bosnia and Herzegovina. In 2021, the cooperation with Youth Basketball Club "Sloboda" and Basketball Club "Igokea" stands out, with which the Bank has developed a long-term partnership.

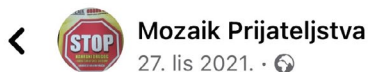


The well-being of the local community includes raising awareness of the importance of developing culture and sports, as well as supporting contemporary creativity, which Nova banka has done through sponsorships of festivals such as Banja Luka Fest and Garden Fest Prijedor.



Social responsibility is also defined as a commitment to ethical behavior beyond legal obligations.

Corporate philanthropy is a key component of this broader concept of social responsibility. Nova banka pays special attention to the most vulnerable categories of the population, especially in the challenging period that occurred as a result of the corona virus pandemic. The public kitchen "Mosaic of Friendship" prepares hundreds of meals for socially endangered citizens every day, and in Nova banka it has recognized a permanent partner who continuously supports its work.



Dragi sugrađani još jedna velika donacija Nove banke pristigla je u prostorije naše javne kuhinje. Ovi divni ljudi već nekoliko godina daju podršku našem radu te su i ovaj put kupili pileće meso, juneće kobasice i kupus te smo zaista odahnuli za neki vremenski period . Svaka čast dobri ljudi na vašoj empatiji i humanosti od srca smo vam zahvalni i želimo vam svako dobro .

Vaš tim Mozaika prijateljstva 🍷



The principles of socially responsible business that Nova banka is guided by include undertaking activities for the well-being of individuals and the community, tolerance, respect for diversity, human rights, and the promotion of positive values.



Nova banka a.d. Banja Luka

# ANNUAL REPORT

Annual Report for the year ended  
December 31, 2021 and Independent  
Auditor's Report

## **NOVA BANKA A.D. BANJA LUKA**

Financial statements  
for the year ended  
December 31, 2021 and  
Independent Auditor's Report

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