Setting the benchmark for excellence

2024 Annual Report and Accounts

Empowering
Communities to Progress.

UniCredit Bank Banja Luka

UniCredit Bank a. d. Banja Luka

Annual Report on Operations and
Financial Statements
for the Year That Ended as at
December 31, 2024 and
Independent Auditor’s Report

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Building a Stronger Future Together

Address by the President of the Bank Management Board

We present to you with pleasure the business results which were achieved in 2024 by UniCredit Bank a.d. Banja Luka (hereinafter referred to as: the Bank).

Our financial results are reflection of responsible business, client trust, and continuous work on achieving the set goals. During 2024, the Bank made a significant step forward in terms of achieved business results, focusing on client needs. In this year also we confirmed the position of one of the leading banks in the Republika Srpska by all parameters, unlocking the potential of our team, with additional support of resources and knowledge we have at our disposal as member of UniCredit Group, one of the leading pan-European banking groups.

We concluded the business year with growth of all key financial indicators. We made Net profit in the amount of BAM 33.3 million, which is by 46.1 % more than in previous year. The value of Bank's assets at the end of 2024 amounted to BAM 1.4 billion and records growth of 12.8%. At the same time we record growth of gross loans compared to 2023 by 13.1%, which at the end of 2024 amount to BAM 818 million. Client deposits amount to BAM 1.139 million, showing growth compared to the last year by 16.2%.

We preserve the long-term stability and sustainability of the Bank through strong capital position with capital in the amount of BAM 262 million and high capital adequacy rate of 25.5%. Our commitment to strong risk management, we show with high quality assets, adequate level of impairment coverage, balanced balance sheet and liquidity, providing further support to the stability of the Bank and markets in which we are operating.

We worked actively on improvement of banking products and service through process automation and digitization, and we continued support to younger population with "the First Big Chance" program, as part of which the seventh generation of students got the opportunity for practice and the acquisition of practical knowledge.
We remain dedicated to activities in the field of social responsibility. In the course of 2024, every second employee of the Bank spent an average of one hour volunteering through financial education with the aim of strengthening the knowledge of 750 young people and children. With the support of the Bank's employees and clients, we equipped the school for 70 users of the services of the Day Center for Children at Risk of "New Generation" Association. We provided support by participating in activities in the fight against violence against women and the "Iskra" Association for Women Suffering from Breast Cancer.

Integrity, responsibility and care are key values that our employees demonstrate every day through internal cooperation and through communication with clients. We will continue to strengthen each other, in order to meet the needs of clients, and to intensify the operations of business entities and accelerate growth. The success of our clients and partners is our motivation, so in the year ahead we remain focused on being a reliable partner for all our clients and associates, strengthening the communities in which we operate. We continue to set new standards of excellence in order to push the boundaries and build an even stronger UniCredit Bank a.d. Banja Luka.

On behalf of the Bank's Management and personally, I would like to thank our clients and business partners for their trust, as well as all the Bank's employees for their hard work, dedication and commitment during 2024.

Respectfully yours,

Spas Vidarkinsky
President of the Management Board of UniCredit Bank a.d. Banja Luka

"UniCredit Unlocked" Strategic Plan

UniCredit's ambition is to become a **bank for the future of Europe**. In order to achieve this ambition, this year we continued with the strong transformation of our business and built a better bank that can be a reference standard of measurement for our industry.

UniCredit Unlocked is UniCredit's strategic plan based on our vision and aimed at unleashing the potential within the Group to enter the era of purpose, growth and value creation. Our strategic plan is designed with the aim of achieving the best results for all our stakeholders: our clients, our employees and our investors.

What defines us and the way we do business can be summarized as follows:

Let's win. The right way. Together.

For our clients we focus on delivery of best-in-class products and services.

For our investors we create long-term value.

For our employees we work on unification behind one ambition and common principles.

The strategic plan optimizes the Bank's operations today and builds a clear long-term program for the future for all our partners and stakeholders, following the strategic imperatives and financial ambitions as follows:

Growth and development of our client network

- Quality growth based on work with existing and new clients;
- Development of the best products and services, independently or in cooperation with external partners.

Change of the business model and the way our people work

- Development of "Capital-light" business (with lower capital requirements), focusing on products and services with additional value for clients;
- Efficient cost management while further enabling investments;
- Responsible risk management.

Achieving economies of scale from our collective strength

- Using the synergy of 13 banks as one integrated group;
- Centralized management in areas in which we achieve added value in this way, with local empowerment within a clear risk framework.

Transformation of our technology through digitization and the use of integrated information platforms ("Digital & Data")

- Optimizing infrastructure to build a fully digital organization,
- A data-driven organization that is ready for the future.

Build sustainability into everything we do

- Lead by example, striving for the same high standards we demand from those we do business with;
- Equip ourselves with tools to support our clients and communities during the ESG transition.

The "UniCredit Unlocked" strategic plan places ESG (Environment, Social, Governance) at the center of UniCredit Group's decisions and actions: from the environment, through management, to the way we support the communities in which we operate. The goals and ambitions related to ESG that UniCredit Group sets before itself, at the same time, show a complete commitment to activities that lead to a sustainable future.

UniCredit Group has recognized that certain sectors and activities require a specialized approach, in order to ensure that the risks related to them are properly addressed. In accordance with the above, detailed policies have been developed that relate to sectors relevant to UniCredit, which are subject to special environmental risks.

We have already come a long way in implementing the plan and will continue with realization of sustainable long-term success. UniCredit is already a transformed bank, with a clear vision and a winning strategy: we are moving forward with incredible speed, ready to face the challenges, and take advantage of the opportunities and advantages of the future.

Macroeconomic Environment

After the strongest cycle of monetary policy tightening since the establishment of the Eurozone, the European Central Bank reduced three key interest rates four times in 2024. The Governing Council of the European Central Bank (hereafter referred to as the ECB) strongly advocates the imminent return of inflation to the set medium-term goal of 2%. Key interest rates will remain sufficiently restrictive for as long as necessary to achieve this goal. In the short term, a further moderate reduction in rates is certain, which will primarily depend on the stabilization of inflationary pressures and economic trends. At the same time, the reference interest rates of the ECB will probably remain at higher levels compared to the period between 2012 and 2022, maintaining the profitability of banks at solid levels.

According to the last Decision, in December 2024, the interest rate on the cash deposit was reduced to 3.0%, the interest rate for the main refinancing operations was reduced to 3.15%, and the interest rate for the borrowing capacity at the end of the day was reduced to 3.4 %. In its future decisions, the European Central Bank will be guided by quarterly projections, which will most likely show a weakening of inflation and gross domestic product (GDP).

The Eurozone is likely to remain trapped in a low-growth environment. Eurozone GDP is expected to grow by 0.9% in 2025, only slightly above the expected growth of 0.8% in 2024, with Germany, France and Italy will grow slightly less than the Eurozone as a whole. In 2026, the recovery will likely accelerate slightly.

The opening of negotiations on accession to the European Union (EU) provided an opportunity for Bosnia and Herzegovina (BiH) to make progress in reforms. The initial consolidation of government structures after the 2022 elections improved the political structure of BiH and enabled the partial implementation of reforms required by the EU. BiH was rewarded with the opening of accession negotiations in March 2024, although the European Commission still has to prepare the negotiation framework.

Real GDP growth in Republic of Srpska in the third quarter of 2024, compared to the same quarter of the previous year, was 2.9%. The seasonally adjusted data series shows GDP growth in the third quarter of 2024 by 0.9% compared to the previous quarter. Observed by activity classification areas in the third quarter of 2024, compared to the same quarter of the previous year, a significant real growth of gross added value was s recorded in the activities of Wholesale and retail trade, Transportation and storage, Hotel and hospitality industry by 8.1% and Financial and insurance activities by 5.7%.

The floods that hit parts of Bosnia and Herzegovina at the beginning of October caused the interruption of road and rail communication in some parts, which led to disruptions in the transport of raw materials and products. Passenger and freight rail traffic has been completely suspended on the Sarajevo-Čapljina route, which is connected to the port of Ploče, which is very important for imports and exports to Bosnia and Herzegovina. During her visit to Bosnia and Herzegovina in mid-October, the President of the European Commission emphasized that the aid of 20 million euros should be in operation at the beginning of 2025.

Corridor Vc (highway) remains the most important (and largest) project in Bosnia and Herzegovina (BiH). Most other national projects are usually related to sustainable transport, renewable energy and environmental and climate goals. There is a large mobilization of funds for BiH within the framework of the Growth Plan for the Western Balkans, which was approved in May (where around 1.1 billion euros will be invested in BiH in the period 2024-27 in the form of grants and loans). These funds should also support projects aimed at developing digital infrastructure, education or skills.

Average price growth varies significantly among the entities, and inflation in BiH is close to the arithmetic average of inflation in the entities, despite the significantly higher weighting of the FBiH in the total consumption at the state level. According to the data of entity statistics agencies for December, annual inflation was recorded in Republika Srpska at level of 1.9%. In December, the annual inflation rate at the level of BiH was recorded at 1.7%. It was announced that the temporary measures blocking the prices of basic foodstuffs will be extended until the end of the year, but the Central Bank of Bosnia and Herzegovina analyzes of the effects of the measures so far do not indicate a decrease in overall inflation. It is expected that the increase in the nominal price of labor, due to the supply of labor, the increase in the price of transportation, and the increase in the price of electricity, will have a somewhat stronger influence on the dynamics of the movement of the consumer price index in the coming period. In the medium term, it is expected that the increase in the prices of products based on fossil energy will have a significant impact after the introduction of the CBAM mechanism, in accordance with the regulation of carbon emissions in international trade, which will especially affect large industries such as the production of base metals.

In the Republika Srpska, the average monthly net salary paid for December 2024 is nominally 10.3% higher than in December 2023. For the same period, the real index was 8.2% higher, while the unemployment rate in the third quarter of 2024 was 8.4% and significantly lower than in the same period of the previous year, when it was 9.0%.

International rating agency Standard and Poor's (S&P) maintained the credit rating of Bosnia and Herzegovina, 'B+' with a stable outlook. Moody's Rating confirmed the credit rating for Bosnia and Herzegovina, B3 with a stable outlook. The reform momentum could help unlock access to new pre-accession financing that can support larger investments. On the other hand, the economy faces significant negative risks from the upcoming implementation of the European Union Carbon Limit Adjustment Mechanism (EU CBAM), which will negatively affect a large part of BiH's exports in the absence of significant de-carbonization reforms.

Macroeconomic Expectations

In 2025, further acceleration of economic growth is expected, fueled by the recovery of external demand, on top of further improvement in private consumption and public investment. Public investments, in addition to those prescribed in the state budget, should also be supported by foreign financial institutions and EU funds. The opening of EU accession negotiations will provide an opportunity for progress in reforms, but disagreements between the entities on some issues may be an obstacle to fully exploiting such an opportunity.

Banking Sector

In the Republc of Srpska in the third quarter of 2024, there was an increase in total loans compared to the end of 2023, while the percentage of non-performing loans decreased to 3.4% from 3.6% (end of 2023).

The banking sector of Bosnia and Herzegovina remained strong, stable and adequately capitalized in 2024, with the lowest ratio of non-performing loans in the total in the last decade (3.4%, Q3 2024).

The number of banks on the market of Bosnia and Herzegovina did not change during 2024 and amounts to a total of 21. There are a total of 13 banks operating in the Federation of Bosnia and Herzegovina, and 8 banks in the Republika Srpska. The number of employees in the banking sector increased by +2% (3Q 2024 compared to end of 2023).

The latest available financial indicators of the banking sector of Bosnia and Herzegovina for 3Q 2024 show that the banking sector is stable and profitable.

The total realized profit before tax in Republic of Srpska in the nine months of 2024 amounted to BAM 215 million, which is a growth of 34% compared to the same period of the previous year. The total income of the banking sector in Republic od Srpska recorded a double-digit annual growth, driven by a significant increase in net interest income (+13% y/y) and growth in non-interest income (+15% y/y). Operating costs of the banking sector increased by 7% y/y.

In December 2024 loan volumes on Bosnia and Herzegovina market recorded the growth of +9.8% compared to the end of 2023, driven by growth in both segments, Retail +9.3% y/y, and Corporate +10.3% y/y. At the same time, deposit volumes recorded increase of +8.8% compared to the end of 2023, driven by faster growth of Retail deposits by +9.9%, while Corporate deposits increased by +7.6%.

In November 2024, gross loans in the Republika Srpska increased by 8% compared to the end of 2023, in both segments (loans to individuals +8.9% y/y, and loans to legal entities +6.5%).

Deposit volumes in the Republika Srpska also recorded an increase in both segments compared to the end of 2023 (deposits to the individuals +7.5% y/y, and loans to legal entities +4.2%).

In 2024, the banking sector in Bosnia and Herzegovina responded in a timely manner to all the challenges that occurred, taking into account security and timely reactions to changes in the global environment.

As measures to mitigate the risk of interest rate changes on the international market, the Banking Agency of the Republika Srpska (hereinafter referred to as BARS) adopted decisions on temporary measures aimed at slowing down the growth of domestic credit rates and mitigating the impact of rising world interest rates already in 2023, but continued until the end of 2024 and according to the latest changes, the Decision will be applied until the end of 2025. With the aforementioned decisions, the BARS limited the increase in interest rates earned to 200 basis points for those loans for which an increase of more than 200 basis points would cause the borrower to default on their obligations, i.e. put them in an unfavorable economic situation.

With the decision on temporary measures to limit exposure, BARS set the upper limit of exposure to foreign countries in the amount of 100% of recognized capital, which was valid in 2024 (50% as of 31 December 2024). The decision applies until 31 December 2025.

In the course of 2024, in addition to the above, the BARS passed the Decision on temporary measures for capital preservation, which refers to obtaining prior consent from the BARS for the payment of profits from the previous year, and the Decision on temporary measures for granting relief to individuals and legal entities for the settlement of credit obligations with the aim of mitigating negative economic consequences, which are affected by difficult business conditions and limited business. Both of these measures are in effect until the end of 2025

Expectations for the Banking Sector

Given the expected moderately accelerated GDP growth, it is expected that loan growth rates will be slightly higher than in 2024. This is the result of the expected recovery of personal consumption and the investment cycle. Loans show a constant upward trend, with slightly faster growth in loans to legal entities expected in 2025. On the deposit side, a further increase in volume is expected in line with the improvement of macroeconomic indicators, which will lead to an increase in the deposits of private individuals and a slowdown in the accumulation of deposits from legal entities.

Business Description

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

As the legal successor of the first bank built in this area "Privilegovana Zemaljska Banka za BIH - Filijala Banja Luka" ("Privileged Land Bank for BiH - Branch Office of Banja Luka") founded in 1910, UniCredit Bank a.d. Banja Luka has had the longest tradition of banking operations in Bosnia and Herzegovina in its foundations. In its 115-year history, the Bank went through several different transformations and operated successfully in different legal and organizational forms.

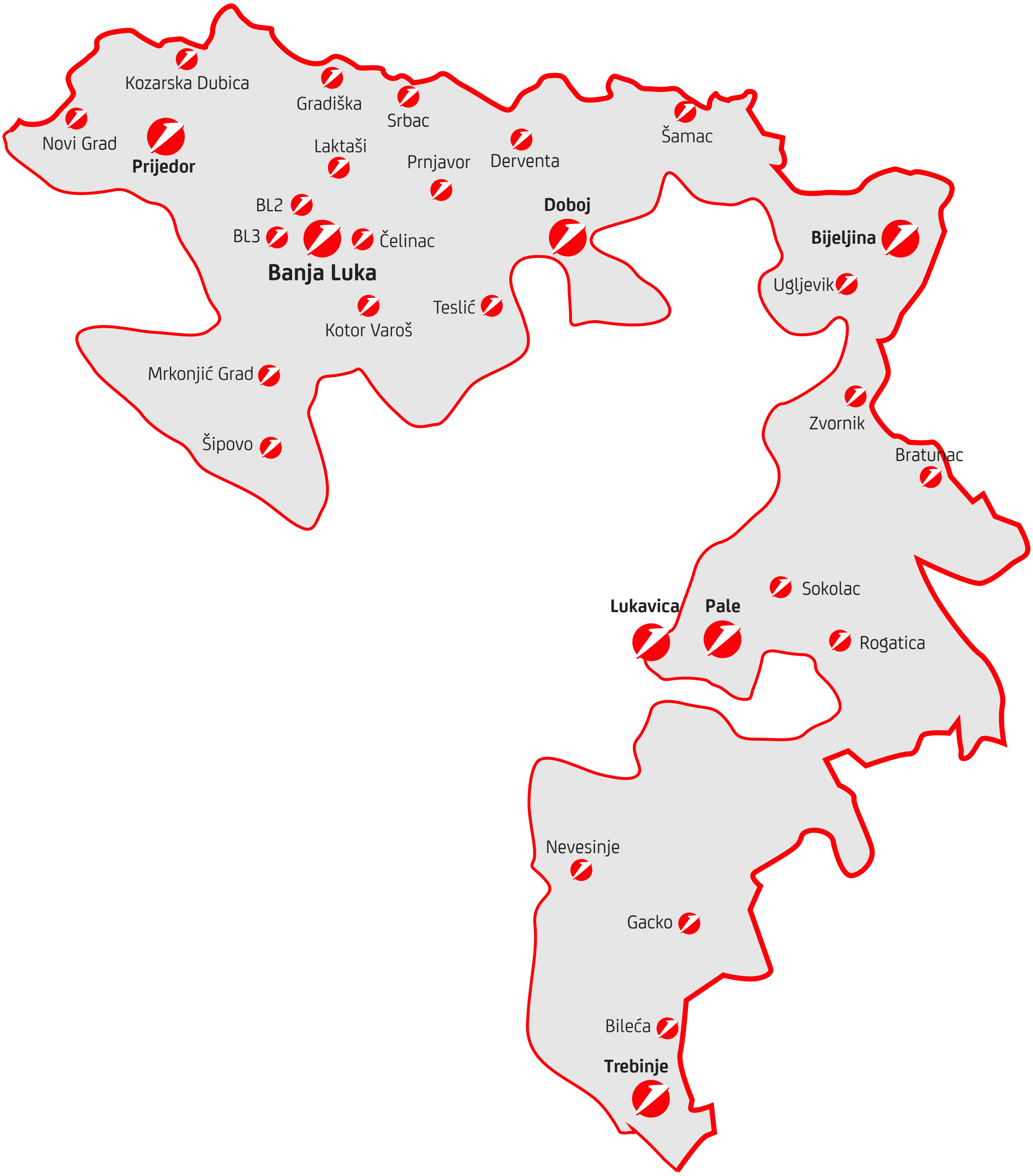
The Bank provides a full range of financial services to legal entities and private individuals in the Republika Srpska, one of the two entities in Bosnia and Herzegovina. The set of banking services provided by the Bank includes all types of operations with private individuals, small and medium-sized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

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

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

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

Branch Network Map



Business Segments Overview

Retail Segment

Organization

The Retail segment provides clients with a wide range of products and services, through two business areas – Private and Business Banking. It manages a network of business units and direct distribution channels such as ATMs, mobile and electronic banking.

During 2024, the Bank's business network was divided into four geographically and economically connected regions (Banja Luka-Prijedor, Doboj-Gradiška, Sarajevo-Bijeljina and Trebinje-Foča), with a total of 30 organizational units at the end of 2024.

In its portfolio Retail has more than 118 thousand active clients within the segment of private individuals and micro business.

Retail goals are constantly focused on improving relationships with existing and acquiring new clients, with continuous improvement and development of products and services, but also a clear focus on digital products and further development of alternative channels, accelerating the digital transformation process and synergy in approaching clients together with the segment of Corporate Banking. Retail analyses and improves key processes and adapts to new market conditions, which increasingly indicate the need for accelerated transition of clients from traditional to digital channels, their education about them, but also improving the speed of service and client satisfaction.

Business Activities in 2024

The volume of Retail loans at the end of 2024 amounted to BAM 482.9 million (+10.60% compared to the end of 2023). The market share in loans to private individuals in the Republika Srpska at the end of November 2024 is 14.38% (+6bp compared to the end of 2023).

Retail deposits amount to BAM 655.4 million at the end of 2024 (+14.1% compared to the end of 2023). The market share in deposits of private individuals in the Republika Srpska at the end November 2024 is 11.85% (+44bp compared to the end of 2023).

The development of the Bank's products continued during 2024, with a focus on improving the quality of services, as well as through simplification and acceleration of processes. The key areas of development included increasing the degree of digitation, optimizing the loan approval process, and introducing new products and tools adapted to the needs of clients.

Special emphasis is placed on digitation, which is recognized as a basic pillar of modern banking operations. Within this segment, the Bank continued to develop mobile and internet banking, as well as services related to ATMs and card operations. The modernization of digital channels enabled users to have easier and faster access to their accounts, with the possibility of performing transactions at any time and from any place, which improved the user experience and availability of services. During the year, the re-approval process for micro clients was implemented, which significantly accelerated and simplified the loan approval process. In addition, the "End-to-end" application for approving loans through the Consumer Finance platform has been improved. This platform was expanded with modules for approving loans to legal entities and credit cards, which were developed on the same technological basis. Activities on the further improvement of these platforms continued during the year, with the aim of increasing their efficiency and adaptability to the needs of different user segments.

In the area of product development, the focus is also on expanding the portfolio of insurance products, which provides clients with additional value and the possibility of combining various financial services in one place.

A special step forward was made in the modernization of the user experience through the full implementation of the Contact Center tool, which is integrated with the oCRM and aCRM systems. This connection enables the Bank to provide personalized services and better understand the needs of its clients, which contributes to strengthening their satisfaction and loyalty.

Companies and Public Sector Segment

Organization

The Companies and Public Sector segment does business with large and medium-sized domestic business entities, the public and financial sector, as well as with international clients to whom, in addition to financing products, it also offers products from the global transactional banking and financial markets.

Through business centers Small Companies, Medium-sized Companies, Financial, Public and International Clients, the Bank covers the entire territory of the Republika Srpska and conducts business relationships with more than eight hundred clients, large and medium by income size.

Business Activities in 2024

The key focus of the Companies and Public Sector segment in 2024 was on participation in the financing of significant projects in private sector, more intensive use of guarantee lines from the funds of the Guarantee Fund and directing clients to greater use of direct channels.

The balance of corporate clients' loans, with the total gross amount of loans at the end of 2024, amounted to BAM 335.0 million (+17.0% compared to the end of 2023), while corporate clients' deposits amounted to BAM 483.9 million (+19.2% compared to the end of 2023). As of November 2024, the market share in corporate loans on the Republika Srpska market was 10.36% (+71bp compared to the end of 2023), and in the deposit segment, the market share was 14.13% (+77bp compared to at the end of 2023).

The Bank will continue with support to domestic companies through projects in the field of renewable energy and improvement of energy efficiency, as well as to small and medium-sized enterprises.

In addition to the multitude of commercial activities, it is important to point out that in both business segments, both in Retail and in the Corporate and Public Sector segment, we continued to work intensively on strengthening the quality of human resources as one of the key prerequisites for the growth and long-term sustainability and stability of the Bank.

Financial Overview of Bank's Business Operations

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

Financial Indicators

The Bank achieved positive business results in 2024.

UniCredit Bank a.d. Banja Luka	2024	2023	+/-
Profit and loss			
Total operating income	74 185	67 985	9.1%
Total operating expenses	(40 944)	(38 397)	6.6%
Profit before tax	36 759	25 142	46.2%
Net profit after tax	33 265	22 775	46.1%
Balance sheet			
Loans and receivables with customers	774 198	677 246	14.3%
Deposits and borrowings from customers	1 139 295	980 309	16.2%
Shareholders equity	261 521	247 264	5.8%
Total assets	1 439 269	1 275 916	12.8%
Capital adequacy			
Total risk weighted assets (RWA)	861 769	667 785	29.0%
Own funds (Regulatory capital)	219 769	210 159	4.6%
Capital adequacy ratio (CAR)	25.5%	31.5%	-6pp
Business indicators			
C/I ratio, Cost income ratio	55.2%	56.5%	-1.3pp
ROAE, Return on equity	13.1%	8.6%	4.5pp
ROAA, Return on assets	2.5%	1.7%	0.8pp
L/D ratio, Customers Loans to deposits ratio	68.0%	69.1%	-1.1pp
Number of employees	383	386	-3
Number of organizational units	30	30	0

Profit and Loss

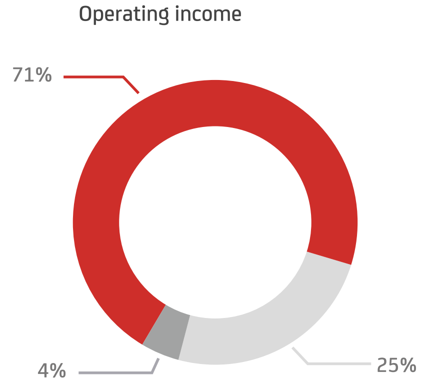
The net profit achieved in 2024 amounted to BAM 33.3 million and was 46.1% higher than the profit achieved in the previous year, mostly due to higher operating income by 9.1% y/y and positive impairments for credit risks, while operating expenses were higher by 6.6% y/y.

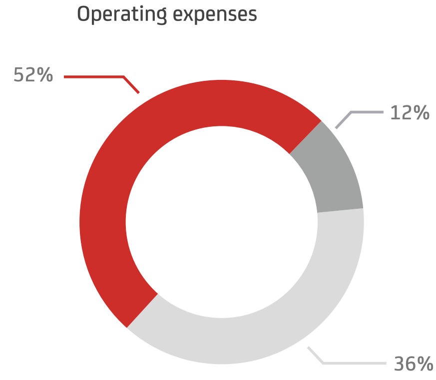
Total operating income in 2024 amounts to BAM 74.2 million, which is 9.1% more compared to the previous year as a result of higher interest income, and higher fees and commissions' income and trading result.

Total operating costs in 2024 amount to BAM 40.9 million and record a growth of 6.6% compared to the previous year, mainly as a result of the increase in employee costs and other administrative costs.

Bearing in mind that Operating income had a higher growth rate than Operating expenses, the key efficiency parameter C/I ratio (cost and income ratio) is 55.2% and has improved by 1.3 pp compared to the previous year.

Chart: Structure of operating income and structure of operating expenses





Net interest income was realized in the amount of BAM 52.5 million, which is 7.6% more compared to the same period of the previous year, and makes up 71% of the Bank's total operating income. The growth of net interest income compared to the previous year is the result of a 6.4% increase in interest income, and a decrease in interest expenses by 3.2% y/y.

Net income from fees and commissions amounts to BAM 18.8 million, which is 11.8% more compared to the same period of the previous year, and makes up 25% of the Bank's total operating income. The increase in fees is mainly the result of higher realization of fees for card operations, fees for payment transactions, and fees based on the purchase and sale of currency.

Other income items include net gains from trading and exchange rate differences in the amount of BAM 2.9 million, income from dividends and equity share in the amount of BAM 4 thousand, and together they make up 4% of the Bank's total operating income and are higher by 21.5 % y/y.

Total operating costs amount to BAM 40.9 million, which is 6.6% more than in the same period of the previous year. Employee expenses amount to BAM 21.3 million and record a growth of 13.9% compared to the previous year, and make up 52% of total operating expenses. Other administrative costs with BAM 14.9 million account for 36% of the total operating costs, while depreciation costs of tangible and intangible assets amount to BAM 4.8 million and make up 12% of the total operating costs.

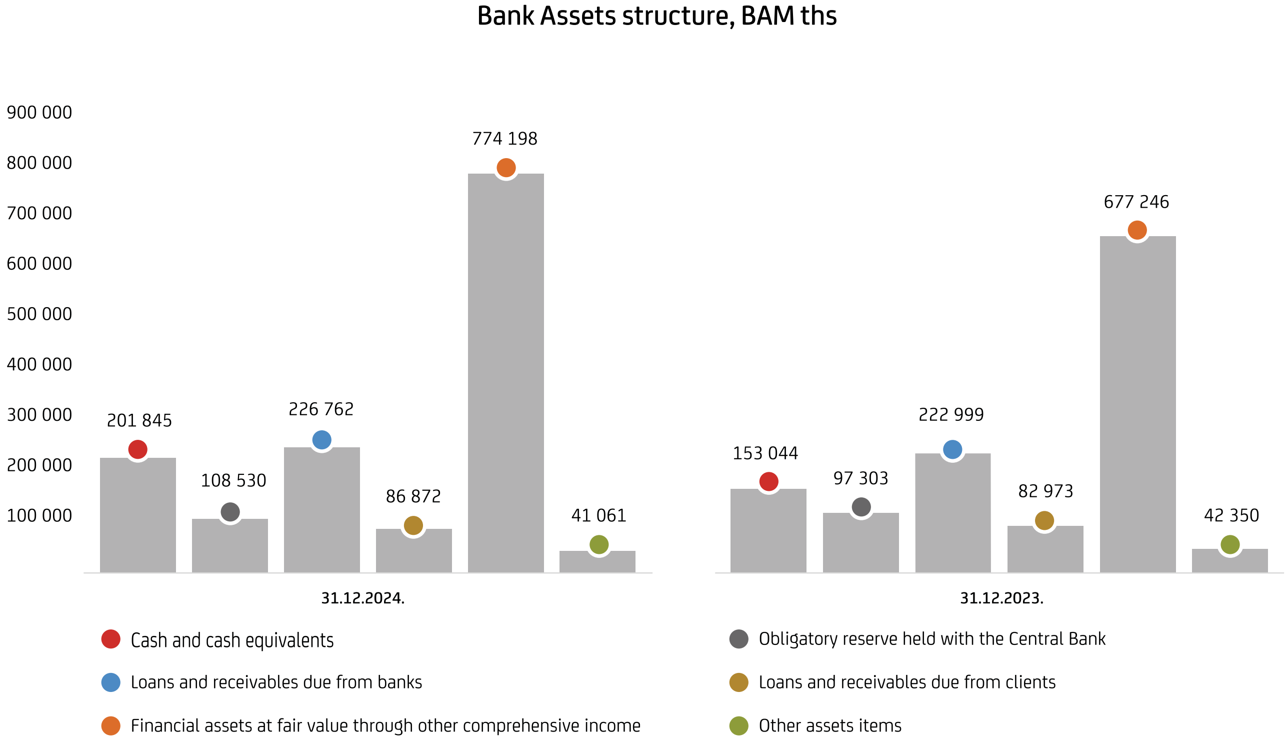
The recorded increase in total operating expenses compared to the previous year is largely the result of an increase in employee expenses (severance pay and variable bonuses) and other administrative expenses (information technology expenses).

Statement of the Financial Position

Assets

At the end of 2024, the Bank's total assets amount to BAM 1.4 billion and are 12.8% higher compared to the same period last year due to the growth of loans and receivables from clients, placements with banks, and cash and cash equivalents.

Chart: Bank's asset structure



In the structure of the Bank's assets, the most significant share of 53.8% is net loans and receivables from clients, which amount to BAM 774.2 million and record a growth of 14.3% compared to the end of the previous year. Loans and receivables from banks amount to BAM 226.8 million, and together with the mandatory reserve at the Central Bank of BiH in the amount of BAM 108.5 million, cash and cash equivalents in the amount of BAM 201.8 million, make up a third of the Bank's total assets.

Financial assets at fair value through other total results account for 6.0% of the Bank's total assets. It amounts to BAM 86.9 million, which is 4.7% more than the previous year.

Other asset items include tangible and intangible assets, deferred tax assets and other assets.

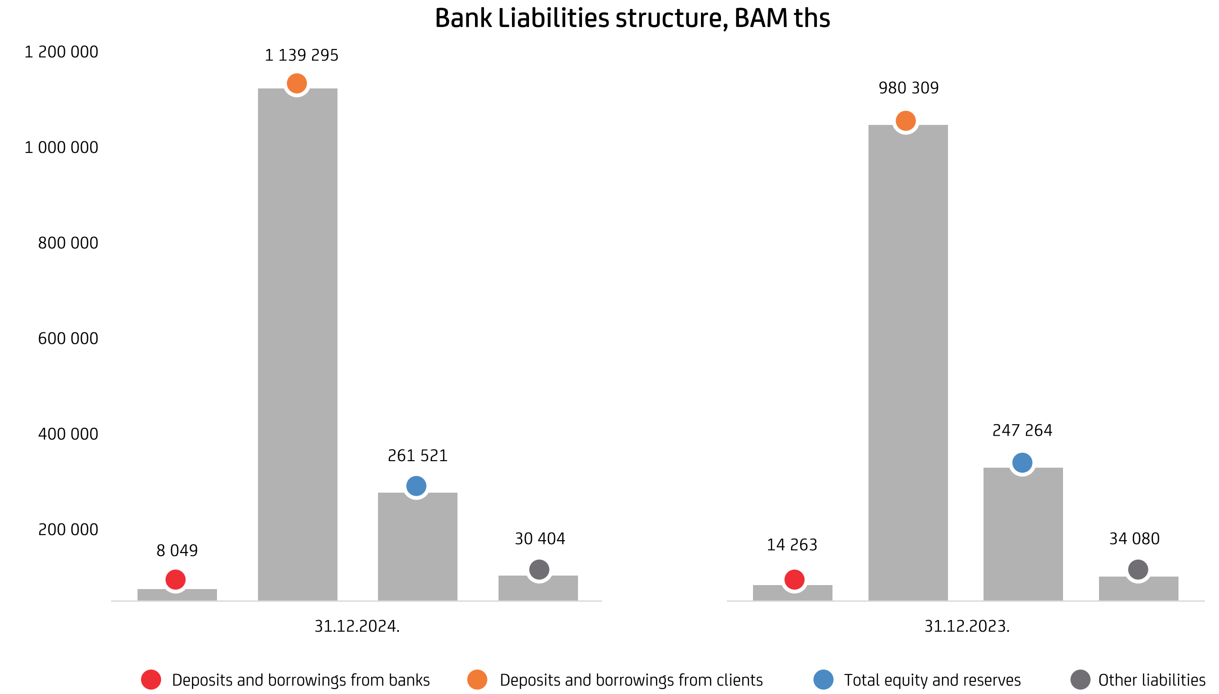
In the structure of loans and receivables from clients, loans to legal entities account for 42%, and loans to private individuals account for 58% of the share. Net loans to legal entities as of December 31, 2024 amount to BAM 323.2 million, while net loans to private individuals amount to BAM 450.9 million.

Gross loans extended to legal entities increased by 17.5%, while gross loans extended to private individuals increased by 10.1% compared to the end of the previous year.

Liabilities

In the structure of the Bank's liabilities, deposits and loans from clients have the most significant share (79%). Total deposits and loans from clients amount to BAM 1,139.3 million and are 16.2% higher than at the end of the previous year.

Chart: Structure of Bank's liabilities

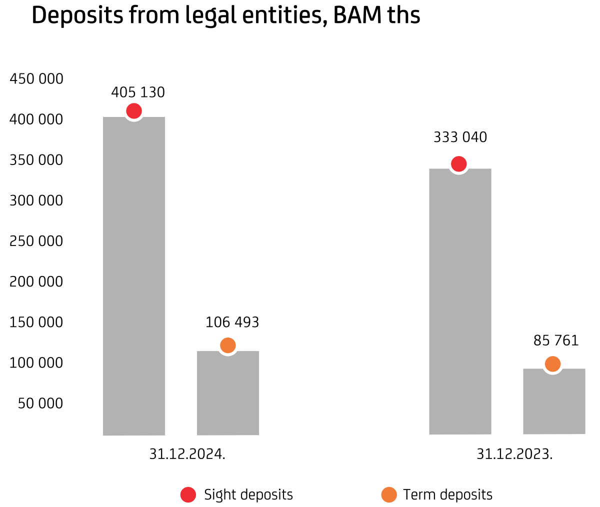


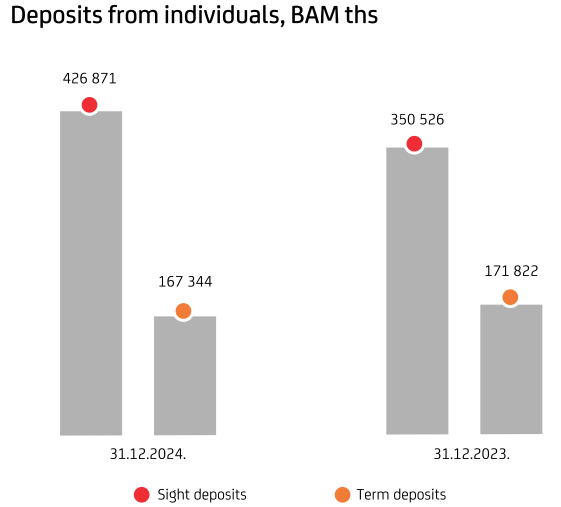
In the structure of deposits and borrowings from clients, deposits and borrowings from legal entities make up 47.8%, while deposits from private individuals make up 52.2%.

Deposits of legal entities, which also include deposits of entrepreneurs, amounted to BAM 511.6 million at the end of 2024, which is 22.2% more than at the end of the previous year. Demand deposits of legal entities make up 79.2%, while time deposits make up 20.8% of total deposits of legal entities.

Deposits of private individuals amounted to BAM 594.2 million, which is 13.8% more compared to the previous year. Demand deposits of private individuals make up 71.8%, while term deposits make up 28.2% of total deposits of private individuals.

Chart: Structure of deposits of legal entities and private individuals





The L/D ratio as the ratio of loans and deposits of clients is 68.0% and is lower by 1.1 pp compared to the same period last year as a result of the higher growth rate of deposits from clients compared to the growth of the loan portfolio.

Capital and Reserves

The Bank's capital and reserves at the end of 2024 amount to BAM 261.5 million, which is 5.8% or BAM 14.3 million more than at the end of the previous year. The net increase in capital in the stated amount is mostly the result of net profit growth in 2024.

Capital adequacy as of December 31, 2024 is 25.5% (significantly above the regulatory minimum of 12%) and is lower by 6.0 pp compared to the same period last year due to the higher growth rate of credit net risk assets compared to regulatory capital.

Governance and Management Organization

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

Shareholders' Meeting of the Bank

The Shareholders' Meeting of the Bank consists of its shareholders. The Shareholders' Meeting is chaired and the decisions are signed by the Chairman of the Shareholders' Meeting, who is elected by the present shareholders at the beginning of each meeting.

As of December 31, 2024, the Bank had a total of 50 shareholders, of which UniCredit SpA, Milan, holds the largest share with 99.64% of the Bank's total capital.

Share capital of the Bank as of December 31, 2024 amounts to BAM 97,055 thousand, and consists of 138,650 ordinary shares of class "B", nominal value BAM 700.00 per share.

According to the ownership structure of the shareholders, private capital participates with 99.96% and cooperative capital with 0.04% in the total capital of the Bank, and according to the origin of the capital, 99.66% is foreign capital, and 0.35% is domestic capital.

Class "B" ordinary shares give the right to one vote in the Bank's Shareholders' Meeting. Owners of ordinary shares are entitled to manage the Bank, have the right to participate in profit and other rights defined by the Articles of Association, the legal and other regulations.

Supervisory Board

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

The members of the Bank's Supervisory Board in 2024 are:

1.	Pasquale Giamboi	president	UniCredit S.p.A.
2.	Daniel Svoboda	vice president	UniCredit S.p.A.
3.	Margherita Giulia Cerqui	member	UniCredit S.p.A.
4.	Vedran Stanetić	member	Independent member
5.	Zoran Vasiljević	member	Independent member

Bank Board

The Bank Board organizes work, manages operations and represents the Bank. The Bank's Board is appointed by the Supervisory Board, with the prior consent of the Banking Agency of the Republika Srpska.

The members of the Bank's Management Board in 2024 are:

1.	Gordan Pehar	Bank Board President until March 31, 2024, and acting member of the Bank Board in charge of Global Banking Services from March 01 – March 31, 2024
2.	Spas Blagovestov Vidarkinsky	president of the Bank Board from June 3, 2024, and acting President of the Bank Board from April 8, 2024- June 2, 2024 and acting Bank Board member in charge of Global Banking Services from April 8, 2024 to June 26, 2024
3.	Jasminka Bajić	member of the Bank Board in charge of Finances, and acting Bank Board member in charge of Global Banking Services from April 1 – April 7, 2024
4.	Dragana Janjić	Bank Board Member in charge of Risk Management from September 1,2024
5.	Miloš Belić	Bank Board Member in charge of Risk Management until August 31, 2024
6.	Željko Kišić	Bank Board Member in charge of Retail and Corporate Banking, and Acting President of the Bank Board from April 1,2024 – April 7, 2024
7.	Roland Viskupič	Bank Board Member in charge of Global Banking Services until February 29, 2024
8.	Diana Bevanda	Bank Board Member in charge of People and Culture

Audit Committee

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

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

The members of the Bank's Audit Committee in 2024 are:

1.	Jelena Poljašević	president	Independent member
2.	Ante Križan	member	Zagrebačka Banka dd, Zagreb.
3.	Graziana Mazzone	member	UniCredit SpA

Employees

As of December 31, 2024, the Bank has a total of 383 employees.

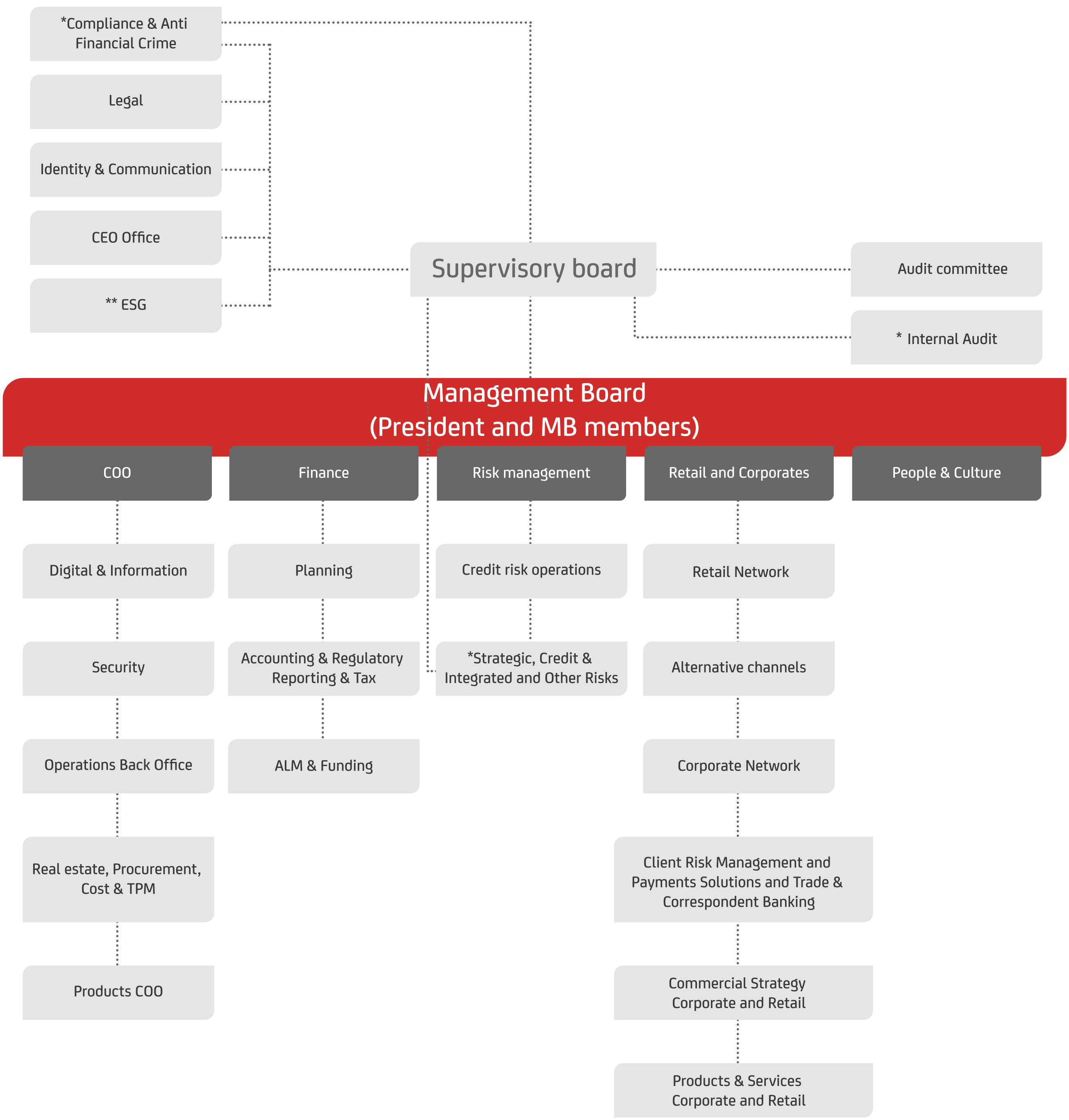
We are committed to our role in society and strive to act as an engine of social progress to help and empower the local community and provide our employees with the best place to work.

From the aspect of human resource management, we strive to create a friendly working environment, full of support, where personal values are key in order to bring about change. We value the balance between work and what is outside of it, therefore we invest a lot in creating a flexible work environment, adapted to the needs of our colleagues.

Through various programs, the Bank monitors and improves activities that significantly affect the experience of workers. Our further development and success depends on the quality and dedication of our employees, and we continuously work on improving knowledge and competences, as well as improving the working conditions of all employees. Through development activities, we pay special attention to the training of sales staff, managers and employees of high potential, identified as talents. Due to the exceptional importance of introducing new employees and newly appointed managers to the job, in the course of 2024 we continued with the implementation of the so-called onboarding. In accordance with the needs and dynamics within the Bank, in 2024 we had 52 newly employed employees, and a certain number of colleagues were appointed to management positions within the Bank. The Bank regularly works on succession planning for all management positions, development of potential candidates, which enables us to fill management positions without major difficulties in case of changes.

All of the previously listed activities embody our core values: integrity, responsibility, and care for employees, which guide us in everything we do every day.

Organizational Structure of the Bank as of December 31, 2024



**In accordance with local regulations, the control functions: Internal Audit, Compliance and Anti-Money Laundering, Credit, Integrated and other risks report directly to the Supervisory Board.*

***ESG is existing as a function directly reporting to the CEO of the Bank aiming to assure sustainability. Social impact banking is under ESG structure.*

Business Network of UniCredit Bank a.d. Banja Luka as of December 31, 2024

BRANCH	ADDRESS	CITY	PHONE NUMBER:
FREE INFO LINE			**080/051-051**
BANJALUCA-PRIJEDOR REGION			
BANJA LUKA BRANCH	Marije Bursać 7	Banja Luka	051/243-200
BANJA LUKA BRANCH 2	Jevrejska 50	Banja Luka	051/246-662
BANJA LUKA BRANCH 3	Carice Milice 2	Banja Luka	051/246-645
ČELINAC BRANCH	Kralja Petra I Karađorđevića 65	Čelinac	051/551-144
KOTOR VAROS BRANCH	Cara Dušana 28	Kotor Varoš	051/783-260
BRANCH MRKONJIC CITY	Svetog Save 13	Mrkonjić Grad	050/212-948
BRANCH ŠIPOVO	Prve šipovačke brigade 1	Šipovo	050/490-338
PRIJEDOR BRANCH	Vožda Karađorđa 9	Prijedor	052/240-385
NOVI GRAD BRANCH	Karađorđa Petrovića 33	Novi Grad	052/751-756
KOZARSKA DUBICA BRANCH	Svetosavska 41	Kozarska Dubica	052/416-346
DOBOJ-GRADIŠKA REGION			
LAKTAŠI BRANCH	Karađorđeva 63	Laktaši	051/491-215
GRADIŠKA BRANCH	Vidovdanska bb	Gradiška	051/491-953
BRANCH SRBAC	Mome Vidovića 17	Srbac	051/491-219
DOBOJ BRANCH	Karađorđeva 1	Doboj	053/490-351
TESLIC BRANCH	Svetog Save 77	Teslić	053/431-501
DERVENTA BRANCH	Kralja Petra 1 Karađorđevića bb	Derventa	053/312-212
ŠAMAC BRANCH	Svetosavska 9	Šamac	054/490-116
PRNJAVOR BRANCH	Svetog Save 25	Prnjavor	051/660-295
SARAJEVO-BIJELJINA REGION			
BIJELJINA BRANCH	Patrijarha Pavla 3a	Bijeljina	055/221-285
BRANCH UGLJEVIK	Ulica Ćirila i Metodija bb	Ugljevik	055/490-303
ZVORNIK BRANCH	Karađorđeva bb	Zvornik	056/214-147
BRATUNAC BRANCH	Svetog Save bb	Bratunac	056/411-214
PALE BRANCH	Milana Simovića bb	Pale	057/203-024
LUKAVICA BRANCH	Spasovdanska 31	Lukavica	057/318-294
SOKOLAC BRANCH	Cara Lazara bb	Sokolac	057/401 062
ROGATICA BRANCH	Srpske sloge bb	Rogatica	058/417-484
TREBINJE-FOČA REGION			
TREBINJE BRANCH	Kralja Petra Prvog Oslobodioca br. 22	Trebinje	059/270-626
BILEĆA BRANCH	Kralja Aleksandra 14	Bileća	059/370-066
GACKO BRANCH	Trg Save Vladislavića bb	Gacko	059/471-530
NEVESINJE BRANCH	Nevesinjskih ustanika 27	Nevesinje	059/610-471

Responsibility for Financial Statements

The Management is responsible for ensuring that the financial statements are prepared for each financial period in accordance with the applicable accounting standards, which give a true and fair view of the financial position of UniCredit Bank a.d. Banja Luka ("the Bank") and the results of its operations and cash flows, and is responsible for keeping appropriate accounting records, in order to enable the preparation of such financial statements at any time. The Bank's management has the general responsibility for taking steps reasonably available to it to protect the Bank's assets and to prevent and detect fraud and other irregularities.

When preparing these financial statements, the responsibilities of the Bank's Management include ensuring:

- that appropriate accounting policies are selected and then applied consistently;
- that judgments and assessments are reasonable and prudent;
- that valid accounting standards are respected, whereby all materially significant deviations are disclosed and explained in the financial statements; and
- that the financial statements are prepared on a going concern basis, unless it is appropriate to assume that the Bank will continue its operations.

The Management Board is responsible for submitting the Bank's annual report to the Supervisory Board together with the annual financial statements, after which the Supervisory Board is obliged to approve the financial statements. The financial statements have been approved by the Management Board for issuance to the Supervisory Board, and are signed below on behalf of the Bank:

For and on behalf of the Management

UniCredit Bank a.d. Banja Luka 1

President of the Bank Board
Spas Blagovestov Vidarkinsky

Bank Board Member
Jasminka Bajić

Bank Board Member
Željko Kišić

Bank Board Member
Dragana Janjić

Bank Board Member
Diana Bevanda

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

14 February 2025

Independent Auditors' report

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

Opinion

We have audited the financial statements of UniCredit Bank a.d. Banja Luka ("the Bank"), which comprise the statement of financial position as at 31 December 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Republic of Srpska.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This version of the audit report is a translation from the original, which was prepared in Serbian 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 the audit report takes precedence over translation.

Key Audit Matters

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.

Impairment of loans and receivables from clients

As at 31 December 2024, gross loans and receivables from customers: BAM 818.0 million, related impairment allowance: BAM 43.8 million and, for the year then ended, net impairment release recognised in the statement of profit or loss: BAM 0.1 million (31 December 2023: gross loans and receivables: BAM 723.1 million, related impairment allowance: BAM 45.9 million and, for the year then ended, impairment loss recognised in the statement of profit or loss: BAM 2.6 million).
Refer to Accounting policies, Note 2.10 Use of estimates and assumptions and key sources of uncertainty estimation, Note 5.5 Loans and receivables from customers, and Note 7.1 Credit risk.

Key audit matter (continued)

Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and receivables from customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions.

The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Republic of Srpska ("ABRS"), which combine the requirements of IFRS 9 "Financial Instruments" with the ABRS prescribed minimum requirements for provisioning.

The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below BAM 50 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information, as well as specific rules of the ABRS regarding various minimum provisioning requirements (together "collective impairment allowance").

Expected credit losses for Stage 3 (non-performing) exposures (equal to or above BAM 50 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the realization of the related collateral and the minimum period for collateral disposal, as well as the ABRS's specific minimum provisioning requirements.

While the economic environment in 2024 has shown mixed signs of stabilization, inherent uncertain remain, particularly in relation to specific markets and credit risk assumptions.

In the wake of the above factors, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit.

Accordingly, we considered this area to be our key audit matter.

How our audit addressed the matter (continued)

Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management ("FRM").information technology (IT), a valuation specialists included, among others:

- Inspecting the Bank's ECL methods, and assessing their compliance with the relevant requirements of the regulatory and financial reporting frameworks. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed the appropriateness of the application of such models to the assumptions and data. We also challenged whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors;
- Testing the design, implementation and operating effectiveness of selected internal controls over the approval, recording and monitoring of loans, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances. As part of the procedure, we also tested the Bank's IT control environment for data security and access;
- For loss allowances calculated on a collective basis:
  - Challenging the key risk parameters (PD, EAD and LGD) applied in the collective ECL model, by reference to the Bank's data on historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;
  - Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment and independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information;
  - Evaluating release of key overlays to the ECL model used by the Bank, by applying our knowledge of the industry and our understanding of the macro-economic situation;
- For impairment allowances calculated individually:
  - For a sample of exposures determined taking into account customer's business, market conditions and debt service; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3;
  - with the assistance of our own valuation specialist, for individually significant exposures classified in Stage 3, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, discount rates, collateral values and realization period by reference to loan files and market rates.
- For loan exposures in totality:
  - Assessing the adequacy of the recognized ECL against the various minimum provisioning requirements prescribed by the ABRS;
  - Challenging the overall reasonableness of the impairment allowances, including both the share of the gross non performing exposures in total gross exposure and the non-performing loans provision coverage.
  - Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

To the shareholders of UniCredit Bank a.d. Banja Luka (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management report but does not include the financial statements and our auditors' report thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the statutory accounting requirements applicable to banks in the Republic of Srpska, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' report

To the shareholders of UniCredit Bank a.d. Banja Luka (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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

KPMG B-H d.o.o. za reviziju
Branch office Banja Luka
Registered Auditors

Kpmg

KPMG B-H d.o.o. ZA REVIZIJU PODRUŽNICA BANJA LUKA

14 February 2025

Svetozara Markovića 5
78000 Banja Luka
Bosna i Hercegovina

Financial Statements for the Year That Ended as at December 31, 2024

Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss

	Notes	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Interest income calculated using the effective interest rate method		58,258	54,758
Interest expenses		(5,806)	(6,001)
Net interest income	4. 1.	**52,452**	**48,757**
Fees and commission income		22,487	21,260
Fees and commission expenses		(3,676)	(4,436)
Net fee and commission income	4. 2.	**18,811**	**16,824**
Dividend and equity share income		4	4
Net gains from trading and exchange differences after recalculation of monetary assets and liabilities		2,919	2,400
Net income from Financial instruments	4. 3.	**2,923**	**2,404**
Total operational revenues		**74,185**	**67,985**
Costs employees	4. 4.	(21,316)	(18,710)
Costs depreciation of tangible assets	4. 5.	(1,896)	(1,855)
Costs depreciation of intangible assets	4. 5.	(2,863)	(3,143)
Other administrative costs	4. 6.	(14,870)	(14,689)
Total operational costs		**(40,944)**	**(38,397)**
Operational result before impairments and provisions		**33,241**	**29,588**
Net impairment losses / recoveries on financial instruments	4. 7.	**1,395**	**(7,276)**
Financial assets at amortized cost		1,651	(7,294)
Financial assets at FV through other comprehensive income		(256)	18
Provisions for risks and expenses	4. 8.	**(246)**	**81**
Other operating income	4. 9.	**2,068**	**2,478**
Other operating expenses	4. 9.	**(616)**	**(719)**
Gains on sales property	4. 10	**918**	**990**
Result before tax		**36,759**	**25,142**
Income tax	4. 11.	**(3,494)**	**(2,366)**
Result after tax		**33,265**	**22,775**

**please see Note 2.5*

Statement of Other Comprehensive Income

	Notes	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Result after tax		**33,265**	**22,775**
Other comprehensive income		**3,767**	**(503)**
Items that may not be re-classified to profit or loss:			
Effects of tangible assets revaluation – net of related taxes		236	119
Net gain of the period recognized directly in capital – net of related taxes		99	261
Items that may be re-classified to profit or loss:			
Net (losses) / gains in provisions for credit risks of financial assets at fair value through other comprehensive income		256	(18)
Net (losses) / gains from changes in fair value of financial assets through other comprehensive income – debt instruments – net of related taxes		3,176	(866)
Total comprehensive income for the year		**37,032**	**22,272**

Basic/ Diluted Earnings per Share

	Notes	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Result after tax attributable to ordinary shareholders		**33,265**	**22,775**
Number of regular shares		138,650	138,650
Basic/ diluted earnings per share in BAM	4. 12.	**239.92**	**164.26**

These financial statements were approved by the Bank's Management on 14 February 2025.

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

Bank Board President
Spas Blagovestov Vidarkinsky

UniCredit Bank a.d. Banja Luka 1

Bank Board Member
Jasminka Bajić

Statement of the Financial Position

	Notes	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Assets			
Cash and cash equivalents	5. 1.	**201,845**	**153,044**
Financial assets at fair value through other comprehensive income	5. 2.	**86,872**	**82,973**
Financial assets at amortized cost		**1,109,491**	**997,548**
Obligatory reserve held with the Central Bank	5. 3.	108,530	97,303
Loans and receivables with banks	5. 4.	226,762	222,999
Loans and receivables from clients	5. 5.	774,198	677,246
Tangible assets	5. 6.	**22,195**	**21,987**
Intangible assets	5. 7.	**8,100**	**9,413**
Current tax assets		**-**	**216**
Deferred tax assets	5. 12.	**743**	**1,115**
Other assets	5. 8.	**10,023**	**9,619**
Total assets		**1,439,269**	**1,275,916**
Liabilities			
Financial liabilities at amortized cost		**1,148,925**	**996,338**
Deposits and borrowings from banks	5. 9.	8,049	14,263
Deposits and borrowings from clients	5. 10.	1,139,295	980,309
Liabilities based on lease	5. 11.	1,581	1,766
Tax liabilities		**2,179**	**777**
Current tax liabilities		1,410	-
Deferred tax liabilities	5. 12.	769	777
Other liabilities	5. 13.	**22,902**	**24,523**
Provisions for credit risks and guarantees	5. 14.	**2,791**	**5,209**
Provisions for risks and expenses	5. 15.	**951**	**1,805**
Total liabilities		**1,177,748**	**1,028,652**
Capital and reserves			
Share capital	5. 16.	97,055	97,055
Share premium		373	373
Legal reserves		9,706	9,706
Capital reserves		43,555	43,294
Revaluation reserves		995	(2,673)
Retained earnings		76,572	76,735
Net profit for the current year		33,265	22,775
Total capital and reserves		**261,521**	**247,264**
Total liabilities, capital and reserves		**1,439,269**	**1,275,916**

Statement of Changes in Equity

	Note	Share capital BAM 000	Share premium BAM 000	Legal reserves BAM 000	Capital reserves BAM 000	Revaluation reserves BAM 000	Retained earnings BAM 000	Net profit for the year BAM 000	Total BAM 000
Balance as at January 1, 2023		**97,055**	**373**	**9,706**	**43,222**	**(1,909)**	**109,976**	**23,379**	**281,802**
Profit distribution		-	-	-	-	-	23,379	(23,379)	-
Dividend payment	4. 12.	-	-	-	-	-	(56,810)	-	(56,810)
Transfer to reserves		-	-	-	72	-	(72)	-	-
Net profit for the year		-	-	-		-	-	22,775	22,775
Other comprehensive income									
Net change in fair value of financial assets at fair value through the other comprehensive income – net of related taxes		-	-	-	-	(865)	-	-	(865)
Net change in impairment of financial assets at fair value through other comprehensive income		-	-	-	-	(18)	-	-	(18)
Net profit of the period recognized directly in capital – net of related taxes		-	-	-	-	-	261	-	261
Effects of material assets revaluation – net of related taxes		-	-	-	-	119	-	-	119
Total other result		**-**	**-**	**-**	**-**	**(764)**	**261**	**-**	**(503)**
Balance as at December 31, 2023		**97,055**	**373**	**9,706**	**43,294**	**(2,673)**	**76,735**	**22,775**	**247,264**
Distribution get		-	-	-	-	-	22,775	(22,775)	-
Profit distribution	4.12.	-	-	-	-	-	(22,775)	-	(22,775)
Dividend payment		-	-	-	261	-	(261)	-	-
Net profit for the year		-	-	-		-		33,265	33,265
Other total comprehensive income									
Net change in impairment of financial assets at fair value through other comprehensive income – net of related taxes		-	-	-	-	3,176	-	-	3,176
Net change in impairment of financial assets at fair value through other comprehensive income		-	-	-	-	256	-	-	256
Net (profit period recognised directly in capital – net of related taxes		-	-	-	-	-	99	-	99
Effects of material assets revaluation – net of related taxes		-	-	-	-	236	-	-	236
Total other result		-	-	-	-	**3,668**	**99**	**-**	**3,767**
Balance as at December 31, 2024		**97,055**	**373**	**9,706**	**43,555**	**995**	**76,572**	**33,265**	**261,521**

Statement of Cash Flows

	Note	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Cash flow from operating activities			
Interest income and similar revenues		58,226	54,347
Interest expenses and similar expenses		(5,806)	(6,001)
Fee and commission income		22,452	21,460
Fee and commission expenses		(3,676)	(4,679)
Dividend and equity investment income		4	4
Net trading profits and exchange rate translation difference monetary property and obligation		2,919	2,400
Other administrative expenses		(36,186)	(33,366)
Other inflows / (outflows)		2,370	2,715
a) Net cash from operating activities before changes in financial assets and liabilities at amortized cost		**40,303**	**3,880**
Changes in financial assets at amortized cost			
Obligatory reserve with the Central Bank		(11,227)	10,063
Loans and receivables with banks		(3,764)	(117,423)
Loans and receivables with clients		(97,181)	147,931
Other assets		(2,063)	(3,587)
b) Net changes in financial assets at amortized cost		**(114,235)**	**36,984**
Changes in financial liabilities at amortized cost			
Deposits and borrowings from banks		(6,214)	(47,456)
Deposits and borrowings from clients		158,986	(83,307)
Repayment long-term leases		(186)	(206)
Other liabilities		(1,621)	2,588
c) Net changes in financial liabilities at amortized cost		**150,965**	**(128,381)**
Net flows cash from operating activities ago tax (a+b+c)		**77,033**	**(54,516)**
Income tax		(1,893)	(2,787)
1. Net cash flow from operating activities		**75,140**	**(57,303)**
Flows cash from investment activities			
Investments in tangible assets		(1,632)	(978)
Sale of tangible assets		-	176
Investments in intangible assets		(1,550)	(1,497)
Investments in Financial assets at fair value through other comprehensive income		(30,000)	-
Inflows from Financial assets at fair value through other comprehensive income		29,630	1,531
2. Net cash flow from investment activities		**(3,553)**	**(769)**
Cash flow from financial activities			
Payment dividends		(22,787)	(56,752)
3. Net cash flow from financial activities		**(22,787)**	**(56,752)**
4. Net increase / (decrease) in cash (1+2+3)		**48,801**	**(114,824)**
5. Cash and cash equivalents on at the beginning period		**153,044**	**267,869**
6. Cash and cash equivalents on end period (4+5)		**201,845**	**153,044**

Notes to the Financial Statements

1. The Reporting Entity

UniCredit Bank a.d. Banja Luka (hereinafter: the Bank) is a joint-stock company registered with its headquarters in Banja Luka, Marije Bursać Street number 7, for the performance of payment transactions, credit, deposit and other banking operations in the country and abroad, in accordance with the regulations of the Republika Srpska and Bosnia and Herzegovina.

The Bank was founded in 1910 and throughout the long history of its existence has gone through numerous transformations in the form of organization, ownership structure and name, and has been operating under its current name since June 1, 2008.

The majority owner of the Bank, with over 99% share in the capital, is UniCredit S.p.a, headquartered in Italy, the holding company of the UniCredit Group (hereinafter: UniCredit).

The bank is an open joint-stock company and its shares are listed on the Banja Luka Stock Exchange under the symbol "NBLBRB"; ISIN: BA100NBLBRB5.

As of December 31, 2024, the Bank consisted of the head office in Banja Luka and 30 branches (December 31, 2023: 30 branches).
As of December 31, 2024, the Bank had 383 employees (December 31, 2023: 386 employees).

The Bank's tax identification number is 4400958880009, and VAT number is 400958880009.

2. Basis of the Preparation and Presentation of Financial Statements

2.1. Reporting Framework

The Bank's financial statements are prepared in accordance with the legal accounting regulations applicable to banks in the Republika Srpska ("RS"), which is based on the Law on Accounting and Auditing of the RS, the Law on Banks of the RS and by-laws of the Banking Agency of the RS adopted on the basis of the aforementioned laws.

The Law on Accounting and Auditing of the RS stipulates the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
The Law on Banks of the RS prescribes the preparation of annual financial statements in accordance with the above-mentioned Law on Accounting and Auditing of the RS, this law, and by-laws adopted on the basis of both laws.

2.2. Compliance with IAS and IFRS

The Decision on Credit Risk Management and Determination of Expected Credit Losses ("Decision"), prescribed by the Banking Agency of the Republika Srpska, which is applied from January 1, 2020, resulted in certain differences and deviations of these financial statements in accordance with IAS and IFRS, which the Bank compiles for the purposes of consolidation at the UniCredit Group level.

The Decision on Credit Risk Management and Determination of Expected Credit Losses prescribes:

a) rules for credit risk management,
b) method of assigning exposure to credit risk levels and determining expected credit losses,
c) acceptable collateral for the purposes of determining expected credit losses,
d) acceptable collateral for the purposes of limiting the maximum permissible exposure in relation to recognized capital,
e) treatment of tangible assets acquired in the debt collection process
f) accounting and permanent write-off, etc.

The decision stipulates that the amount of expected credit losses is recognized in the statement of profit or loss at the higher of the following two: calculated according to the internal methodology in accordance with IFRS 9 or the prescribed minimum rate of expected credit losses for a certain level of credit risk.

As of December 31, 2024 in accordance with the provisions of the Decision, the Bank recognized higher allowances and provisions for credit losses in the amount of BAM 5,526 thousand compared to the amount obtained by calculation according to the Bank's internal model, developed in accordance with the requirements of IFRS 9 (as of December 31, 2023: BAM 5,024 thousand) (see note 3.17).

Of the stated amount for the items of other assets, as of December 31, 2024, in accordance with the provisions of the Decision, the Bank recognized higher allowances and provisions for credit losses in the amount of BAM 2,508 thousand compared to the amount obtained by calculation according to the Bank's internal model (see note 5.8).

2. Basis of the Preparation and Presentation of Financial Statements (continued)

2.2. Compliance with IAS and IFRS (continued)

Considering the poorly developed real estate market in the Republika Srpska, the Decision prescribes the recognition of tangible assets acquired in the debt collection process at the lower of the following two values:

a) the net book value of the bank's receivables, where in case this net book value is equal to zero, the acquired tangible assets are recognized at the technical value in the amount of BAM 1, or
b) estimated fair values performed by an independent appraiser, less expected selling costs.

If the Bank does not sell the acquired tangible assets within three years from the date of initial recognition, it must reduce its value to BAM 1 through the income statement.

The accounting write-off of the balance sheet exposure is carried out after the expiration of two years from the last date of the following two events: after the formation of expected credit losses in the amount of 100% of the gross book value and the declaration of the claim in question as due in full.

2.3. Business Continuity

Finansijski izvještaji su sastavljeni u skladu sa načelom neograničenosti poslovanja koji podrazumijeva da će Banka nastaviti da posluje u predvidljivoj budućnosti.

2.4. Basis of the Preparation

Annual financial reports include:

- Statement of the Comprehensive Income ,
- Statement of the Financial Position,
- Statement of Changes in Equity,
- Statement of Cash Flows and
- Notes to the financial statements.

These financial statements are prepared according to the principle of historical cost, except for land and buildings that are measured and reported at revalued amounts and financial assets that are measured and reported at fair value (debt securities and participation in the capital of other legal entities). Business events are recorded on the day they occur.

Fair value is the price that would be received for sale or paid for the transfer of liabilities in a regular transaction between market participants on the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In assessing the fair value of assets or liabilities, the Bank takes into account the characteristics of assets or liabilities when market participants would take these characteristics into account when determining the price of assets or liabilities on the measurement date.

The fair value of an asset or liability is measured using assumptions that would be applied by market participants when defining the price of an asset or liability, assuming that market participants act in their economic interest. The principles of fair value measurement are described in note 3.10.

The adopted measurement criteria are aligned with the principles of accrual accounting, the relevance and significance of accounting information, as well as the predominance of economic substance over legal form. Compliance with these criteria has not changed since the previous year, except for the changes described below, which refer to the introduction of new standards and interpretations, as well as the implementation of local decisions on credit risk management and determination of expected credit losses.

According to IFRS, management makes judgments, estimates and assumptions, which affect the application of accounting principles and the amounts of assets and liabilities, reported revenues and expenses, as well as the disclosure of potential assets and liabilities. Estimates and related assumptions are based on past experience and other factors, which are considered reasonable under the circumstances, and were used to estimate the book value of assets and liabilities, which are not readily available from other sources.

Estimates and assumptions are regularly revised. All changes resulting from these revisions are recognized in the period for which the revision was made, if the change concerns only that period. If the change concerns both the current and future periods, it is recognized accordingly for both current and future periods.

2.5. Changes in the Presentation of Financial Statements

For the purpose of better presentation of compliance with the applicable accounting standards, in 2024, in relation to the published reports for 2023, the Bank reclassified BAM 990 thousand from Other operating income and presented them under the new position Gains from the sale of assets, and doscounts received from Mastercard related to cards business in the amount of BAM 244 thousand from the position Fees and commissions income to the position Fees and commissions expense.

2. Basis of the Preparation and Presentation of Financial Statements (continued)

2.6. Functional Currency and Presentation Currency

The financial statements are presented in convertible marks (hereinafter: BAM), which is also the functional currency. Data in the tables and explanations are given in thousands of convertible marks (BAM), unless otherwise indicated. Due to rounding of amounts, the data in the tables may contain differences.

The Central Bank of Bosnia and Herzegovina (hereinafter: "Central Bank") implements exchange rate policy based on the principle of the Currency Board (" *Currency Board* "), according to which BAM is fixedly linked to EUR in the ratio BAM 1 = EUR 0.51129, which was used for 2024 and 2023.

2.7. Subsidiaries, Joint Ventures and Associated Entities

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

- subsidiaries, i.e. entities over which it has direct or indirect control,
- joint arrangements with other entities, which in accordance with IFRS 11 include joint control, joint operations and joint ventures, nor
- associated entities.

2.8. Impact and Application of New and Revised IAS and IFRS

The following new standards, interpretations and amendments to existing standards, which may be applicable to the Bank:

Application date	New standards or changes
January 1, 2024	Amendments to IFRS 16 Leases
January 1, 2024	Amendments to IAS 1 Presentation of Financial Statements
January 1, 2024	Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Publications

Amendments to IFRS 16 relate to right-of-use assets arising from leasebacks and require the seller-lessee to determine 'lease payments', i.e. 'revised lease payments' in such a way that it does not recognize any amount of profit or loss that refers to the right of use that they had retained.
The amendments do not affect the gain or loss recognized by the seller-lessee in connection with the partial or complete termination of the lease.
These changes have no impact on the Bank because the Bank has not performed and does not plan to perform sale and leaseback transactions.

Amendments to IAS 1: The entity is required, in its statement of financial position, to include long-term and short-term assets and present long-term and short-term liabilities separately, except when the presentation based on liquidity provides more reliable and relevant information. When this exception is applied, the entity is obliged to present all assets and liabilities according to liquidity.
These amendments have no effect because the Bank's presentation is based on the principle of decreasing liquidity and as such provides more reliable and relevant information.

Amendments to IAS 7 and IFRS 7: The entity is required to publish information about its supplier financing arrangements that enable users of financial statements to assess the effects of those arrangements on liabilities, cash flows and the entity's exposure to liquidity risk.
Supplier financing arrangements imply that one or more providers of financial resources offer to pay the amounts owed by the entity to its suppliers and that the entity accepts to pay them under agreed terms on the payment date to the supplier or later. Such arrangements enable the entity to have extended payment terms, i.e. suppliers to receive payments before the date they are due according to the corresponding invoice. Supplier financing arrangements are often referred to as supply chain financing arrangements, accounts payable financing arrangements, or reverse factoring arrangements.
Arrangements that allow the entity to only increase the supply of credit (such as financial guarantees, which imply the issuance of letters of credit that are used as guarantees) or instruments that will be used to directly settle debts to the supplier (such as credit cards) are not supplier financing arrangements.

These amendments have no impact on the Bank as these arrangements do not exist.

2. Basis of the Preparation and Presentation of Financial Statements (continued)

2.9. New Standards not yet Effective

The following new standards, interpretations and amendments to existing standards issued by the IASB are not yet in force and have not been previously adopted by the Bank:

Application date	New standards or changes
January 1, 2025	Amendments to IAS 21 Effects of change in foreign exchange rates

Amendments to IAS 21 introduce requirements for assessing when a currency can be exchanged for another currency and when not. The amendments require an entity to estimate the spot rate when it concludes that a currency cannot be exchanged for another currency. Added new disclosure requirements. These changes will not affect the Bank because there are no non-exchangeable currencies in its operations.

The following new standards, interpretations and amendments to existing standards issued by the IASB were not yet effective and were not early adopted by the Bank:

Application date	New standards or changes
January 1, 2026	IFRS 9 and IFRS 7 Amendments to classifications and measurements of financial instruments
January 1, 2026	IFRS 1, IFRS 7, IFRS 9, IFRS 10, IAS 7 Annual improvements Volume 11
January 1, 2027	IFRS 18 Presentation and disclosure in financial statements
January 1, 2027	IFRS 19 Subsidiaries without presentation and disclosures in financial statements Public responsibility: disclosures
January 1, 2026	IFRS 9 and IFRS 7 Contracts relating to amendments to IFRS 9 and IFRS 7 on electrical energy dependent on nature

Amendments to IFRS 9 clarify the classification of financial assets with a potential feature and introduce an additional SPPI test for financial assets with potential features that are not directly related to a change in the underlying risks or costs of borrowing - for example, where cash flows change depending on whether the borrower meets an ESG target specified in the loan agreement. Under the amendments, certain financial assets, including those with ESG-related characteristics, could now meet the SPPI criterion, provided that their cash flows do not differ significantly from identical financial assets without such characteristics. IFRS 9 also provides additional guidance to clarify the characteristics of contractually related instruments, as well as the definition of the underlying fund used to assess whether a transaction contains contractually related instruments.
The amendments to IFRS 9 also clarify that a company generally derecognizes its trade liability on the settlement date. However, amendments are an exception to de-recognition of financial liabilities. The exception allows an entity to derecognize its trade liability that is payable before the settlement date, when it uses an electronic payment system that meets all of the following criteria:

- there is no practical possibility to withdraw, stop or cancel payment instructions;
- no practical ability to access cash to be used for settlement as a result of payment instructions; and the settlement risk associated with the electronic payment system is insignificant.

Amendments to IFRS 7 add new required disclosures for all investments in equity instruments designated at fair value through other comprehensive income and contractual terms that could change the amount of the contracted cash flow based on unforeseen events that are not directly related to the underlying credit risk.

Annual Improvements to IFRS Accounting Standards – Volume 11, deals with several potential confusions arising from inconsistencies in wording and references between different IFRS accounting standards. Apart from minor changes, IFRS 9 has been amended to require companies to initially measure trade receivables without a significant financial component at the amount determined by applying IFRS 15 and to clarify that when lease liabilities are derecognised under IFRS 9, the difference between the book value and fees paid are recognized in the income statement.
It is not expected that these changes will result in any changes within the Bank, as no receivables from clients that fall under this amendment have been identified.

IFRS 18 Presentation and disclosure in financial statements (published on April 9, 2024) replaces IAS 1, transferring many of the requirements of IAS 1 unchanged and supplementing them with new requirements. In addition, some paragraphs of IAS 1 were transferred to IAS 8 and IFRS 7.

2. Basis of the Preparation and Presentation of Financial Statements (continued)

2.9. New Standards not yet Effective (continued)

Moreover, the IASB made minor amendments to IAS 7 and IAS 33 Earnings per share. IFRS 18 introduces new requirements for:

- display of certain categories and defined subtotals in the income statement. All income and expenses must be classified into five categories (operating, investing, financing, discontinued operations and income tax) in the income statement;
- disclosure of performance measures (MPM) defined by management in a note in the financial statements;
- improvement of aggregations and disaggregation (how to get information in financial statements);
- IFRS 19 allows a qualifying subsidiary to provide reduced disclosures when applying IFRS accounting standards in its financial statements. A subsidiary is entitled to reduced disclosures if it has no public liability and its ultimate or any intermediate parent company prepares consolidated financial statements available for public use that comply with IFRS accounting standards.

2.10. Use of Estimates and Assumptions and Key Sources of Uncertainty Estimation

When applying accounting policies, described in Note 3, the Bank makes estimates and assumptions of certain items of assets and liabilities, which cannot be derived from other sources. Estimates and assumptions are based on historical experience and other factors such as planning and anticipated future events that appear probable from the current perspective. Given that such estimates and assumptions are subject to uncertainty, they may lead to results that will require adjustments to the book value of the subject assets and liabilities in future periods.
Estimates and assumptions and other key sources of uncertainty assessment at the reporting date, which have a significant risk of causing a material adjustment of the book value of assets and liabilities in future periods are listed below.

Expected Credit Losses (adjustments to the value of balance sheet exposure and provisions for off-balance sheet exposure)

Expected credit losses include corrections (reductions) of value that are mainly recognized in relation to the book value of balance sheet exposure based on credit and other receivables and provisions arising from off-balance sheet exposure to clients, mainly in the form of unused framework loans and guarantees (detailed in the note 3.12.).

Fair Value Financial Instruments
The Bank uses estimation in selecting the appropriate valuation technique for financial instruments that are not quoted on the active market. Valuation techniques commonly used in the market are applied. Financial instruments, except loans and receivables, are valued on the basis of the regulatory Instructions for the classification and valuation of financial assets, whereby, depending on the level of fair value of the instrument, the appropriate valuation method is also used - at the market price, at the price obtained on the basis of the model or by discounting cash flows. The fair value determined in this way is additionally harmonized with the value calculated by the Group - application of the principle of independent price verification (IPV). (Note 3.10.).

Provisions for Risks and Costs
Provisions for Risks and Costs
These provisions are also based on an assessment of the extent to which the Bank has an obligation arising from a past event and what is the probability that the fulfilment of this obligation will require an outflow of economically useful resources. In addition, it is necessary to estimate the amount and maturity of future cash flows.
These provisions include provisions for: court cases, severance pay for retirement, jubilee awards and other liabilities and expenses.

2. Basis of the Preparation and Presentation of Financial Statements (continued)

2.10. Use of Estimates and Assumptions and Key Sources of Uncertainty Estimation

Taxes

The Bank recognizes the tax liability in accordance with the tax regulations of the Republika Srpska and Bosnia and Herzegovina. Tax declarations are approved by the tax authorities that are responsible for the subsequent control of taxpayers.

In order to reduce the risk due to deficiencies in the regulation, the Bank uses the possibility of obtaining tax opinions from competent institutions.

All tax calculations and transactions are subject to tax controls, and with regard to the previously mentioned tax regulations, there is room for different interpretations of tax provisions. As a result of the above, calculations and transactions may be contested by the tax authorities (for direct and indirect taxes) and this could possibly lead to the exposure of the Bank to additional obligations. In accordance with the law, the statute of limitations for tax liability is 5 years. In this regard, tax risks are more significant than those in countries with more modern and developed tax systems.

Regulatory Requirements

The Republika Srpska Banking Agency is allowed to conduct regulatory reviews of the Bank's operations and order changes in the book value of assets and liabilities, in accordance with applicable regulations.

3. Significant Accounting Policies

The accounting policies set out below have been consistently applied to the years included in these statements.

3.1. Interest Income and Expenses

Interest income means accrued interest, the basis of which is the placement shown in the assets of the balance sheet. Interest income can also be negative in the event that the Bank pays interest on the placement given to the other party, in which case it is shown in the position of interest expense.

Interest expenses imply the calculated interest, the basis of which is the basis for the calculation of liabilities shown in the liabilities of the balance sheet. Interest expense can also be positive in the event that the other party pays the Bank interest on the given deposit, in which case it is shown in the position of interest income.

Interest income and expenses are recognized in the income statement for the accounting period to which they relate by applying the effective interest rate method for all interest-bearing financial instruments, including those calculated at amortized cost and at fair value through the statement of profit or loss, i.e. calculated at fair value through other total results. The effective interest rate is the rate that discounts the estimated future cash flows (including all paid or received transaction costs and fees that are an integral part of the effective interest rate) during the expected duration of the financial asset / liability.

Interest income and expenses also include income and expenses from commissions and fees related to loans and receivables from clients and banks, loans taken, financial leases, premium or discount amortization, as well as other differences between the initial book value of an interest-bearing financial instrument and its values at maturity, which are recognized using the effective interest rate method.

Interest on financial assets, classified in level 3 of credit risk, is recognized by the Bank as interest income in the income statement at the time of its collection, and claims for this interest are evidently kept off-balance sheet, in accordance with Article 25, paragraph (8) of the Decision on Credit Management Risk and Determination of Expected Credit Losses ("Official Gazette of the Republika Srpska", number 48/19, 109/19, 73/21, 35/23 and 101/23).

Collected income from agency commissions on loan insurance policies are recognized as interest income if they meet the conditions to form an integral part of the effective interest rate, i.e. if the agency commission is included in the calculation of the nominal interest rate, the result of which is that loans without an insurance policy have a higher nominal interest rate of loans with an insurance policy. The difference between these nominal interest rates is charged in the form of an agency commission, and accordingly represents an integral part of the effective interest rate of the loan.

Due and unpaid interest, calculated on exposures in the status of settlement of obligations, a value adjustment is made, calculated in the same way as the principal, to which the interest claims relate.

3. Significant Accounting Policies (continued)

3.2. Fee and Commission Income and Expenses

Income and expenses based on fees and commissions (except those that form an integral part of the effective interest rate for financial assets or financial liabilities) are treated in accordance with IFRS 15 Income from contracts with clients. The Bank earns income from contracts with clients for the transfer of services over time and at a certain point in time in business segments.

In accordance with IFRS 15, income is recognized when the Bank fulfils the assumed obligation and delivers the promised service to the client. Income is measured by the fair value of the compensation received or to be claimed, taking into account the terms of payment defined by the contract, but not taxes and other duties.

Fees earned by providing services in a certain period of time are calculated during that period.

In contrast, fee income earned from the provision of certain services to third parties or the occurrence of a certain event is recognized upon completion of the underlying transaction. Taking into account the Bank's product types, the following service fees are calculated during the period:

- Accounts and packages, this category includes income and expenses from monthly regular fees for the account/package, including monthly fees for stand-alone internet banking, mobile banking, SMS services and other services (not applicable to credit cards).
- Loans and deposits, which represent income and expenses from fees that are not an integral part of the effective interest rate that is directly related to credit operations, and which are not treated as interest income
- Securities custody activities include asset management fee expenses,
- Representation in insurance includes income from fees and commissions from mediation in insurance, except for fees on this basis included in interest income, as part of the effective interest rate.

Fees that are calculated during the execution of a certain transaction, which include:

- transaction services that represent income from fees charged to clients for internal and external payment transactions, standing orders, etc., except for credit cards
- cards, which represent all income and expenses from fees related to debit, prepaid and credit cards,
- purchase and sale of effectives and foreign exchange, which represent income from fees related to foreign exchange transactions such as fees from foreign exchange spot transactions or dynamic currency conversions,
- other expenses based on fees and commissions mostly refer to fees for transactions and services that are recognized as expenses upon receipt of each service (fees for issuing various certificates, etc.).

Income from the issuance of guarantees and other guarantees as well as other fees and commissions are presented as a separate item.
In note (4.2) Income and expenses from fees and commissions, the presentation of products is used as the basis for the presentation.

3.3. Conversion of Foreign Currencies

The conversion of foreign currencies is done in accordance with the provisions of IAS 21, whereby all monetary assets and liabilities are converted at the exchange rate valid on the reporting date. Exchange rate differences that arise during this conversion are recognized in the statement of profit or loss, except in the case of exchange rate differences on non-monetary financial assets at fair value through other comprehensive income, which are recognized in equity. Open forward transactions are recalculated at forward exchange rates on the date of re-reporting.
Transactions that are not expressed in convertible marks are initially recorded by conversion at the current exchange rate on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are recalculated on the balance sheet date using the exchange rate valid on that date.
Non-monetary items in foreign currency stated at fair value are recalculated using the exchange rate valid on the fair value measurement date. Non-monetary items in foreign currency stated at historical cost are not recalculated at the balance sheet date. Gains and losses resulting from recalculation are included in the statement of profit or loss for the period.
The Bank evaluates its assets and liabilities according to the middle exchange rate of the Central Bank of Bosnia and Herzegovina that applies on the reporting date.

The official exchange rate, applied for the recalculation of balance sheet positions as of December 31, 2024 and December 31, 2023, for the following major currencies, was:

	December 31, 2024	December 31, 2023.
USD	1,872683	1,769982
CHF	2,072952	2,112127
EUR	1,955830	1,955830

3. Significant Accounting Policies (continued)

3.4. Net Income from Financial Instruments

Net income from financial instruments includes the following items:

- Net gains and losses from trading and exchange rate differences on translation of monetary assets and liabilities (realized and unrealized gains and losses from trading and exchange rate differences of derivative financial instruments, gains and losses on translation of monetary assets and liabilities) and
- Income from dividends, which are recognized in the statement of profit or loss when the Bank's right to receive dividends is established.

3.5. Staff Benefits

Gross salary costs are recorded in the profit or loss statement in the period in which they were incurred. Gross wages include net income of employees, income tax and contributions at prescribed rates, which are calculated on gross wages. The aforementioned contributions are paid by the Bank to the benefit of mandatory funds.

Fees for transportation to and from work, meal allowance, holiday pay and other benefits to employees are paid in accordance with domestic legal regulations. These costs are shown in the profit or loss account in the period in which they were incurred.

3.6. Long-term Provisions for Employees

The Bank pays jubilee bonuses to its employees who have exercised their right. Jubilee awards are paid in the amount of one average monthly Bank salary calculated in the month preceding the payment for completed 20 years of work at the Bank, or two average monthly Bank salaries for completed 30 years of work at the Bank.

In accordance with the internal regulations on salaries, the Bank pays severance pay to employees upon retirement in the amount of minimum three average monthly net salaries of employees.

The calculation of long-term provisions for employees (severance pay and jubilee bonuses) is done annually by an authorized actuary, using the projected monetary unit method. The method of projected monetary units takes into account each year of employment, which the employee spends in the Bank, which in the sum of all special units form the final obligation, which is measured individually for each unit. The obligation is measured by the present value of the estimated future cash flows discounted by an econometrically modelled interest rate, which is more appropriate to the existing market conditions than the interest rate on government long-term debt securities.

3.7. Cash and Cash Equivalents

Cash and cash equivalents mean: cash in domestic and foreign currency, checks sent for collection, funds in the reserve account with the Central Bank above the required reserve amount and funds in nostro accounts with other banks.

Mandatory reserve with the Central Bank is shown separately and is not shown through the cash position.

3.8. Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to a contract related to a financial instrument. Financial assets and liabilities are initially recognized at fair value plus transaction costs, which can be directly attributed to acquisition or issuance, except for financial assets and financial liabilities at fair value through the profit or loss statement.

Transaction costs, which are directly attributable to the acquisition of financial assets, i.e. the creation of financial liabilities (except for financial assets and financial liabilities at fair value through the income statement), are added to, or subtracted from, the fair value of financial assets, i.e. financial liabilities, upon initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities classified at fair value through the income statement are recognized in the income statement at the time of their occurrence.

3. Significant Accounting Policies (continued)

3.9. Classification and Measurement

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

Business model analysis is carried out by mapping the Bank's business areas and allocating a specific business model to each of them.

In this sense, the business areas, which make up the Bank's portfolio, have been assigned the business models "held for collection" or "held for collection and sale", in accordance with the holding intentions and the expected turnover of financial instruments.
For the purpose of classifying financial instruments into the categories provided for in IFRS 9, the analysis of the business model is supplemented by the analysis of contractual flows ("SPPI Test").

Accordingly, the Bank has established processes for the analysis of debt securities and loans portfolios, in which it assesses whether the characteristics of contractual cash flows allow measurement at amortized cost (portfolio, which is held for collection) or at fair value through other total results (portfolio, which is held for collection and sale).

The analysis is carried out both by contract and by defining specific clusters based on the characteristics of transactions and using a specific tool, developed by the Group ("SPPI tool"), for the analysis of contract characteristics in relation to the requirements of IFRS 9, or by using external data providers.

In application of the above rules, the Bank's financial assets and liabilities are classified as follows:

3.9.1. Financial Assets at Fair Value through Profit and Loss

Financial assets are classified at fair value through the profit and loss account if:
- They were acquired or created mainly for the purpose of sale or redemption in the short term;
- They are part of a portfolio of identified financial instruments, which are managed together and for which there is evidence of a recent actual short-term pattern;
- They are held for profit;
- They are a contract on derivatives, which is not defined by hedge accounting, including derivatives with a positive fair value embedded in financial liabilities, except those that are valued at fair value with the recognition of income effects through profit or loss.

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

After initial recognition, this financial asset is measured at fair value through the profit and loss account.
Gain or loss arising from the sale or purchase or change in the fair value of financial assets held for trading, including gains or losses from financial derivatives, which refer to financial assets and/or financial liabilities marked at fair value or other financial assets, which must be carried at fair value, it is recognized in the profit and loss account under the position "Net trading income" (note 4.3.).

If the fair value of the financial instrument falls below zero, which can happen with derivative contracts, it is recognized in the position "financial liabilities held for trading".

These assets are measured in a similar way as "financial assets at fair value through profit and loss", but gains and losses, whether realized or unrealized, are recognized in the position "Net trading income".

3.9.2. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets are classified at fair value through other comprehensive income if:
- They reflect the business model for collection and sales;
- their cash flows are exclusively payment of principal and interest.

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

At initial recognition, on the settlement date, the financial asset is measured at fair value, which is usually equal to the consideration paid plus transaction costs and income directly attributable to the instrument.

3. Significant Accounting Policies (continued)

3.9.2. Financial Assets at Fair Value through Other Comprehensive Income (continued)

After initial recognition, interest accrued on interest-bearing instruments is recorded in the income statement according to the amortized cost criterion in the position “interest income and similar income”.
Gains and losses, resulting from changes in fair value, are recognized in the statement of comprehensive income and shown in equity under the position “valuation reserve”.

In case of disposal of debt instruments, gains or losses are recognized in the income statement, and in case of disposal of equity instruments, accumulated gains or losses are recorded through other comprehensive income. Also, in accordance with the provisions of IFRS 9, losses from value adjustments of equity instruments are recognized through other comprehensive income.

3.9.3. Financial Assets at Amortized Cost

Financial assets are classified at amortized cost if:

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

On initial recognition, at the settlement date, a financial asset at amortized cost is measured at fair value, which is usually equal to the consideration paid plus transaction costs and income directly attributable to the instrument.
After initial recognition at fair value, this asset is measured at amortized value, which requires the recognition of interest on an accrual basis using the effective interest rate method over the life of the loan. Such interest is recognized in the position “interest income and similar income”. The book value of financial assets at amortized cost is adjusted to take into account reductions / write-offs resulting from the valuation process.

Losses from value adjustments are recorded in the income statement, in the item “net losses / returns from loan value adjustments, which refer to financial assets at amortized cost”.
In case of disposal, accumulated gains and losses are recorded in the income statement under the item “gains (losses) from disposal and redemption of financial assets at amortized value”.

Amounts resulting from the adjustment of the book value of financial assets, gross accumulated write-offs, to reflect changes in contractual cash flows, which do not lead to the cessation of accounting recognition, are recognized in the income statement as gains / losses from modification, such cash flow does not include the impact of contractual modifications on the amount of expected loss recognized in the position “net losses / returns from impairment of financial instruments”, which refer to the item “financial assets at amortized value”.

3.9.4. Financial Liabilities Valued at Amortized Cost

Financial liabilities, which are valued at amortized cost, include financial instruments (except for liabilities that are held for trading or those that are determined at fair value), which represent different forms of financing from third parties. These financial liabilities are recognized on the settlement date initially at fair value, which is usually received, less transaction costs, which can be directly attributed to the financial liability. After that, these instruments are valued at amortized cost using the effective interest rate method. Such interest is recognized in the position “interest expenses and similar expenses”.

3.9.5. Financial Liabilities Held for Trading

Financial liabilities held for trading include derivatives, which are not designated as hedging instruments.

These liabilities are valued at fair value upon initial recognition and during the duration of the transaction.
The gain or loss arising from the sale or purchase or change in the fair value of financial liabilities, which are held for trading, is recognized in the income statement in the position “net income from financial instruments”.

3. Significant Accounting Policies (continued)

3.10. Qualitative Information on Fair Value

Disclosure of fair value is made in accordance with the requirements of IFRS 13. Fair value is the price that can be obtained for the sale of an asset or is paid for the transfer of a liability in a regular transaction between participants in the main market on the measurement date (i.e. exit price). For financial instruments, which are quoted on active markets, the fair value is determined on the basis of official prices on the main market where the Bank operates and has access (*Mark to Market*).

A financial instrument is considered to be quoted on an active market, if the quoted prices are easily and regularly available from a pricing service, distributor, broker, pricing agency or regulatory agency, and these prices represent real and regular market transactions on an "arm's length basis". If the published price quotation on the active market does not exist for the financial instrument in its entirety, but for active markets for its component parts, the fair value can be determined on the basis of the relevant market prices for the component parts.

3.10.1. Principles of Fair Value Measurement

The fair value of financial assets and financial liabilities, which are traded on active markets, is based on quoted market prices. For all other financial instruments, the Bank determines the fair value using valuation techniques.

Fair value estimation techniques include models of discounting cash flows to net present value, comparisons with similar instruments, for which marketable prices exist, and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, bond and stock prices, exchange rates, index prices, and volatilities and correlations. The goal of valuation techniques is to calculate the fair value, which best reflects the price of the financial instrument on the reporting date, that is, the price that would be determined by other market participants under normal market conditions.
When calculating the fair value, the Bank takes into account the IFRS 13 rules of the fair value hierarchy, which reflect the significance of the input parameters used in the valuation process. Each instrument is individually evaluated in detail. The levels of the fair value hierarchy are determined based on the lowest level of input data significant for determining the instrument's fair value.

3.10.2. Fair Value Estimation Models

Financial instruments, which are carried at fair value, are categorized into three levels of the IFRS 13 fair value hierarchy, as follows:

- Level 1 instruments, which are valued using quoted prices in active markets. These are instruments whose fair value can be determined directly on the basis of prices quoted on active, liquid markets;
- Level 2 instruments, which are valued using valuation techniques, which use available market data. These are instruments, whose fair value is determined in relation to similar instruments, which are traded on active markets, or where all input data, used in valuation techniques, are available on the market;
- Level 3 instruments, which are valued using valuation techniques, which use market data, which are not available in an active market. These are instruments whose fair value cannot be determined directly on the basis of available market information and where slightly different valuation techniques are used to calculate the value.

3.10.3. Debt Securities

Debt securities are valued through a two-part process, which depends on the liquidity of the respective market. Liquid instruments on active markets are valued at market value ("mark to market"), and are therefore assigned level 1 of the fair value hierarchy. Instruments, which are not traded on active markets, are valued in relation to models ("mark to model"), which use relevant and available parameters to the greatest extent possible, and to the least extent parameters, which are unrecognizable by the market. In view of the above, depending on the significance of the input parameters, which are unrecognizable on the market, the bonds are assigned an appropriate level.

3.11. Financial Instruments Netting

Financial assets and liabilities are netted, and are reported in the net amount in the statement of financial position, only in the case when there is a legally enforceable right to set off recognized amounts and there is an intention to settle on a net basis, or the realization of assets and settlement of liabilities takes place simultaneously.
Income and expenses are reported in the net amount only if this is allowed by accounting standards, or for gains and losses arising from a group of similar transactions, such as, for example, the Bank's trading activities.

3. Significant Accounting Policies (continued)

3.12. Impairment (Expected Credit Losses/ECL)

3.12.1. General

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

In this sense, these instruments are classified into credit risk levels: 1, 2 or 3 according to their absolute or relative credit quality in relation to the initial payment.

Specifically:

- level 1 (low level of credit risk): includes (i) newly approved or acquired credit exposures, (ii) exposures for which the credit risk has not significantly worsened compared to initial recognition, (iii) exposures with low credit risk;
- level 2 (medium level of credit risk): includes credit exposures, which have a significant worsening of credit risk since initial recognition;
- level 3 (high level of credit risk): includes reduced credit exposures.

For level 1 exposures, the allowance for expected credit losses is equal to the expected loss, which is calculated over a time period of up to one year.

For exposures in level 2, the allowance is equal to the expected loss, which is calculated over a period of time, corresponding to the entire life of the exposure.

For level 3 exposures, the allowance is calculated on a collective approach or an individual approach, depending on the client's characteristics, and is calculated over a period of time, which corresponds to the entire life of the exposure.

With the Decision on Credit Risk Management and Determination of Expected Credit Losses (hereinafter referred to as the Decision), BARS prescribed minimum rates of expected credit losses at the transaction level, depending on the level of credit risk.
The bank is obliged to determine and book-entry the expected credit losses for exposures assigned to **level 1** at least in the following amounts:

1) for exposures with low risk [1]0.1% exposure,
2) for exposures to central governments and central banks outside of Bosnia and Herzegovina, for which there is a credit assessment by a recognized external credit rating assessment institution, which, in accordance with Article 69 of the Decision on the Calculation of Bank Capital, is allocated to credit quality levels 3 and 4 0.1% exposure,
3) for exposures to banks and other entities of the financial sector, for which there is a credit assessment by a recognized external credit rating assessment institution, which, in accordance with Article 69 of the Decision on the Calculation of Bank Capital, is assigned to credit quality level 1, 2 or 3 0.1% of exposure ,
4) for other exposures 0.5% of the exposure.

For exposures assigned to **level 2**, the bank is obliged to determine and book-record the expected credit losses in the amount of 5% of the exposure.

For exposures assigned to **level 3**, the bank is obliged to determine and book-entry the expected credit losses at least in the amounts defined in table 1 or table 2.

Table 1 | Table 2

Secured exposure		Unsecured exposure	
Days overdue	**Min ECL**	**Days overdue**	**Min ECL**
≤ 180	15%	≤ 180	15%
181-270	25%	181-270	45%
271-365	40%	271-365	75%
366-730	60%	366-456	85%
731-1460	80%	> 456	100%
> 1460	100%		

The Bank has developed specific models for calculating expected loss based on PD, LGD and EAD parameters, which are used for regulatory purposes and adjusted to ensure consistency with accounting regulations.

[1] Exposures to the Central Bank of Bosnia and Herzegovina, Exposures to the Council of Ministers of Bosnia and Herzegovina, the Government of the RS, the Government of the FBIH, the Government of Brčko District

3. Significant Accounting Policies (continued)

3.12. Impairment (Expected Credit Losses / ECL) (continued)

3.12.1. General (continued)

In this context, information related to the future is included through the elaboration of specific scenarios.
The allocation model into credit risk levels is a key aspect of the accounting model required for the calculation of expected credit losses, which is aimed at transferring credit exposure from level 1 to level 2. Level 3 includes default exposures.

IFRS 9 guidance is quite extensive in terms of principles when it comes to assessing a significant increase in credit risk. At the same time, the standard does not specify the term "significant", so banks have discretion regarding the definition of a significant increase in credit risk.

Qualitative criteria, which the Bank uses in recognizing a significant increase in credit risk, are:

- classification into Forbearance status results in automatic classification into level 2 for the next 24 months (starting from the date of classification into that status);
- 30 days of delay, when the transaction reaches 30 days of delay, it is allocated to level 2;
- delay in payment of due obligations for 30+ days in the previous 12 months;
- classification into restructured non-problematic exposures are automatically classified into phase 2 (PSC 651);
- classification on the Watch List (Watch list ; PSC 600 and 601);
- manual adjustments of clients, where a significant increase in credit risk was recognized, but were not classified through basic qualitative criteria;
- The criteria used by the Bank when compiling the list of contracts / clients for manual level adjustment are:
  - the client did not comply with the obligation to register a mortgage for housing loans within the defined terms;
  - employees of clients of legal entities with recognized signals of deteriorating credit risk;
  - other individual cases of recognized credit risk deterioration.

Financial assets, which consist of securities (Sec), are classified in credit risk level 1 in accordance with local regulations, which define that all placements to central governments are assigned level 1, while in accordance with the group approach, in reports according to Group, the Bank classified them in level 2, considering that they do not have an investment grade ("non-investment grade"), because they were all placed with the central government of the Republika Srpska, BiH.

The calculation of the allowance for assets classified as assets in non-performing status includes adjustments based on forward-looking information and the inclusion of multiple scenarios applicable to a given asset class.
The definition of the status of default is aligned with the principles incorporated in the guideline on the status of default published by the EBA (European Banking Authority), whereby the total exposure of the client is classified as exposure in the status of default, if at least one transaction is in the status of default (the so-called client approach).

The quantitative approach for determining a significant increase in credit risk is based on the clustering method and the introduction of a stabilizing mechanism of the minimum duration of the S2 phase from the initial classification.
Detailed instructions for the application of two quantitative backstop indicators, which are binding for all legal entities of the Group, are below:

Threefold deterioration in lifetime credit risk, measured by the change in lifetime IFRS9 PD
Clients identified with a one-year IFRS9 PD ≥ 20%[2] are automatically classified into phase 2

[2] The 20% threshold is determined based on the ECB's "Asset Quality Review Manual"

3. Significant Accounting Policies (continued)

3.12. Impairment (Expected Credit Losses / ECL) (continued)

3.12.1. General (continued)

Migration to a better level of credit risk is possible if the conditions that classify a financial instrument in a worse level are no longer met.

Exposures assigned to level 2 are assigned to level 1 when the following conditions are met:

1) when all the reasons that indicated a significant increase in credit risk ceased to exist i
2) when the debtor during the defined period of recovery has continuously demonstrated regularity in repayment, namely:
    1. for restructured exposures that at the time of restructuring were assigned to level 2 within 24 months from the date of restructuring,
    2. for restructured exposures that at the time of restructuring were assigned to level 3 within 24 months from the date of assignment to level 2; otherwise, the restructured exposure is reassigned to level 3,
    3. for non-restructured exposures within three months from the date when all reasons indicating a significant increase in credit risk ceased.

Exposures assigned to level 3 cannot be directly assigned to level 1.

Exposures assigned to level 3 are assigned to level 2 when the following conditions are met:

1) when all conditions for assigning the client to level 3 have ceased to be applicable and
2) when the debtor during the defined period of recovery has continuously demonstrated regularity in repayment[3] , namely:
    1. for restructured exposures and POCI assets within 12 months from the date of restructuring, i.e. upon initial recognition of POCI assets,
    2. for non-restructured exposures within six months from the date when all conditions for assigning the client to level 3 ceased to be applicable.

[3] The debtor is not late with repayment for 1 or more days in a materially significant amount during the defined recovery period.

3. Significant Accounting Policies (continued)

3.12. Impairment (Expected Credit Losses/ECL) (continued)

3.12.1. General (continued)

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

- PD (probability of default) represents the probability of default of credit obligations in a certain period;
- LGD (loss given default) represents the loss due to the occurrence of the default status of credit obligations;
- EAD (exposure at default) represents the exposure at the moment of occurrence of the default status of credit obligations;
- the effective interest rate is the discount rate, which expresses the time value of money.

In addition, special adjustments have been applied to the credit default probability parameters (PD), loss given default (LGD) and exposure at default (EAD), which are used to calculate expected credit loss (ECL). The model was developed for the division of revenue assets by levels: level 1 and level 2 at the transaction level.

The main difference between the two levels refers to the time period for which the expected credit loss is expected to be calculated. In fact, for transactions in level 1, the calculation of one-year expected loss is applied, while for transactions in level 2, the calculation of multi-year expected credit loss is applied.

The basic adjustments of credit parameters are in the part:

- inclusion of the " *point in time*" approach in the calculation of parameters instead of "through the cycle" (TTC),
- inclusion of information with a view to the future (FLI *Forward Looking Information*),
- calculation of credit parameters taking into account the duration of the assets.

When it comes to the calculation of multi-year PD, the TTC PD curves obtained on the basis of established cumulative default rates are further calibrated to reflect current and future expectations regarding portfolio default rates.

3.12.2. Parameters and Risk Definitions Used for Impairment Calculation

The recovery rate included in the calculation of the TTC LGD is adjusted to reflect the observed trend in the movement of the recovery rate, as well as expectations regarding the future trend, and is discounted on the basis of the effective interest rate or the best approximation.

Multi-year EAD is calculated based on an extension of the one-year management model including expectations regarding future cash flows.

The expected credit loss obtained on the basis of adjusted parameters takes into account the assessment of macroeconomic indicators applying multiple scenarios with the aim of compensating the partial nonlinearity embedded in the correlation between macroeconomic changes and key components of expected loss. In this sense, the bank has developed the so-called "overlay factor", which is directly applied to the expected loss. The same scenario is used for other relevant risk management processes (EBA stress test and ICAAP). In the aforementioned process, the Bank supplies the necessary data in the required volume and prescribed format.

The methodology for calculating the allowance for expected credit losses must be harmonized with group standards and corrected in accordance with local regulatory requirements ABRS and approved by the Bank's Management. The analysis and testing of the parameter methodology is regularly carried out by the Bank and the internal validation function is responsible for it.

3.12.3. Definition of Default

The definition of credit default is crucial for determining expected credit losses. The default definition is used in measuring the amount of expected credit losses and in determining whether the loss is based on a 12-month or lifetime expected credit loss.

All exposures, which are classified as exposures in default, are considered exposures with objective evidence of impairment. According to Basel III, exposures are in default status when one or both of the following conditions are met:

1. the debtor is late with the payment of due obligations to the Bank for more than 90 days in a materially significant amount,
2. The Bank considers it certain that the debtor will not fully settle his obligations to the Bank, not taking into account the possibility of collection from the collateral (Unlikeliness to pay UTP).

3. Significant Accounting Policies (continued)

3.12. Impairment (Expected Credit Losses / ECL) (continued)

3.12.3. Definition of Default

For exposures of legal entities and private individuals, the Bank determines the default status at the level of the client, taking into account all his exposures. The number of days in arrears with the settlement of obligations starts to be counted after the overdue obligations at the client level exceed the defined thresholds. The materiality threshold for legal entities is: overdue obligations in the amount of 1% of the client's total exposure and BAM 1,000. The materiality threshold for private individuals is: due obligations in the amount of 1% of the total exposure of the client and 200 BAM.

3.12.4. Significant Increase in Credit Risk

The Bank monitors all financial assets, which are subject to the request for impairment, in order 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 measures the loss based on the expected credit loss for the lifetime, instead of the 12-month expected credit loss.

When assessing whether the credit risk on a financial instrument has significantly increased since initial recognition, the Bank compares the risk of default occurrence on the financial instrument on the reporting date based on the remaining maturity of the instrument, with the risk of default foreseen for the remaining term until maturity on the reporting date when the financial instrument recognized for the first time. When making this assessment, the Bank considers both quantitative and qualitative information, which is reasonable and evident, including historical experience and information related to the future, which is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including advanced information.

For more details see Note 7 Risk Management.

3.13. POCI Purchased or Originated Credit Impaired Assets

POCI financial assets are those financial assets whose credit value has been reduced at the time of initial recognition. The standard and the local regulator define special rules for these items regarding their valuation, recognition of allowance for expected credit losses.

POCI assets include:

- loans and debt securities, which were purchased at an economic loss (discount) greater than 5% of the net book value, except in the case that the seller sells financial assets in cases not related to credit risk,
- purchased financial assets or refinanced exposures (partially or completely), which were assigned to credit risk level 3 in another bank,
- new loans placed with clients, which are already with a reduced credit value, whereby the new financing is significant in relation to the total exposure of the client,
- exposures, which are assigned to credit risk level 3, and for which a significant modification is made in accordance with the Instruction for the Classification and Valuation of Financial Assets.

Relative and absolute thresholds are applied in determining new significant funding. New funding is considered significant if it meets the following conditions:

- amounts to 20% of the total exposure in default of the borrower or amounts to ≥100,000 BAM.

When determining the POCI status of an asset, the Bank is obliged to observe it at the level of individual exposure, not at the level of the client.

The Bank determines the expected credit loss for POCI assets on an individual basis.

3. Significant Accounting Policies (continued)

3.14. Write-offs

The Bank writes off non-performing exposures in cases where the exposure is fully due and when it has recorded expected credit losses in the amount of 100% of the gross book value. The bank has defined two types of write-offs: accounting and permanent write-offs.

Accounting write-off is the transfer of balance sheet exposure to off-balance sheet records, whereby the Bank reserves the right to take further measures to collect claims from debtors. The bank carries out an accounting write-off of balance sheet exposure, which is in default status, i.e. non-quality exposure assigned to credit risk level 3, two years after the last of two events: accounting recording of expected credit losses in the amount of 100% of the gross book value, and exposure and transfer and exposure in its entirety to the overdue receivable.

A permanent write-off is a write-off of balance sheet exposure, which leads to the cessation of recognition of all or part of the exposure in the Bank's business books (on-balance sheet and off-balance sheet records). If there is any indication that a certain amount will be charged from the client, the Bank does not write off the exposure permanently. A permanent write-off is carried out in the case when the Bank stops taking measures for the collection of receivables from debtors.

3.15. De-recognition of Financial Assets

In the event of a significant change in terms, the Bank ceases to recognize a financial asset, such as a loan to a client, when the agreed terms have changed to such an extent that the contract becomes a new loan, whereby the difference is recognized in profit or loss on de-recognition, but to the extent that the loss from impairment has not already been recorded. A newly recognized loan is classified in level 1 for the purposes of ECL measurement, except in the case that the new loan represents POCI.

When evaluating the termination of recognition of a loan to a client, the Bank, among other things, takes into account the following factors: change in the currency of the loan, introduction of provisions on the ownership share, change of the other contractual party, or in the event that the change results in the instrument no longer meeting the SPPI test criteria.

If the change does not result in significantly different cash flows, the change does not result in de-recognition. Based on the change in cash flows discounted by the original EIR, the Bank records a profit or loss on that change, to the extent that the loss from impairment has not yet been recorded.

A financial asset (or any part thereof or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired or when they have been transferred, and or

- The Bank transfers almost all the risks and benefits associated with ownership, or
- The Bank neither transfers nor retains substantially all of the risks and rewards associated with ownership and the Bank does not retain control.

The Bank considers that control is transferred if and only if the acquirer has the practical ability to sell the asset to a completely unrelated third party and is able to exercise that ability unilaterally and without introducing additional transfer restrictions.

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

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

- for financial assets measured at amortized cost: correction or impairment, as a deduction from the gross book value of the asset;
- for debt instruments measured at fair value through other comprehensive income: it is not recognized as a reduction of assets, but as an item of valuation reserves in equity;
- for obligations under unused loans and agreements on financial guarantees (guarantees, letters of credit and other guarantees): as a provision for unused loans and guarantees in liabilities.

3. Significant Accounting Policies (continued)

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

The following table shows the differences in expected credit losses (ECL) calculated in accordance with the RS Banking Agency (BARS) Decision and in accordance with the internal methodology based on IFRS 9 and Group requirements on the reporting date:

	ECL according to the BARS Decision	ECL according to IFRS 9	DIFFERENCE
	December 31, 2024	December 31, 2024	December 31, 2024
	BAM 000	BAM 000	BAM 000
Impairment			
1. Cash and cash equivalents	**475**	**436**	**39**
2. Financial assets at amortized cost	**44,595**	**41,685**	**2,910**
Required reserve with the Central Bank	426	426	-
Loans and receivables from banks	392	251	141
Loans and receivables from clients	43,777	41,007	2,769
3. Other assets	**3,070**	**562**	**2,508**
4. Provisions for credit risks and guarantees	**2,791**	**1,745**	**1,046**
TOTAL (1+2+3+4)	**50,930**	**44,427**	**6,503**
5. Financial assets at fair value through other comprehensive income	348	1,326	(977)
TOTAL (1+2+3+4+5)	**51,279**	**45,753**	**5,526**

	ECL according to the BARS Decision	ECL according to IFRS 9	DIFFERENCE
	December 31, 2023	December 31, 2023	December 31, 2023
	BAM 000	BAM 000	BAM 000
Impairment			
1. Cash and cash equivalents	**629**	**620**	**9**
2. Financial assets at amortized cost	**46,642**	**43,836**	**2,806**
Mandatory reserve with the Central Bank	568	568	-
Loans and receivables from banks	223	206	17
Loans and receivables from clients	45,851	43,063	2,788
3. Other assets	**2,124**	564	1,560
4. Provisions for credit risks and guarantees	**5,209**	**4,116**	**1,093**
TOTAL (1+2+3+4)	**54,604**	**49,136**	**5,467**
5. Financial assets at fair value through other comprehensive income	92	536	(443)
TOTAL (1+2+3+4+5)	**54,696**	**49,672**	**5,024**

3.18. Financial Guarantees and Loan Commitments

Financial guarantees are contracts that oblige the Bank to make specific payments related to the reimbursement of funds to the beneficiary of the guarantee for losses that arise due to the inability of a certain debtor to make the due payment in accordance with the terms of the debt instrument. Liabilities under financial guarantees are initially recognized at fair value, which is amortized over the duration of the financial guarantee. Liabilities under guarantees are subsequently valued at the amortized amount or the present value of expected cash flows (when payment under the guarantee is probable), depending on which amount is greater.
Undertaken credit commitments are firm commitments to grant loans under previously agreed terms.

3. Significant Accounting Policies (continued)

3.19. Tangible Assets

Tangible assets, which are valued in accordance with IAS 16 Real Estate, Plant and Equipment, consist of:
- land and buildings,
- furniture and equipment,
- plants and machines,
- other machinery and equipment.

The item "Tangible assets" in the Financial Position Report includes:
- Property used in business,
- property held for investment (investment real estate),
- property resulting from the collection of collateral and
- long-term leases that are valued in accordance with IFRS 16.

Assets Used in Business

Assets used in business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used for more than one year.

The item "property, plant and equipment" includes property, which the Bank uses as a lessee under a lease agreement (right-of-use), or which the Bank grants on an operating lease, as well as leasehold improvements related to the property, which can be separately identified. Leasehold improvements are typically executed to adapt the leased premises for anticipated use.
Assets held for investment purposes are real estate covered by IAS 40, i.e. real estate owned for the purpose of obtaining rent and/or capital gain.
Property, plant and equipment are initially recognized at cost, including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transportation costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits greater than originally anticipated and the cost can be reliably measured. Other costs, which arise later (e.g. normal maintenance costs), are recognized in the year in which they were incurred, in the items of profit and loss:
- "other administrative costs", if they refer to property, which is used in business; or
- "other operating income and expenses", if they refer to assets held for investment.

After initial recognition, tangible assets are measured as follows:
- buildings and land, which are used in business, are measured according to the revaluation model;
- tangible assets, which are used in business, other than land and buildings, are measured according to the cost model;
- buildings and land held for investment (investment real estate) are valued according to the fair value model.

The revaluation model requires tangible assets to be carried on the balance sheet at value, which does not differ significantly from fair value. The revaluation is carried out by independent external appraisers through "office" or "on-site appraisal", based on the relevance of the property.
Positive changes in fair value are recognized in the statement of other comprehensive income, item "tangible assets" and accumulated in the item "valuation reserves", unless these changes compensated for previous negative changes recorded in the income statement, in the item "other operating income and expenses".
Negative changes in fair value are recorded in the item "other operating income and expenses", unless they offset previous positive changes recorded in the statement of other comprehensive income, item "tangible assets" and cumulated in the item "valuation reserves".

The cost model requires that the gross carrying amount be depreciated over its useful life.
And tangible assets, which are measured according to the revaluation model and the cost model, are subject to straight-line depreciation during their useful life, to the extent that they have a limited useful life.

Depreciation rates used for tangible assets are set out below:

	2024	2023
Buildings	2.0% – 5.0%	2.0% – 5.0%
Electronic systems	12.5% – 25.0%	12.5% – 25.0%
Office furniture and appliances	12.5% – 20.0%	12.5% – 20.0%
Other	12.5% – 25.0%	12.5% – 25.0%
Leasehold investments	20.0%	20.0%

3. Significant Accounting Policies (continued)

3.19. Tangible Assets (continued)

Depreciation is calculated monthly and recognized in the item "depreciation costs of tangible assets".
Items with an indefinite useful life are not depreciated. Assets whose individual purchase value is less than BAM 1,000 can be depreciated at a rate of 100% in the year of purchase.

Land and buildings are recognized separately, even if acquired together. Land is not depreciated because it usually has an indefinite useful life, while buildings and business premises have a limited useful life and are therefore subject to depreciation.
The estimate of the useful life of the asset is reviewed at the end of the accounting period based on, among other things, the conditions of use of the asset, maintenance conditions and expected obsolescence, and if expectations differ from previous estimates, the amount of depreciation for the current and subsequent financial years is adjusted accordingly.

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

De-recognition

Assets, plant and equipment are derecognized in case of disposal or when no future economic benefits are expected from their use or sale in the future, and any difference between the selling price or recoverable amount and the book value is recognized in the position "gains (losses) of the corresponding material assets".
For tangible assets, which are measured according to the revalued amount, any profit from the sale, including the amounts accumulated in the item "valuation reserves", is classified in "capital reserves", without affecting the income statement.

Tangible Assets Acquired by Collateral Foreclosure

Tangible assets acquired by taking over collateral (real estate and equipment) are recognized, with the aim of preventing losses from credit operations, when the competent court issues a judgment or other equivalent document, and the same becomes final, or on the date when the asset is acquired through an out-of-court settlement.

In the event that the Bank does not intend to use the acquired tangible assets for business purposes, such assets are initially recognized at the lower of the following values:

1) the amount of the net book value of the Bank's receivables; if the amount of expected losses recorded in bookkeeping is equal to the amount of receivables, the Bank records the acquired tangible assets at their technical value in the amount of BAM 1;
2) estimated fair value by an independent appraiser less costs to sell; sales costs are costs that are directly related to the sale, such as notary fees, taxes, court fees and the like.

If the Bank fails to sell the acquired tangible property within three years from the date of its initial recognition, it is obliged to reduce its value to BAM 1.

Right-of-use Assets

Assets with the right of use in the borrower's accounting are recognized in accordance with IFRS 16, which is effective from January 1, 2019, while the lender's accounting remained unchanged.
Leases, in which the Bank is the lessee, are recognized as assets, which represent the right to use the property in question and, at the same time, obligations for future payments of contracted rents.

3. Significant Accounting Policies (continued)

3.19. Tangible Assets (continued)

Right-of-use Assets (continued)

According to IFRS 16, a lease is defined as a contract that conveys the right to use an asset for a defined period of time in exchange for consideration. The right of use of an asset is recognized if the following conditions are cumulatively met:

- assets, which are the object of a lease, can be explicitly identified,
- during a lease all essential economic benefits from using an asset can be realized,
- assets can be managed, i.e. the user may decide in which way and for what purpose the asset will be used for during the entire lease duration.

The Bank applies IFRS 16 requirements to long-term leases (duration over a year) and large value leases (over BAM 10 thousand annually).
These assets are initially measured on the basis of the cash flows from the lease. After initial recognition, the right-of-use is measured based on the rules applicable to assets measured under IAS 16 by applying the cost model, less accumulated depreciation and any accumulated impairment losses.

The current value of this property as of December 31, 2024 amounts to BAM 1,434 thousand (December 31, 2023: BAM 1,684 thousand).

As of 31 December 2024, the Bank had 16 lease agreements, which are managed in accordance with IFRS 16, with the following maturities:

	Expires in					
	2025	2026	2027	2028	2029	Total
Number of lease agreements	1	3	3	7	2	16

3.20. Intangible Assets

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

Intangible assets, with the exception of intangible assets in progress, are amortized on a straight-line basis over their estimated useful lives. The useful lives are reviewed and adjusted, if necessary, at least once a year in the last quarter.

The amortization rates of intangible assets are given in the following table:

	2024	2023
Intangible assets software and licenses	20.0% - 25.0%	20.0% - 25.0%

Assets whose individual purchase value is less than BAM 1,000 can be depreciated at a rate of 100% in the year of purchase.

3.21. Provisions for Risks and Expenses

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if their amount can be reliably estimated in accordance with IAS 37.

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

3. Significant accounting policies (continued)

3.22. Equity

Share capital includes regular (ordinary) shares and is expressed in BAM at nominal value.

Profit reserves were formed by distributing net profit in previous years and include legal reserves and capital reserves.
According to the Law on Business Companies, when distributing profits according to the annual calculation, joint-stock companies in the Republika Srpska are obliged to allocate at least 5% of profit to profit reserves, until the amount of reserves reaches the level of 10% of the company's share capital.

Issue premium represents the accumulated positive difference between the nominal value and the amount received for the issued shares.

Realuation reserves include changes in the fair value of real estate, reserves for credit risks and gains/losses from changes in the fair value of financial assets at fair value through other comprehensive income, net of deferred tax.

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

Retained earnings or accumulated profit include retained earnings that cannot be paid out in accordance with the Decisions of the Bank's Shareholders' Meeting and undistributed profit, which may be subject to payment in the form of dividends in the following period.

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

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

The Bank manages funds in the name and for the account of third parties. The aforementioned funds do not form part of the Bank's assets, and are therefore excluded from the balance sheet. The Bank receives compensation for the work performed and commission services provided and does not bear any risk.

3.24. Segment Reporting

Reporting by segments of the Bank is based on IFRS 8 Business segments, and is based on the management principle. In accordance with this, the data by segment was prepared on the basis of internal management reporting.
As the primary method of determining the business success of the segments, the management uses the profit or loss report listed below, as well as the amount of gross interest-bearing loans, the volume of deposits and the related KPI. In the segment profit or loss report, interest income and interest expense are stated in the net amount in the net interest income position, which reflects the presentation of internal reporting and is the basis for further management of the Bank by the Management Board.

The bank has identified three main segments: Companies and the public sector, Retail and Other.
Basic information by segment is based on the internal reporting structure of business segments. Segment results are measured using internal prices (note 6).

3.25. Income Tax

Current income tax represents the amount, which is calculated by applying the prescribed tax rate of 10% on the base determined by the tax balance sheet, which represents the amount of profit before taxation, corrected for the effects of income and expenditure reconciliation, and all corrections of the amount of tax liability for previous periods, in accordance with the tax regulations of the Republika Srpska.

Deferred tax is recognized taking into account temporary differences between the book values of assets and liabilities, which are used for financial reporting purposes, and amounts, which are used for tax calculation purposes. Deferred taxes are not recognized on temporary differences during the initial recognition of assets and liabilities in a transaction, which is not a business combination and which does not affect accounting or taxable profit.

The amount of deferred tax assets or liabilities is recognized using the tax rate, which is expected to be applied to the taxable profit in the period, in which the realization or settlement of the book value of the assets and liabilities is expected, based on the tax rates valid on the reporting date.

The valuation of deferred tax liabilities and assets reflects the tax consequences, which follow from the manner in which the Bank expects, on the reporting date, the collection or settlement of the net book value of assets and liabilities.

3. Significant accounting policies (continued)

3.25. Income Tax (continued)

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

Deferred tax assets are recognized only to the extent that it is probable that they will be able to be used as a tax benefit. At the end of each reporting period, the possibility of recovering deferred tax assets based on carried forward tax losses and taxable temporary differences is checked. The recognition and cancellation of tax assets and tax liabilities is shown in the Statement of profit or loss or the Statement of other comprehensive income, shown in a separate position.

3.26. Litigation

The Bank conducts an individual assessment of all court cases and makes provisions in accordance with the assessment. The assessment is carried out by a special three-member commission, whose three members are employed by the Bank and have graduated from the Faculty of Law. Provision proposals are verified after assessment by the Head of Legal, the Head of People and Culture, the Head of Accounting and Regulatory Reporting, and the decision on the formation of provisions is made by the Bank's Management.

4. Notes to the Statement of the Comprehensive Income

4.1. Net Interest Income

Breakdown by Type of Financial Assets

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Interest income calculated using the effective interest rate method		
1. Financial assets at fair value through other comprehensive income	2,519	2,764
2. Financial assets at amortized cost		
a) Mandatory reserve with the Central Bank	444	306
b) Loans and receivables with banks	11,839	7,458
c) Loans and receivables with clients	43,457	44,230
Total interest income	**58,258**	**54,758**
Interest expenses		
Financial amortized liabilities at cost		
a) Deposits and loans from banks	(636)	(1,668)
b) Deposits and loans from clients	(5,171)	(4,333)
Total interest expenses	**(5,806)**	**(6,001)**
Net interest income	**52,452**	**48,757**

Breakdown by Sectors

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Interest income calculated using the effective interest rate method		
Private individuals	28,621	28,383
Companies and entrepreneurs	9,157	8,517
Banks	12,282	7,764
Public sector	8,197	10,093
Total interest income	**58,258**	**54,758**
Interest expenses		
Private individuals	(3,045)	(2,628)
Companies and entrepreneurs	(1,535)	(1,273)
Banks	(636)	(1,668)
Public sector	(134)	(268)
Other organizations	(457)	(164)
Total interest expenses	**(5,806)**	**(6,001)**
Net interest income	**52,452**	**48,757**

4. Notes to the Statement of the Comprehensive Income (continued)

4.2. Net Income from Fees and Commissions

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Fee and commission income		
Packages and account maintenance	5,686	5,658
Payment operations transactions	7,818	7,474
Card fees	4,834	4,180
Loan fees	954	885
Forex dealing fees	1,474	1,394
Other fees and commissions	260	249
Total fees in accordance with IFRS 15	**21,027**	**19,840**
Issuing guarantees and other sureties	1,460	1,420
Total fee and commission income	**22,487**	**21,260**
Fee and commission expenses		
Payment operations transactions	(1,024)	(1,010)
Card business	(2,448)	(3,184)
Loan fees	(21)	(23)
Forex dealing fees	(8)	(4)
Other fees and commissions	(176)	(214)
Total fee and commission expense	**(3,676)**	**(4,436)**
Net fee income and commission	**18,811**	**16,824**

4.3. Net Income from Financial Instruments

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Dividend income	4	4
Trading income / (expense)	(1)	(3)
Net gains from exchange difference	2,919	2,403
Net income from financial instruments	**2,923**	**2,404**

4.4. Troškovi zaposlenih

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Regular income (gross salary)	(14,469)	(13,941)
Variable payments (bonuses)	(2,622)	(1,743)
Other employee expenses	(2,439)	(2,469)
Expenses for severance pay	(1,442)	(294)
Other expenses (service contracts)	(343)	(262)
Total staff expenses	**(21,316)**	**(18,710)**

Employee costs include pension and disability insurance contributions paid in 2024 in the amount of BAM 3,796 thousand (2023: BAM 3,354 thousand).

	December 31, 2024	December 31, 2023
Number of employees on the reporting date	383	386
Average number of employees during the year based on working hours	393	398

4. Notes to the Statement of the Comprehensive Income (continued)

4.5. Depreciation and Amortisation Costs

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Depreciation costs of own business premises	(344)	(350)
Equipment depreciation costs	(903)	(881)
Intangible assets amortisation costs	(2,863)	(3,143)
Depreciation costs of investment in leasehold improvements	(107)	(68)
Depreciation costs of long-term leases	(542)	(556)
Total depreciation costs	**(4,759)**	**(4,998)**

4.6. Other Administrative Costs

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Information & communication technologies	(5,872)	(5,251)
Operating activities and AOD costs	(3,244)	(3,095)
Business premises costs	(1,235)	(1,199)
Consulting services and BARS fee	(1,693)	(1,883)
Security and money transport	(1,329)	(1,250)
Advertising, marketing and promotion	(374)	(483)
Administrative and other services	(388)	(674)
Other staff expenses	(346)	(418)
Indirect taxes and contributions	(234)	(230)
Loan underwriting and monitoring	(156)	(207)
Total other administrative costs	**(14,870)**	**(14,689)**

4.7. Net Impairment Losses/ Recoveries on Financial Instruments

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Cash assets	154	(346)
Obligatory reserve	141	(435)
Loans and receivables with banks	(168)	(117)
Loans and receivables with clients	90	(2,552)
Financial assets at fair value through other comprehensive income	(256)	18
Provision costs for undrawn loans and guarantees	2,418	(2,173)
Other assets	(984)	(1,671)
Net impairment losses / recoveries on financial instruments	**1,395**	**(7,276)**

4.8. Provisions for Risks and Costs

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Provision costs for other liabilities	-	288
Long-term provisions for employees	(174)	1
Provision cost for litigations	(72)	(208)
Total	**(246)**	**81**

4. Notes to the Statement of the Comprehensive Income (continued)

4.9. Other Operating Income and Expenses

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Other operating income		
Revenues based on the collection of accounts receivable written off	1,651	2,324
Other income	416	154
Total other operating income	**2,068**	**2,478**
Other operating expenses		
Losses from sales of debt securities	-	(39)
Expenses based on changes in the value of commercial properties that are carried at fair value	(11)	-
Other expenses	(605)	(680)
Total other operating expenses	**(616)**	**(719)**
Net other operating income	**1,452**	**1,759**

4.10. Gains from the Sale of Assets

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Profits from the sale of equipment that is carried at amortized cost	18	-
Gains from sale of tangible assets acquired by collateral foreclosure	900	990
Total gains from the sale od assets	**918**	**990**

4.11. Income Tax

Income tax recognized in the statement of profit or loss includes current and deferred tax.

Income tax expense recognized in the statement of profit or loss

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Income tax for the year		
Current income tax	3,519	2,109
Deferred income tax	(26)	257
Total income tax	**3,494**	**2,366**

Reconciliation of the Income Tax

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Profit before tax	**36,759**	**25,142**
Current income tax calculated at a rate of 10%	**3,676**	**2,514**
Adjustment of the tax base		
Tax reduction for excluded income	(1,804)	(2,457)
Tax increase for unrecognized expenses	1,647	2,051
Effects of changes in deferred taxes on temporary differences	(26)	257
Income tax	**3,494**	**2,366**
Average effective income tax rate	**9.50%**	**9.41%**

Tax regulations determine tax recognized expenses and income for the purposes of calculating the tax base, as well as the amount of tax recognized expenses / income from the cancellation of indirect write-offs of placements, whereby only expenses / income from the cancellation of indirect write -offs of placements recorded in the Income Statement on exposures are recognized in the Tax Balance classified in credit risk level 2 and 3.

4. Notes to the Statement of the Comprehensive Income (continued)

4.12. Earnings per Share

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Total number of shares	138,650	138,650
Average weighted number of shares	138,650	138,650
Current net profit in BAM '000	**33,265**	**22,775**
Earnings per share in BAM	**239,92**	**164,26**

In 2024, the Bank made a dividend payment in the amount of BAM 22,787 thousand from the net profit realized in 2023 and back payments from previous years. In 2023, the amount of BAM 56,752 thousand of dividends was paid.

5. Notes to the Statement of Financial Position

5.1. Cash and Cash Equivalents

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Cash in local and foreign currency	35,090	32,632
Funds held with the Central Bank	105,481	105,794
Transaction accounts with the Banks	61,749	15,247
Impairment	(475)	(629)
Total cash and cash equivalents	**201,845**	**153,044**

5.2. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income by type

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Equity securities		
Domestic organizations - quoted	244	245
Foreign organizations - unquoted	47	46
Total equity securities	**292**	**291**
Debt securities		
Republika Srpska securities - quoted	86,581	82,683
Total financial assets at fair value through other comprehensive income	**86,872**	**82,973**

5. Notes to the Statement of Financial Position (continued)

5.2. Financial Assets at Fair Value through Other Comprehensive Income (continued)

Overview of financial assets at fair value through other comprehensive income by fair value hierarchy

	Level 1	Level 2	Level 3	Total
	BAM 000	BAM 000	BAM 000	BAM 000
December 31, 2024				
Equity securities	-	-	292	292
Republika Srpska securities-quoted	-	86,581	-	86,581
Total	**-**	**86,581**	**292**	**86,872**
December 31, 2023				
Equity securities	-	-	291	291
Republika Srpska securities-quoted	-	82,683	-	82,683
Total	**-**	**82,683**	**291**	**82,974**

Even though the securities of the Republika Srpska are listed on the Stock Exchange, based on the information on trading volumes they do not qualify for Level 1 hierarchy, but are rather classified into Level 2 hierarchy, in fair value hierarchy.

External Rating of Debt Securities

For the external rating of debt securities, the external credit rating of the state of Bosnia and Herzegovina was applied. On August 2, 2024, the Moody's Investors Service credit rating agency confirmed Bosnia and Herzegovina's sovereign credit rating of "B3 with a stable outlook ".
The securities are classified in exposure, assigned to credit risk level 1, and expected credit losses are determined accordingly.

Debt Instruments, measured at Fair Value through Other Comprehensive Income (FVOCI)

Gross exposure			December 31, 2024			December 31, 2023
			Credit risk level			
	Level 1	Level 2	Level 3	POCI	Total	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Internal valuation level						
Performing exposures	**86,581**	**-**	**-**	**-**	**86,581**	**82,683**
Low risk	86,581	-	-	-	86,581	82,683
Medium risk	-	-	-	-	-	-
Non-performing exposures						
Default status	-	-	-	-	-	-
Total	**86,581**	**-**	**-**	**-**	**86,581**	**82,683**

5. Notes to the Statement of Financial Position (continued)

5.2. Financial Assets at Fair Value through Other Comprehensive Income (continued)

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**82,683**	**-**	**-**	**-**	**82,683**
New funding	30,000	-	-	-	30,000
Assets that have been derecognized	-	-	-	-	-
Changes in fair value	3,528	-	-	-	3,528
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(29,630)	-	-	-	(29,630)
Amounts written off	-	-	-	-	-
Other changes (sales)	-	-	-	-	-
Balance as of December 31, 2024	**86,581**	**-**	**-**	**-**	**86,581**

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**92**	**-**	**-**	**-**	**92**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Impairment changes	256	-	-	-	256
Written off amounts	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**348**	**-**	**-**	**-**	**348**

5. Notes to the Statement of Financial Position (continued)

5.2. Financial Assets at Fair Value through Other Comprehensive Income (continued)

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**85,183**	**-**	**-**	**-**	**85,183**
New funding	-	-	-	-	-
Assets that have been derecognized	-	-	-	-	-
Changes in fair value	(970)	-	-	-	(970)
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(530)	-	-	-	(530)
Amounts written off	-	-	-	-	-
Other changes (sales)	(1,000)	-	-	-	(1,000)
Balance as of December 31, 2023	**82,683**	**-**	**-**	**-**	**82,683**

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**110**	**-**	**-**	**-**	**110**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Impairment changes	(18)	-	-	-	(18)
Written off amounts	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**92**	**-**	**-**	**-**	**92**

5. Notes to the Statement of Financial Position (continued)

5.3. Obligatory Reserve with the Central Bank

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Obligatory reserve with the Central Bank in domestic currency	108,957	97,871
Impairment	(427)	(568)
Total	**108,530**	**97,303**

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

The basis for the calculation of the mandatory reserve is the average amount of deposits and borrowed funds in BAM, in BAM with a foreign currency clause, and foreign currencies (denominated in BAM, at the exchange rate of the Central Bank effective over the calculation period).

Obligatory reserve rate of 10% is applied to the above stated base amount.

As of July 1, 2023, the Central Bank calculated and paid compensation at the rate of 50 basis points (0.50%) on obligatory reserve funds based on the base in local currency (BAM), and on obligatory reserve funds based on the base in foreign currencies and domestic currency with a currency clause, calculated and paid a fee at the rate of 30 basis points (0.30%).

The Central Bank did not charge any fees for funds above the obligatory reserve during 2024
During 2024, the Bank was obliged to calculate the obligatory reserve in EUR and maintain it by keeping 95% of the BAM equivalent of the calculated obligatory reserve in EUR in the reserve account in BAM with CBBH and keep 5% of the calculated obligatory reserve in EUR in the reserve account in EUR with CBBH.

Gross exposure

			December 31, 2024 Credit risk level			December 31, 2023
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**	**Total**
	BAM 000	**BAM 000**	**BAM 000**	**BAM 000**	**BAM 000**	**BAM 000**
Internal valuation level						
Performing loans	**108,957**	**-**	**-**	**-**	**108,957**	**97,871**
Low risk	108,957	-	-	-	108,957	97,871
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**108,957**	**-**	**-**	**-**	**108,957**	**97,871**

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**97,871**	**-**	**-**	**-**	**97,871**
New funding	3,712,903	-	-	-	3,712,903
Assets that have been derecognized	-	-	-	-	**-**
Transfers to Level 1	-	-	-	-	**-**
Transfers to Level 2	-	-	-	-	**-**
Transfers to Level 3	-	-	-	-	**-**
Repaid assets	(3,701,817)	-	-	-	(3,701,817)
Written off amounts	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Balance as of December 31, 2024	**108,957**	**-**	**-**	**-**	**108,957**

5. Notes to the Statement of Financial Position (continued)

5.3. Obligatory Reserve with the Central Bank (continued)

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**568**	**-**	**-**	**-**	**568**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Impairment changes	(141)	-	-	-	(141)
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**427**	**-**	**-**	**-**	**427**

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**107,500**	**-**	**-**	**-**	**107,500**
New funding	3,230,846	-	-	-	3,230,846
Assets that have been derecognized	-	-	-	-	**-**
Transfers to Level 1	-	-	-	-	**-**
Transfers to Level 2	-	-	-	-	**-**
Transfers to Level 3	-	-	-	-	**-**
Repaid assets	(3,240,475)	-	-	-	(3,240,475)
Written off amounts	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Balance as of December 31, 2023	**97,871**	**-**	**-**	**-**	**97,871**

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**133**	**-**	**-**	**-**	**133**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Changes in impairment	435	-	-	-	435
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**568**	**-**	**-**	**-**	**568**

5. Notes to the Statement of Financial Position (continued)

5.4. Loans and Receivables with Banks

	December 31, 2024	December 31, 2023
	BAM 000	BAM 000
Loans to foreign banks	227,154	223,222
Impairment	(392)	(223)
Total	**226,762**	**222,999**

From loans and receivables with banks with balance as of December 31, 2024 in the amount of BAM 227,154 thousand, BAM 32,462 thousand refers to time deposits given to intercompany banks (December 31, 2023: BAM 31,397 thousand).

Gross Exposure

Gross exposure			December 31, 2024 Credit risk level			December 31, 2023
	Level 1	Level 2	Level 3	POCI	Total	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Internal rating grade*						
Performing loans	**227,154**	**-**	**-**	**-**	**227,154**	**223,222**
Low risk	227,154	-	-	-	227,154	223,222
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**227,154**	**-**	**-**	**-**	**227,154**	**223,222**

* 12-month exposure-weighted PD for default risk varies as follows: 0.04%-1.36% for loans at the credit risk level 1.

Gross Exposure Movement

Gross exposure	Level 1	Level 2	Level 3	POCI	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Balance as of January 1, 2024	**223,222**	**-**	**-**	**-**	**223,222**
New funding	39,298,327	-	-	-	39,298,327
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(39,294,395)	-	-	-	(39,294,395)
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**227,154**	**-**	**-**	**-**	**227,154**

5. Notes to the Statement of Financial Position (continued)

5.4. Loans and Receivables with Banks (continued)

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**223**	**-**	**-**	**-**	**223**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Changes in loss allowance	168	-	-	-	168
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**392**	**-**	**-**	**-**	**392**

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**105,682**	**-**	**-**	**-**	**105,682**
New funding	34,989,616	-	-	-	34,989,616
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(34,872,076)	-	-	-	(34,872,076)
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**223,222**	**-**	**-**	**-**	**223,222**

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**106**	**-**	**-**	**-**	**106**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Changes in loss allowance	117	-	-	-	117
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**223**	**-**	**-**	**-**	**223**

5. Notes to the Statement of Financial Position (continued)

5.5. Loans and Receivables from Clients

Loans and Receivables from Clients at Amortized cost

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Legal entities		
in BAM	271,089	197,390
in foreign currency	2,452	3,837
with a currency clause	71,772	92,572
Total gross legal entities	**345,314**	**293,800**
Impairment allowance on loan principal	(22,071)	(21,352)
Net loans to legal entities	**323,242**	**272,448**
Private individuals		
in BAM	385,717	326,241
with a currency clause	86,944	103,057
Total gross private individuals	**472,661**	**429,298**
Impairment allowance on loan principal	(21,706)	(24,499)
Net loans to private individuals	**450,956**	**404,798**
Total gross loans	**817,975**	**723,097**
Total net loans	**774,198**	**677,246**

Gross Exposure

			December 31, 2024 Credit risk level			December 31, 2023
Gross exposure - Legal entities	**Level 1 BAM 000**	**Level 2 BAM 000**	**Level 3 BAM 000**	**POCI BAM 000**	**Total BAM 000**	**Total BAM 000**
Internal rating level*						
Performing loans	**296,261**	**29,583**	**-**	**-**	**325,844**	**273,694**
Low risk	296,261	-	-	-	296,261	246,036
Medium risk	-	29,583	-	-	29,583	27,658
Non-performing loans	**-**	**-**	**19,469**	**-**	**19,469**	**20,106**
Default status	-	-	19,469	-	19,469	20,106
Total legal entities	**296,261**	**29,583**	**19,469**	**-**	**345,314**	**293,800**
Gross exposure – private individuals						
Internal rating level*						
Performing loans	**416,224**	**42,759**	**-**	**-**	**458,983**	**414,555**
Low risk	416,224	-	-	-	416,224	385,237
Medium risk	-	42,759	-	-	42,759	29,318
Non-performing loans	**-**	**-**	**13,679**	**-**	**13,679**	**14,743**
Default status	-	-	13,679	-	13,679	14,743
Total private individuals	**416,224**	**42,759**	**13,679**	**-**	**472,661**	**429,298**
Total loans to clients	**712,485**	**72,342**	**33,148**	**-**	**817,975**	**723,098**

5. Notes to the Statement of Financial Position (continued)

5.5. Loans and Receivables from Clients (continued)

* 12-month PD, weighted by exposure, for default risk varies as follows: 0.11% - 5.52% for loans in credit risk level 1, and 0.14% - 70.06% for loans in credit risk level 2, depending on the type of product and the number of days the client is in arrears.

Loans and Receivables from Clients at Amortized Cost - Legal entities

Gross exposure by internal rating level

December 31, 2024	Gross exposure					Average IFRS9 PD weighted by balance sheet exposure			
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**	**Level 1**	**Level 2**	**Level 3**	**POCI**
Internal rating level									
Performing loans	**296,261**	**29,583**	**-**	**-**	**325,844**	**0.86%**	**1.23%**	**-**	**-**
Rating 1	-	-	-	-	-	-	-	-	-
Rating 2	-	-	-	-	-	-	-	-	-
Rating 3	15,751	-	-	-	15,751	0.11%	-	-	-
Rating 4	58,177	1,976	-	-	59,764	0.28%	0.38%	-	-
Rating 5	89,951	6,519	-	-	96,470	0.70%	0.73%	-	-
Rating 6	132,161	15,179	-	-	147,341	1.31%	1.54%	-	-
Rating 7	1	5,828	-	-	6,217	0.0%	1.17%	-	-
Rating 8	220	81	-	-	301	0.0%	9.2%	-	-
Non-performing loans	**-**	**-**	**19,469**	**-**	**19,469**	**-**	**-**	**100.00%**	-
Rating 8	-		19,469	-	19,469	-	-	100.00%	-
Rating 9	-	-	-	-	-	-	-	-	-
Rating 10	-	-	-	-	-	-	-	-	-
Total	**296,261**	**29,583**	**19,469**	**-**	**345,314**	**-**	**-**	**-**	**-**

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**246,036**	**27,658**	**20,106**	**-**	**293,800**
New funding	158,202	-	-	-	158,202
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	55	(55)	-	-	-
Transfers to Level 2	(14,197)	14,197	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(93,835)	(12,217)	(317)		(106,369)
Amounts written off	-	-	(319)	-	(319)
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**296,261**	**29,583**	**19,469**	**-**	**345,314**

5. Notes to the Statement of Financial Position (continued)

5.5. Loans and Receivables from Clients (continued)

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**3,755**	**4,406**	**13,191**	**-**	**21,352**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	4	(4)	-	-	-
Transfers to Level 2	(271)	271	-	-	-
Transfers to Level 3	-	(254)	254	-	-
Changes in loss allowance	964	434	(359)	-	1,039
Amounts written off	-	-	(319)	-	(319)
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**4,452**	**4,853**	**12,766**	**-**	**22,071**

Gross Exposure Movement

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**355,006**	**16,240**	**21,351**	**-**	**392,598**
New funding	76,590	-	-	-	76,590
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	2,062	(2,062)	-	-	-
Transfers to Level 2	(22,117)	22,117	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	(165,505)	(8,637)	(339)	-	(174,481)
Amounts written off	-	-	(906)	-	(906)
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**246,036**	**27,658**	**20,106**	**-**	**293,800**

Loss Allowance Movement

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**3,488**	**2,820**	**11,259**	**-**	**17,567**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	41	(41)	-	-	-
Transfers to Level 2	(3,396)	3,396	-	-	-
Transfers to Level 3	-	-	-	-	-
Changes in loss allowance	3,622	(1,769)	2,838	-	4,691
Amounts written off	-	-	(906)	-	(906)
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**3,755**	**4,406**	**13,191**	**-**	**21,352**

5. Notes to the Statement of Financial Position (continued)

5.5. Loans and Receivables from Clients (continued)

Loans and Receivables from Clients at Amortized Cost – Private individuals

Gross exposure by internal rating level

December 31, 2024	Gross exposure					Average IFRS9 PD weighted by balance sheet exposure			
Gross exposure	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**	**Level 1**	**Level 2**	**Level 3**	**POCI**
Internal rating level									
Performing loans	**416,224**	**42,759**	**-**	**-**	**458,983**	**0.83%**	**3.68%**	**-**	**-**
0 days past due	356,732	26,785	-	-	383,517	0.58%	0.55%	-	-
1-29 days past due	59,492	12,920	-	-	72,413	2.36%	2.42%	-	-
30-90 days past due	-	3,053	-	-	3,053	-	36.46%	-	-
Non-performing loans	**-**	**-**	**13,679**	**-**	**13,679**	**-**	**-**	**100%**	**-**
Default status obligation	-	-	13,679	-	13,679	-	-	100%	-
Total	**416,224**	**42,759**	**13,679**	**-**	**472,661**	**-**	**-**	**-**	

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**385,237**	**29,318**	**14,743**	**-**	**429,298**
New funding	175,184	-	-	-	175,184
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	5,351	(5,351)	-	-	-
Transfers to Level 2	(27,497)	28,258	(762)	-	-
Transfers to Level 3	(1,973)	(1,750)	3,724	-	-
Repaid assets	(120,079)	(7,716)	(2,317)	-	(130,112)
Amounts written off	-	-	(1,730)	-	(1,730)
Other changes	-	-	21	-	21
Balance as of December 31, 2024	**416,224**	**42,759**	**13,679**	**-**	**472,661**

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**5,805**	**4,693**	**14,001**	**-**	**24,499**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	75	(75)	-	-	-
Transfers to Level 2	(1,701)	1,751	(50)	-	-
Transfers to Level 3	(1,352)	(1,548)	2,900	-	-
Changes in loss allowance	1,254	(100)	(2,217)	-	(1,063)
Amounts written off	-	-	(1,730)	-	(1,730)
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**4,080**	**4,721**	**12,904**	**-**	**21,706**

5. Notes to the Statement of Financial Position (continued)

5.5. Loans and Receivables from Clients (continued)

Loans and Receivables from Clients at Amortized Cost – Private Individuals (continued)

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**436,755**	**29,805**	**16,059**	**-**	**482,619**
New funding	88,912	-	-	-	88,912
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	8,278	(8,270)	(8)	-	-
Transfers to Level 2	(16,401)	17,402	(1,001)	-	-
Transfers to Level 3	(2,826)	(1,909)	4,735	-	-
Repaid assets	(129,481)	(7,710)	(2,567)	-	(139,758)
Amounts written off	-	-	(2,475)	-	(2,475)
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**385,237**	**29,318**	**14,743**	**-**	**429,298**

Loss Allowance Movements

Loss allowance	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**9,577**	**4,955**	**14,591**	**-**	**29,123**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	189	(189)	-	-	-
Transfers to Level 2	(2,504)	2,585	(81)	-	-
Transfers to Level 3	(2,575)	(1,773)	4,348	-	-
Changes in loss allowance	1,118	(885)	(2,382)	-	(2,149)
Amounts written off	-	-	(2,475)	-	(2,475)
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**5,805**	**4,693**	**14,001**	**-**	**24,499**

5.6. Tangible Assets

Tangible assets include:

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Property used for own business purposes		
Buildings and land	16,300	16,243
Equipment and other assets	2,811	2,582
Tangible assets in progress	**1,397**	**1,101**
Leasehold improvements	**253**	**377**
Right of use assets	**1,434**	**1,684**
Total assets used for own business purposes	**22,195**	**21,987**
Total tangible assets	**22,195**	**21,987**

5. Notes to the Statement of Financial Position (continued)

5.6. Tangible Assets (continued)

Changes in tangible assets used for business purposes are given in the table below:

	Buildings and land BAM '000	Equipment and other assets BAM '000	Fixed assets in progress BAM '000	Leasehold improvements BAM '000	Right of use assets BAM '000	Acquired tangible assets BAM '000	Total real estate and equipment BAM '000
Purchase price							
Balance as of January 1, 2023	**29,794**	**19,027**	**2,036**	**2,656**	**4,481**	**-**	**57,994**
Revaluation	391	-	-	-	-	-	391
New investments	-	-	739	-		-	739
Transfers	615	1,039	(1,674)	20	-	-	-
Sales, write-offs and other change	(651)	(788)	-	(255)	(672)	-	(2,366)
Balance as of December 31, 2023	**30,149**	**19,278**	**1,101**	**2,421**	**3,809**	**-**	**56,758**
Balance as of January 1, 2024	**30,149**	**19,278**	**1,101**	**2,421**	**3,809**	**-**	**56,758**
Revaluation	361	-	-	-	-	-	361
New investments	-	-	1,632	-	293	-	1,925
Transfers	54	1,218	(1,272)	2	-	-	2
Sales , write-offs and other changes	(11)	(219)	(64)	(18)	(1)	-	(313)
Balance as of December 31, 2024	**30,553**	**20,277**	**1,397**	**2,405**	**4,101**	**-**	**58,733**
Impairment							
Balance as of January 1, 2023	**13,921**	**16,602**	**-**	**2,153**	**2,563**	**-**	**35,239**
Amortization	350	881	-	68	556	-	1,855
Sales , write-offs and other changes	(365)	(787)	-	(177)	(994)	-	(2,323)
Balance as of December 31, 2023	**13,906**	**16,696**	**-**	**2,044**	**2,125**	**-**	**34,771**
Balance as of January 1, 2024	**13,906**	**16,696**	**-**	**2,044**	**2,125**	**-**	**34,771**
Amortization	344	902	-	107	543	-	1,896
Sales, write-offs and other changes	3	(132)	-	1	(1)	-	(129)
Balance as of December 31, 2024	**14,253**	**17,466**	**-**	**2,152**	**2,667**	**-**	**36,538**
Net book value							
Balance as of December 31, 2023	**16,243**	**2,582**	**1,101**	**377**	**1,684**	**-**	**21,987**
Balance as of December 31, 2024	**16,300**	**2,811**	**1,397**	**253**	**1,434**	**-**	**22,195**

The carrying amount of land, which is not depreciated, within buildings and land as of December 31, 2024 amounts to BAM 3,379 thousand (December 31, 2023: BAM 3,379 thousand).

Fixed assets in progress as of December 31, 2024 in the amount of BAM 1,397 thousand (December 31, 2023: BAM 1,101 thousand) refer to investments in the reconstruction of business premises in the amount of BAM 67 thousand, hardware and ATMs in the amount of BAM 947 thousand and other equipment in the amount of BAM 383 thousand.

Effects of revaluation of the Bank's real estate as of December 31, 2024 is BAM 4,196 thousand gross (December 31, 2023: BAM 3,933 thousand), and it is recorded within revaluation reserves in capital in the amount of BAM 3,776 thousand (December 31, 2023: BAM 3,540 thousand) and deferred tax liabilities in the amount of BAM 420 thousand (December 31, 2023: BAM 393 thousand).
In 2024, the positive effect of revaluation amounted to BAM 361 thousand (in 2023, the positive effect of the revaluation amounted to BAM 391 thousand).

5. Notes to the Statement of Financial Position (continued)

5.6. Tangible Assets (continued)

Assets Acquired in the Process of Loan Collection

Assets acquired in loan collection procedures consist of real estate and equipment. The method of valuation of this property is described in note 3.19.

	December 31, 2024		December 31, 2023	
	Amount	BAM 000*	Amount	BAM 000*
Land	1	-	1	-
Commercial and residential space	31	-	31	-
Machinery and equipment	2	-	2	-
Total	**34**	**-**	**34**	**-**

* Value in the Bank's books of each individual acquired material asset is 1.00 BAM (technical value).

5.7. Intangible Assets

	Software BAM '000	Other BAM '000	Investments in progress BAM '000	Total BAM '000
Purchase price				
Balance as of January 1, 2023	**26,644**	**2,198**	**5,029**	**33,871**
New investments	-	-	1,373	**1,373**
Transfers	3,635	42	(3,677)	**-**
Sales, write-offs and other changes	-	-	-	**-**
Status as of December 31, 2023	**30,279**	**2,240**	**2,725**	**35,244**
Status as of January 1, 2024	**30,279**	**2,240**	**2,725**	**35,244**
New investments	-	-	1,550	1,550
Transfers	2,599	33	(2,633)	**-**
Sales, write-offs and other changes	(565)	(1,790)	-	**(2,355)**
Balance as of December 31, 2024	**32,313**	**483**	**1,642**	**34,438**
Impairment				
Balance as of January 1, 2023	**21,043**	**1,644**	**-**	**22,687**
Amortization	2,727	417	-	3,144
Sales, write-offs and other changes	-	-	-	-
Balance as of December 31, 2023	**23,770**	**2,061**	**-**	**25,831**
Balance as of January 1, 2024	**23,770**	**2,061**	**-**	**25,831**
Amortization	2,689	174	-	2,863
Sales, write-offs and other changes	(566)	(1,790)	-	(2,356)
Status as of December 31, 2023	**25,893**	**445**	**-**	**26,338**
Net book value:				
Balance as of December 31, 2023	**6,509**	**179**	**2,725**	**9,413**
Balance as of December 31, 2024	**6,420**	**38**	**1,642**	**8,100**

Intangible asset investments in progress as of December 31, 2024 in the amount of BAM 1,642 thousand (December 31, 2023 BAM 2,725 thousand) refer to software and other intangible assets, which have not yet been put into use.

5. Notes to the Statement of Financial Position (continued)

5.8. Other Assets

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Receivables from the sale of assets of the Bank	-	17
Fee receivables	189	154
Intercompany receivables for employee salaries	1,197	1,471
Receivables from card operations	7,548	6,515
Receivables from operating activities	241	251
Receivables for paid VAT	2,511	2,084
Other receivables	1,407	1,250
Total other assets - gross	**13,092**	**11,743**
Impairment for VAT paid	(2,511)	(1,563)
Impairment for other assets	(559)	(561)
Total other assets - net	**10,023**	**9,619**

Card receivables include an amount of BAM 2,130 thousand relating to cash withdrawals from ATMs after the cut-off time (2023: BAM 2,536 thousand), and are temporarily recognized in a account within Other assets. The aforementioned ATM transactions relate to:

- reduction of deposits from clients in the amount of BAM 1,308 thousand
- loans based on overdrafts on current accounts and credit cards in the amount of BAM 145 thousand
- receivables from other banks in the amount of BAM 677 thousand.

Gross Exposure by Credit Risk Levels

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000	Total BAM 000
	December 31, 2024 – Credit risk level					December 31, 2023
Internal rating level						
Performing	**9,996**	**98**	**-**	**-**	**10,094**	**9,219**
Low risk	9,996	-	-	-	9,996	9,211
Medium risk		98	-	-	98	8
High risk	-	-	-	-	-	-
Non-performing	**-**	**-**	**2,999**	**-**	**2,999**	**2,523**
Default status	-	-	2,999	-	2,999	2,523
Total	**9,996**	**98**	**2,999**	**-**	**13,092**	**11,743**

Gross exposure movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**9,211**	**8**	**2,523**	**-**	**11,743**
New funding	**894**	**90**	**476**	**-**	**1,459**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes	**(110)**	**-**	**-**	**-**	**(110)**
Balance as of December 31, 2024	**9,996**	**98**	**2,999**	**-**	**13,092**

5. Notes to the Statement of Financial Position (continued)

5.8. Other Assets (continued)

Loss Allowance Movements

Value correction	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**183**	**1**	**1,941**	**-**	**2,124**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Changes in loss allowance	23	7	918	-	**949**
Amounts written off	-	-	-	-	-
Other changes	(3)	-	-	-	(3)
Balance as of December 31, 2024	**203**	**8**	**2,859**	**-**	**3,070**

Gross Exposure Movements

Gross exposure	Level 1 New funding	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Status January 1, 2023	**6,107**	**30**	**381**	**-**	**6,518**
New funding	**3,104**	**-**	**2,142**	**-**	**5,246**
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Transfers to Level 3	-	-	-	-	-
Repaid assets	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes	**-**	**(22)**	**-**	**-**	**(22)**
Balance as of December 31, 2023	**9,211**	**8**	**2,523**	**-**	**11,743**

Loss Allowance Movements

Value correction	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**73**	**-**	**381**	**-**	**454**
Assets that have been derecognized	-	-	-	-	**-**
Transfers to Level 1	-	-	-	-	**-**
Transfers to Level 2	-	-	-	-	**-**
Transfers to Level 3	-	-	-	-	**-**
Changes in loss allowance	56	(2)	1,617	-	**1,671**
Amounts written off	-	-	-	-	**-**
Other changes	54	2	(57)	-	**(1)**
Balance as of December 31, 2023	**183**	**1**	**1,941**	**-**	**2,124**

5. Notes to the Statement of Financial Position (continued)

5.9. Deposits and Borrowings from Banks

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Demand deposits		
in BAM	4	1
in foreign currency	-	-
Total demand deposits	**4**	**1**
Term deposits		
in BAM	-	-
in foreign currency	-	-
with a currency clause	-	-
Total term deposits	**-**	**-**
Total deposits	**4**	**1**
Borrowings		
in foreign currency	8,045	14,262
Total loans taken	**8,045**	**14,262**
Total deposits and loans received from banks	**8,049**	**14,263**

Within the deposits and borrowings from banks, there were no deposits and borrowings from related parties.

Overview of Borrowings from Banks

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
EBRD - European Bank for Reconstruction and Development	5,619	9,850
EIB - European Investment Bank	2,354	4,337
MCI – Microcredit Fund for the Stabilization of the Balkans	72	75
Total	**8,045**	**14,262**

Notes to the Statement of Financial Position (continued)

5.10. Deposits and Borrowings from Clients

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Legal entities and entrepreneurs		
Demand deposits		
in BAM	294,820	266,388
with a currency clause	-	-
in foreign currency	110,311	66,652
Total demand deposits of legal entities	**405,130**	**333,040**
Term deposits		
in BAM	11,861	12,527
with a currency clause	63,695	60,961
in foreign currency	30,937	12,274
Total term deposits of legal entities	**106,493**	**85,761**
Total deposits of legal entities and entrepreneurs	**511,624**	**418,801**
Individuals		
Demand deposits		
in BAM	307,421	242,857
with a currency clause	20	46
in foreign currency	119,430	107,623
Total demand deposits of private individuals	**426,871**	**350,526**
Term deposits		
in BAM	55,436	57,005
with a currency clause	2	2
in foreign currency	111,906	114,815
Total term deposits of private individuals	**167,344**	**171,822**
Total deposits of private individuals	**594,215**	**522,347**
Total deposits received	**1,105,838**	**941,148**
Loans received from clients		
in BAM	-	-
with a currency clause	33,457	39,161
in foreign currency	-	-
Total borrowings from clients	**33,457**	**39,161**
Total deposits and borrowings from clients	**1,139,295**	**980,309**

Deposits from clients on the reporting date December 31, 2024 were not reduced by the amount of cash related to ATM withdrawals in the amount of BAM 1,308 thousand.

5. Notes to the Statement of Financial Position (continued)

5.10. Deposits and Borrowings from Clients (continued)

Overview of Borrowings from Clients

	December 31, 2024	December 31, 2023
	BAM 000	BAM 000
IRB RS – Housing Fund of the Republika Srpska	17,914	20,451
IRB RS – Development and Employment Fund of the Republika Srpska	7,848	10,113
IRB RS – Fund for the Development of the eastern part of the Republika Srpska	7,599	8,465
MFRS – IFAD Project	95	132
Total	**33,457**	**39,161**

5.11. Long-term Lease Liabilities

	December 31, 2024	December 31, 2023
	BAM 000	BAM 000
Long-term leases from legal entities	570	596
Long-term leases from private individuals	1,011	1,171
Total	**1,581**	**1,766**

5.12. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are calculated on temporary differences according to the balance sheet method using the legal tax rate of 10% (2023: 10%).

Changes in Deferred Tax Assets and Liabilities

	Deferred tax assets	Deferred tax liabilities
	BAM 000	BAM 000
Balance as of January 1, 2024	**1,115**	**777**
Effects of decrease of deferred tax assets	(374)	-
Effects of increase of deferred tax assets	2	-
Effects of increase of deferred tax liabilities	-	26
Effects of decrease of deferred tax liabilities	-	(34)
Balance as of December 31, 2024	**743**	**769**
Balance as of January 1, 2023	**1,301**	**762**
Effects of decrease of deferred tax assets	(283)	-
Effects of increase of deferred tax assets	97	-
Effects of increase of deferred tax liabilities	-	15
Effects of decrease of deferred tax liabilities	-	-
Balance as of December 31, 2023	**1,115**	**777**

5. Notes to the Statement of Financial Position (continued)

5.13. Other Liabilities

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Liabilities due to employees	5,513	5,029
Received advances for collection of acquired material assets	27	34
Liabilities to suppliers	3,238	4,962
Liabilities for the execution of payment transaction orders in the country	1,600	1,818
Liabilities based on non-nominated deposits	657	657
Accruals and deferred income	874	791
Liabilities for card operations	4,513	3,392
VAT liabilities	489	621
Liabilities based on termination of business relationship	3,690	4,052
Other liabilities	2,301	3,166
Total other liabilities	**22,902**	**24,523**

5.14. Provisions for Credit Risk on Loan Commitments and Guarantees

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Provisions for loan commitments	1,452	1,189
Provisions for guarantees and other sureties	1,339	4,020
Total provisions for credit risks and guarantees	**2,791**	**5,209**

5.15. Provisions for Other Risks and Expenses

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Long-term provisions for employees	531	357
Provisions for litigation	420	1,447
Total provisions for liabilities and expenses	**951**	**1,805**

Changes in Provisions for Risks and Expenses

	Long-term provisions for employees BAM 000	Provisions for litigations BAM 000	Provisions for other liabilities BAM 000	Total BAM 000
Balance as of January 1, 2023	**358**	**1,372**	**438**	**2,168**
Net gain/(loss) recognized in the statement of profit or loss	(1)	208	(288)	**(81)**
Provisions used during the period and transfers	-	(133)	(150)	**(283)**
Balance as of December 31, 2023	**357**	**1,447**	**-**	**1,804**
Net gain/(loss) recognized in the statement of profit or loss	174	72	-	**246**
Provisions used during the period and transfers	-	(1,099)	-	**(1,099)**
Balance as of December 31, 2024	**531**	**420**	**-**	**951**

5. Notes to the Statement of Financial Position (continued)

5.15. Provisions for Other Risks and Expenses (continued)

Court disputes with material legal claims against the Bank, include a case of a local customer, Bitminer Factory d.o.o. Gradiška (Bitminer), who in 2019, filed a lawsuit before the District Commercial Court in Banja Luka claiming damages for unjustified termination of its current bank accounts by Bank. Bitminer alleged that termination of the accounts obstructed its Initial Coin Offering (ICO) relating to a start-up renewable-energy-powered cryptocurrency mining project in Bosnia and Hercegovina.

On 30 December 2021, the first instance court adopted most of Bitminer's claims and ordered Bank to pay damages in the amount of BAM 256,3 milion (aprox.€131 million) (the "Judgment"). The appeal was filed in January 2022.

On 18 April 2023, the High Commercial Court reversed the Judgment in its entirety, and issued a final, binding, and enforceable second instance judgement (the "Second-Instance Judgment"). The second instance court established that Bitminer's claim is unfounded and that Bank is not liable for any damages. Bitminer duly filed a revisions, an extraordinary legal remedy, to the Supreme Court of the Republic of Srpska.

In April 2024, the Supreme Court of the Republika Srpska issued the ruling and rejected Bitminer revisions. This confirmed the Second-Instance judgement by which the dispute was finally resolved in favor of the Bank.

On June 3, 2024, Bitminer submitted an appeal to the Constitutional Court of Bosnia and Herzegovina against the decision of the Supreme Court of Republika Srpska and the Second-Instance Judgement. The procedure is conducted exclusively between Bitminer and the courts that made the decisions (the Supreme Court of the Republika Srpska and the Higher Commercial Court). Bank is not a party in this proceeding, and may be invited to submit its response to the appeal, given that it is an interested party that participated in lower-level proceedings.

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5.15. Share Capital

	Regular shares BAM 000
Balance as of January 1, 2023	**97,055**
Changes	-
Balance as of December 31, 2023	**97,055**
Changes	-
Balance as of December 31, 2024	**97,055**
Nominal value (BAM)	700
Number of ordinary shares (the Bank has no preferred shares)	138,650

As of December 31, 2024, the Bank's shareholders consist of 1 majority shareholder and 49 minor shareholders: domestic and foreign legal entities and private individuals with the share of:

	% share
UniCredit SpA. Italy	**99.638%**
Minor shareholders	0.362%
	100.00%

As of December 31, 2024, the members of the Supervisory Board, the Audit Committee and the Bank's Management Board do not own shares in the Bank.

All shares of the Bank are listed on the Banja Luka Stock Exchange. The price of shares on the last trading day in 2024 (March 26, 2024) was BAM 2,000.00 (2023: BAM 1,810.00).

5. Notes to the Statement of Financial Position (continued)

5.17. Loan Commitments and Financial Guarantees

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Payable guarantees		
in BAM	9,167	11,698
in foreign currency	13,755	14,741
Total payable guarantees	**22,922**	**26,440**
Performance guarantees		
in BAM	54,842	49,124
in foreign currency	34,145	27,782
Total performance guarantees	**88,987**	**76,907**
Loan commitments and guarantees		
in BAM	98,828	76,090
in foreign currency	-	-
Total loan commitments and guarantees	**98,828**	**76,090**
Letters of credit in foreign currency	436	267
Total contingent liabilities on undrawn credit lines and guarantees, given guarantees and other warrantees	**211,173**	**179,703**

As of December 31, 2024, provisions for credit risk of assumed obligations and given financial guarantees amounted to BAM 2,791 thousand (December 31, 2023: BAM 5,209 thousand).

Gross Exposure by Credit Risk Levels

Gross exposure			December 31, 2024 Credit risk level			December 31, 2023
	Level 1	Level 2	Level 3	POCI	Total	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Internal rating level						
Performing loans						
Low risk	205,902	-	-	-	205,902	157,774
Medium risk	-	5,248	-	-	5,248	21,910
Non-performing loans						
Default status	-	-	23	-	23	19
Total	**205,902**	**5,248**	**23**	**-**	**211,173**	**179,703**

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2024	**157,774**	**21,910**	**19**	**-**	**179,703**
New financing	103,500	3,198	4	-	106,702
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	(718)	715	3	-	-
Transfers to Level 2	2,868	(2,868)	-	-	-
Transfers to Level 3	2	-	(2)	-	-
Repaid assets	(57,524)	(17,707)	(1)	-	(75,232)
Amounts written off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2024	**205,902**	**5,248**	**23**	**-**	**211,173**

5. Notes to the Statement of Financial Position (continued)

5.17. Loan Commitments and Financial Guarantees (continued)

Movements of Provisions

Provision	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Status January 1, 2024	**1,288**	**3,904**	**17**	**-**	**5,209**
New funding	1,502	207	4	-	1,713
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	(15)	15	-	-	-
Transfers to Level 2	210	(212)	2	-	-
Transfers to Level 3	1	1	(2)	-	-
Repaid assets	(676)	(3,454)	(1)	-	(4,131)
Written off amounts	-	-	-	-	-
Other changes	**-**	**-**	**-**	**-**	
Balance as of December 31, 2024	**2,310**	**461**	**20**	**-**	**2,791**

Gross Exposure by Credit Risk Levels

Gross exposure			December 31, 2023 Credit risk level		
	Level 1	Level 2	Level 3	POCI	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Internal rating level	**-**	**-**	**-**	**-**	**-**
Performing loans	**-**	**-**	**-**	**-**	**-**
Low risk	157.774	-	-	-	157.774
Medium risk	-	21.910	-	-	21.910
Non-performing loans	**-**	**-**	**-**	**-**	**-**
Default status	-	-	19	-	19
Total	**157.774**	**21.910**	**19**	**-**	**179.703**

Gross Exposure Movements

Gross exposure	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**169,536**	**28,075**	**70**	**-**	**197,681**
New funding	102,037	5,218	-	-	107,255
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	1,046	(1,045)	(1)	-	-
Transfers to Level 2	(1,882)	1,890	(8)	-	-
Transfers to Level 3	(10)	(1)	11	-	-
Repaid assets	(112,953)	(12,228)	(52)	-	(125,232)
Written off amounts	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of December 31, 2023	**157,774**	**21,910**	**19**	**-**	**179,703**

5. Notes to the Statement of Financial Position (continued)

5.17. Loan Commitments and Financial Guarantees (continued)

Movements of Provisions

Provision	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	POCI BAM 000	Total BAM 000
Balance as of January 1, 2023	**1,444**	**1,558**	**34**	**-**	**3,036**
New funding	668	684	-	-	1,352
Assets that have been derecognized	-	-	-	-	-
Transfers to Level 1	21	(21)	-	-	-
Transfers to Level 2	(216)	217	-	-	-
Transfers to Level 3	(8)	(1)	8	-	-
Repaid assets	(622)	1,468	(25)	-	821
Written off amounts	-	-	-	-	-
Balance as of December 31, 2023	**1,288**	**3,904**	**17**	**-**	**5,209**

6. Segment Reporting

In accordance with the internal business organization, the Bank segments clients as follows:

- "Companies and the public sector": large, medium and small companies and the public sector,
- "Retail": private individuals, entrepreneurs and micro-companies,
- "Other": capital and reserves, asset and liability management, other centralized operations, and other assets and liabilities, which are not associated with other segments.

Segment reports are prepared in accordance with the Bank's internal management reports and are additionally harmonized with the financial statements in these notes.

When measuring business results, internal prices are applied based on specific prices of products and services, specific currency and maturity in accordance with the internal methodology.

Since the Bank operates in the Republika Srpska, secondary (geographical) segments are not shown.

Profit or Loss Statement by Segment

December 31, 2024	Companies and public sector	Retail	Other	Total by segment reports	Adjustments	Total by financial statements
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Net interest income	**15,420**	**32,619**	**4,412**	**52,451**	**-**	**52,452**
Net fee and commission income	**6,609**	**14,469**	**(70)**	**21,008**	**(2,197)**	**18,811**
ow Packages and account maintenance	119	5,249	-	5,369	317	5,686
ow Payment operations transactions	2,623	4,363	-	6,986	(192)	6,795
ow Card fees	274	2,320	-	2,593	(207)	2,386
ow Loan fees	65	915	-	980	(46)	933
ow Forex dealing fees	2,163	1,504	(10)	3,657	(2,191)	1,466
ow Financial guarantee contract and loan commitments	1,363	96	-	1,459	1	1,460
ow Other fees and commissions	2	22	(61)	(37)	122	84
Net income from financial instruments	716	-	4	720	2,203	2,923
Total operating income	**22 744**	**47 089**	**4 346**	**74 179**	**6**	**74 185**
Staff expenses	(2,516)	(6,228)	(12,572)	(21,316)	0	(21,316)
Depreciation costs	(384)	(2,402)	(1,865)	(4,651)	(108)	(4,759)
Other administrative expenses	(954)	(5,807)	(5,615)	(12,375)	(2,494)	(14,870)
Indirect and other allocated expenses	(5,202)	(13,296)	18,498	-	-	-
Total operating expenses	**(9,056)**	**(27,733)**	**(1,553)**	**(38,342)**	**(2,602)**	**(40,944)**
Profit before impairment and provisions	**13,688**	**19,355**	**2,793**	**35,837**	**(2,596)**	**33,241**
Net (losses) / recoveries from impairment for credit risk	**1,381**	**1,064**	**94**	**2,539**	**(1,144)**	**1,395**
Financial assets at amortized cost	1,381	1,064	94	2,539	(888)	1,651
Financial assets at fair value through other comprehensive income	-	-	-	-	(256)	(256)
Provisions for risks and expenses	**(1,244)**	**(2,036)**	**499**	**(2,781)**	**2,535**	**(246)**
Other operating income	6	1,426	119	1,551	(99)	1,452
Gains / losses from investment assets sale	-	-	918	918	-	918
Integration costs	-	-	(65)	(65)	65	-
Result before tax	**13,831**	**19,809**	**3,440**	**37,081**	**(322)**	**36,759**
Tax on profit	(1,316)	(1,878)	(332)	(3,526)	33	(3,494)
Result after tax	**12,515**	**17,931**	**3,108**	**33,554**	**(289)**	**33,265**

6. Segment Reporting (continued)

Profit or Loss Statement by Segments

December 31, 2023	Companies and public sector BAM 000	Retail BAM 000	Other BAM 000	Total by segment reports BAM 000	Adjustments BAM 000	Total by financial statements BAM 000
Net interest income	**13,718**	**31,962**	**3,077**	**48,757**	**(1)**	**48,757**
Net fee and commission income	**6,114**	**12,681**	**(110)**	**18,685**	**(1,861)**	**16,824**
ow Packages and account maintenance	136	5,330	-	5,466	191	5,658
ow Payment operations transactions	2,480	4,183	-	6,663	(200)	6,464
ow Card fees	219	891	-	1,110	(114)	996
ow Loan fees	118	731	-	849	13	862
ow Forex dealing fees	1,828	1,425	(38)	3,215	(1,824)	1,390
ow Financial guarantee contract and loan commitments	1,331	89	-	1,420	-	1,420
ow Other fees and commissions	1	32	(72)	(38)	73	35
Net income from financial instruments	539	-	(35)	504	1,901	2,404
Total operating income	**20,371**	**44,643**	**2,933**	**67,946**	**39**	**67,985**
Staff expenses	(2,489)	(5,465)	(10,755)	(18,709)	(1)	(18,710)
Depreciation costs	(432)	(2,474)	(2,024)	(4,930)	(68)	(4,998)
Other administrative expenses	(1,023)	(5,800)	(5,582)	(12,405)	(2,284)	(14,689)
Indirect and other allocated expenses	(5,195)	(12,929)	18,124	-	-	-
Total operating expenses	**(9,139)**	**(26,668)**	**(237)**	**(36,044)**	**(2,353)**	**(38,397)**
Profit before impairment and provisions	**11,232**	**17,975**	**2,696**	**31,902**	**(2,314)**	**29,588**
Net (losses) / recoveries from impairment for credit risk	**(5,646)**	**2,319**	**(773)**	**(4,100)**	**(3,176)**	**(7,276)**
Financial assets at amortized cost	(5,646)	2,319	(773)	(4,100)	(3,194)	(7,294)
Financial assets at fair value through other comprehensive income total result	-	-	-	-	18	18
Provisions for risks and expenses	**(1,308)**	**(2,083)**	**1,118**	**(2,273)**	**2,354**	**81**
Other operating income	28	1,854	392	2,274	(516)	1,759
Gains / losses from investment assets sale	-	-	990	990	-	990
Integration costs	-	-	(193)	(193)	193	-
Result before tax	**4,305**	**20,065**	**4,229**	**28,600**	**(3,458)**	**25,142**
Tax on profit	(3,374)	(478)	956	(2,895)	529	(2,366)
Result after tax	**931**	**19,588**	**5,186**	**25,705**	**(2,930)**	**22,775**

6. Segment reporting (continued)

Statement of Financial Position by Segments

December 31, 2024	Companies and public sector BAM 000	Retail BAM 000	Other BAM 000	Total by segment reports BAM 000	Adjustments BAM 000	Total by financial reports BAM 000
Assets						
Cash and cash equivalents	-	-	201,884	201,884	(39)	201,845
Financial assets at fair value through other comprehensive income	-	-	86,872	86,872	-	86,872
Financial assets at amortized cost	315,498	461,448	335,434	1,112,380	(2,890)	**1,109,491**
Obligatory reserve at the CB	-	-	108,531	108,531	(1)	108,530
Loans and receivables with banks	-	-	226,903	226,903	(141)	226,762
Loans and receivables with clients	315,498	461,448	-	776,946	(2,748)	774 ,198
Tangible and intangible assets	-	-	30,040	30,040	256	30,296
Deferred tax assets	-	-	403	403	340	**743**
Other assets	-	-	12,808	12,808	(2,785)	10,023
Total assets	**315,498**	**461,448**	**667,441**	**1,444,387**	**(5,118)**	**1,439,269**
Liabilities						
Financial amortized liabilities at cost	**484,449**	**656,426**	**8,049**	**1,148,925**	**-**	**1,148,925**
Deposits and borrowings from banks			8,049	8,049	-	8,049
Deposits and borrowings from clients	483,879	655,416	-	1,139,295	-	1,139,295
Lease liabilities	570	1,011	-	1,581	-	1,581
Tax liabilities	-	-	2,392	2,392	(213)	2,179
Other liabilities	-	-	22 902	22 902	-	22 902
Provisions for credit risks and guarantees	-	-	1,745	1,745	1,046	2,791
Provisions for risks and expenses	-	-	951	951	-	951
Total liabilities	**484,449**	**656,426**	**36,039**	**1,176,915**	**833**	**1,177,748**
Total capital and reserves	**12,517**	**17,867**	**237,089**	**267,472**	**(5,951)**	**261,521**
Of which net profit for the current year	12,517	17,867	3,170	33,554	(289)	33,265
Total liabilities , capital and reserves	**496,966**	**674,293**	**273,128**	**1,444,387**	**(5,118)**	**1,439,269**

6. Segment Reporting (continued)

Statement of Financial Position by Segments

December 31, 2023	Companies and public sector BAM 000	Retail BAM 000	Other BAM 000	Total by segment reports BAM 000	Adjustment s BAM 000	Total by financial statements BAM 000
Assets						
Cash and cash equivalents	-	-	153,054	153,054	(9)	153,044
Financial assets at fair value through other comprehensive income	-	-	82,973	82,973	-	**82,973**
Financial assets at amortized cost	**267,916**	**412,091**	**320,319**	**1,000,327**	**(2,779)**	**997,548**
Obligatory reserve at the CB	-	-	97,303	97,303	-	97,303
Loans and receivables with banks	-	-	223,016	223,016	(17)	222,999
Loans and receivables with clients	267,916	412,091	-	680,008	(2,762)	677,246
Tangible and intangible assets	-	-	31,020	31,020	380	**31,400**
Deferred tax assets	-	-	993	993	338	1,331
Other assets	-	-	-	11,585	(1,966)	9,619
Total assets	**267,916**	**412,091**	**588,359**	**1,279,952**	**(4,036)**	**1,275,916**
Liabilities						
Financial amortized liabilities at cost	**406,589**	**575,487**	**14,263**	**996,338**	**-**	**996,338**
Deposits and borrowings from banks	-	-	14,263	14,263	-	14,263
Deposits and borrowings from clients	405,993	574,316	-	980,309	-	980,309
Lease liabilities	596	1,171	-	1,766	-	1,766
Tax liabilities	-	-	941	941	(164)	777
Other liabilities	-	-	24,523	24,523	-	24,523
Provisions for credit risks and guarantees	-	-	4,116	4,116	1,093	5,209
Provisions for risks and expenses	-	-	1,805	1,805	-	1,805
Total liabilities	**406,589**	**575,487**	**45,648**	**1,027,723**	**929**	**1,028,652**
Total capital and reserves	**931**	**19,588**	**231,710**	**252,229**	**(4,965)**	**247,264**
Of which net profit for the current year	931	19,588	5,186	25,705	(2,930)	22,775
Total liabilities , capital and reserves	**407,519**	**595,075**	**277,358**	**1,279,952**	**(4,036)**	**1,275,916**

The revenues and segment results shown in the previous tables (for the years ending as of December 31, 2024 and December 31, 2023) represent the revenues generated from the products sold and services provided to clients from these segments.

The result of each segment includes the specified revenues generated from operations with the associated group of clients, as well as the associated costs. This represents an approach by which reports are made to managers responsible for making key decisions, with the aim of allocating adequate resources to the segments, as well as analyzing their results. The Bank's revenues from main services are detailed in notes 4.1 and 4.2 with financial statements.

7. Risk Management

Risk management, which the Bank undertakes in its business activities, is carried out through a system of strategies, policies, programs, work procedures and established limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and the development of new products, as well as through the adoption of Group standards regarding risk management. At the level of the Group, there is an entire risk management system based on defined risk appetite, risk strategies and operational policies and procedures, as well as set risk limits.

The Supervisory Board and the Management Board of the Bank prescribe the principles of overall risk management and adopt risk strategies that cover that area of operations. The Risk Committee considers and reports to the Supervisory Board on the implementation of the strategy, the adequacy and method of implementation of adopted policies and other risk management procedures, as well as the adequacy and reliability of the entire risk management system.

In accordance with the Group's policies, the Bank has implemented a standard approach to credit risk according to the Basel III agreement, through an IT platform that complies with the requirements of those standards.

Risk management is the responsibility of the member of the Bank's Management Board in charge of risk management and is organized through the following organizational units:

- Credit risk operations and
- Strategic, credit and integrated and other risks.

There are three departments within Credit Risk Operations: Credit Risk Underwriting, Monitoring and Special Credit Management for Legal Entities and Monitoring and Special Credit Management for Private Individuals. Within Strategic, credit and integrated and other risks there are also two departments: Integrated risk, planning and reporting and Financial and non-financial risks. Collateral management, policies and procedures is a function that operates within the framework of Strategic, credit and integrated and other risks.

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

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

7.1. Credit Risk

The Bank is exposed to credit risk, which can be defined as the possibility that the debtor will not fulfil his obligations under credit agreements, which results in a financial loss for the Bank. The assumption of credit risk is regulated by specific rules and principles defined by the Group and the local regulator for the areas of credit strategies, policies, model development, risk concentration, collateral management, introduction of new products, monitoring and reporting. Exposure to credit risk is managed in accordance with the Bank's current strategies and policies, as well as other internal acts, prescribed by the Supervisory Board and the Bank's Management Board. Credit risk strategies define the main strategic goals and certain limits in taking credit risk in business with all segments of clients.

The general principles and rules of credit risk management are defined by Group policies, and the Bank applies them in its operations in accordance with the requirements of the regulator and Group standards and best practices.

Credit Risk Measurement

In the measurement of credit risk, the following factors are mainly represented: the risk of loss, which results from the debtor's insolvency, and the risk of loss, which results from a change in the client's risk rating. Factors that are taken into account are the total credit exposure, which includes the Bank's balance sheet and off-balance sheet positions, and the quality and value of collateral instruments.

Credit risk is measured at the level of the individual credit user / transaction and at the level of the overall portfolio.
The Bank, with the support of the Group, develops and establishes a system for measuring credit risk on a portfolio basis, applying Basel III basic parameters of credit risk to calculate the expected loss from the credit portfolio, as well as the calculation of risky assets and internal capital requirements to cover unexpected losses due to credit risk based on the calculation of credit VaR ("Value at Risk "). Credit VaR as a measure of economic / internal capital is also the basic input for defining credit strategies, analyzing credit limits and risk concentration.

The established reporting system analyses the main drivers and components of credit risk and their dynamics in order to take corrective actions when necessary and on time. The reports contain information on changes in the size and quality of the loan portfolio at the level of the client segment and for the Bank.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Risk Control Policies

The Bank manages, limits and controls concentrations of credit risk wherever such risk is identified, especially with regard to individual clients and/or groups, and industrial sectors.

The bank establishes the level of credit risk, which it assumes, by setting limits on the amount of risk accepted in relation to one borrower or group, that is, industrial sectors. Such risks are monitored on a regular quarterly basis through a report on the concentration of exposure by industrial sector and compliance with the adopted industrial strategy, which is reported to the Bank's Credit Committee.

In addition, through the regular monthly report for the Financial and Credit Risks Committee, Risk Management reports to the Financial and Credit Risks Committee about the defined limits at the level of the Bank. The Risk Committee and the Supervisory Board are regularly informed about the concentration of credit risk.
The Financial and Credit Risks Committee, the Management Board and the Supervisory Board of the Bank are regularly informed of all significant changes in the amount and quality of the portfolio.

Credit risk is also managed by regular analysis of borrowers' ability and potential repayment of principal and interest obligations, and by changing credit limits where necessary.

In order to minimize risks in credit operations, the Bank has established a system with policies for defining, evaluating and treating collateral, which serves to ensure the collection of claims, and takes acceptable collateral as security for the collection of its claims. Acceptable collateral is a pledge, which has a known active market and stable prices, the value of which is satisfactory in relation to the Bank's claims and which is sufficient to protect the Bank from possible loss of principal, interest, fees and collection costs.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Maximum gross credit risk exposure for on-balance sheet and off-balance sheet items

	Note	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Balance sheet assets			
Cash and cash equivalents	5.1.	201,845	153,044
Financial assets at fair value through other comprehensive income	5.2.	86,872	82,973
Financial assets at amortized cost		**1,109,491**	**997,548**
Obligatory reserve with the Central Bank	5.3.	108,530	97,303
Loans and receivables with banks	5.4.	226,762	222,999
Loans and receivables with clients	5.5.	774,198	677,246
Other assets	5.8.	10,023	9,619
Total balance sheet assets exposed to credit risk		**1,408,231**	**1,243,185**
Off-balance sheet assets	5.17.		
Guarantees and other guarantees		111,909	103,346
Approved overdrafts, credit lines and guarantees		99,264	76,357
Total off-balance sheet assets exposed to credit risk		**211,173**	**179,703**
Maximum exposure to credit risk		**1,619,404**	**1,422,888**

The bank takes collateral for loans and claims in the form of cash deposits, guarantees, real estate mortgages, and other property insurance and guarantees. Initial assessments of the value of collateral, i.e. real estate, are already done when approving a credit application, i.e. they are an integral part of the process of approving client credit applications.

Re-evaluations are made in accordance with the defined principles and rules of the collateral management system.

In order for real estate to be recognized as collateral, it is necessary to regularly monitor and revise the value of residential real estate once every three years, and business real estate once a year. More frequent monitoring and verification is necessary in case of significant changes in market conditions.

In order to comply with group credit risk reduction techniques, the Bank has implemented the functionality of automatic monitoring of expired real estate insurance policies and expired appraisals, and corrective factors have been introduced in case of currency mismatch of collateral and placement. Corrective factors are not applied if the collateral is real estate or movable property in the EUR/BAM currency during the time the currency board is in effect.
Allocation of loan collateral is done in accordance with prioritization rules. The allocation of collateral to an individual exposure does not exceed the exposure of that placement. Reductions are applied to the market value of the collateral (depending on the type of collateral - residential real estate 30%, commercial real estate 40%-50%, depending on whether there is a currency mismatch, the haircut depends on the type of currency, and depending on whether there is maturity mismatch between the maturity of the loan and the collateral). Pledged deposits are in the collateral provider's account at the Bank and are blocked for the entire duration of the pledge.

7. Risk Management (continued)

7.1. Credit Risk (continued)

The Bank's gross and net exposure to credit risk is shown below:

December 31, 2024	Exposures in performing status			Exposures in non-performing status			Total		
Financial instruments	Gross	ECL	Net	Gross	ECL	Net	Gross	ECL	Net
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Financial instruments that are decreased by ECL									
Cash and cash equivalents	202,320	(475)	201,845	-	-	-	**202,320**	**(475)**	**201,845**
Financial assets at amortized cost at cost	**1,121,081**	**(18,859)**	**1,102,222**	**33,006**	**(25,737)**	**7269**	**1,154,087**	**(44 596)**	**1 109 491**
Obligatory reserve with the Central Bank	108,957	(427)	108,530	-	-	-	108,957	(427)	108 530
Loans and receivables with banks	227,154	(392)	226,762	-	-	-	227,154	(392)	226 762
Loans and receivables with clients	784,969	(18,040)	766,929	33,006	(25,737)	7269	817,975	(43 777)	774 198
Other assets	7,235	(211)	7,024	5,858	(2,859)	2,999	13,093	(3 070)	10 023
Financial instruments that are not decreased by ECL									
Financial assets at fair value through other comprehensive income*	86,872	(348)	**86,524**	-	-	-	86,872	(348)	86 524
Total	**1,417,508**	**(19,893)**	**1,397,615**	**38,864**	**(28,596)**	**10,268**	**1,456,372**	**(48 489)**	**1 407 883**
Total off-balance sheet assets exposed to credit risk	**211,150**	**(2,771)**	**208,379**	**23**	**(20)**	**3**	**211,173**	**(2 791)**	**213 964**

* ECL presented in capital and do not decrease exposure in assets

December 31, 2023	Exposures in performing status			Exposures in non-performing status			Total		
Financial instruments	Gross	ECL	Net	Gross	ECL	Net	Gross	ECL	Net
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Financial instruments that are decreased by ECL									
Cash and cash equivalents	153,674	(629)	153,044	-	-	-	**153,674**	**(629)**	**153,044**
Financial assets at amortized cost	**1,009,342**	**(19,450)**	**989,892**	**34,849**	**(27,192)**	**7,657**	**1,044,191**	**(46,642)**	**997,549**
Obligatory reserve with the Central Bank	97,871	(568)	97,303	-	-	-	97,871	(568)	97,303
Loans and receivables with banks	223,222	(223)	222,999	-	-	-	223,222	(223)	222,999
Loans and receivables with clients	688,249	(18,659)	669,590	34,849	(27,192)	7,657	723,098	(45,851)	677,247
Other assets	11,743	(2,124)	9,619	-	-	-	11,743	(2,124)	9,619
Financial instruments that are not decreased by ECL									
Financial assets at fair value through other comprehensive income*	82,973	(92)	**82,881**	-	-	-	82,973	(92)	**82,881**
Total	**1,257,731**	**(22,295)**	**1,235,436**	**34,849**	**(27,192)**	**7,657**	**1,292,580**	**(49,487)**	**1,243,093**
Total off-balance sheet assets exposed to credit risk	**179,684**	**(5,192)**	**174,492**	**19**	**(17)**	**2**	**179,703**	**(5,209)**	**174,494**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Received collaterals and other credit security instruments

The bank defines a policy for managing credit risk mitigation techniques, which aims to ensure optimal management of security instruments and mitigate potential losses from placements in the event of default.
The efficient application of credit risk mitigation techniques in the Bank's business processes leads to the optimization of the use of capital.
Collateral assessment is one of the basic elements of the loan approval process, in addition to the assessment of the client's creditworthiness.
The quality of the client is based on the assessment of creditworthiness and the quality of the business relationship with the Bank. Collateral can never be a substitute for a client's rating. If the rating or creditworthiness of the client is not adequate, the loan cannot be approved. Collateral instruments serve the Bank to protect itself in case of default, when the debtor is unable to make payments.

The basic condition for accepting security instruments is legal execution. It is necessary to make careful efforts and work diligently to ensure that the possibility of collection from security instruments is not jeopardized for legal reasons.

Careful and adequate collateral management is required, in terms of continuous monitoring and assessment. The estimated collateral must be monitored regularly, at least once a year. More regular monitoring and supervision is necessary in case of significant changes in market conditions.

In applying the credit risk mitigation technique, the Bank emphasizes the importance of the process and control of legal protection requirements, as well as the assessment of the suitability of collateral.

December 31, 2024	Gross exposure	Allocated value of collateral					Net exposure
		Deposits	Received guarantees	Mortgages	Other	Total collateral	
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Balance sheet assets							
Cash and cash equivalents	201,845	-	-	-	-	-	201,845
Financial assets at fair value through other comprehensive income	86,872	-	-	-	-	-	86,872
Financial assets at amortized cost	**1,109,491**	**3,695**	**59,250**	**168,211**	**10,380**	**241,536**	**867,954**
Obligatory reserve at CB	108,530	-	-	-	-	-	108,530
Loans and receivables with banks	226,762	-	-	-	-	-	226,762
Loans and receivables with clients	774,198	3,695	59,250	168,211	10,380	241,536	532,662
Other assets	10,023	-	-	-	-	-	10,023
Total balance sheet assets	**1,408,231**	**3,695**	**59,250**	**168,211**	**10,380**	**241,536**	**1,166,694**
Off-balance sheet assets							
Guarantees and other guarantees	111,909	6,053	-	10,836	8,023	24,912	86,998
Approved overdrafts , framework loans and guarantees	99,264	-	-	-	-	-	99,264
Total off-balance sheet assets	**211,173**	**6,053**	**-**	**10,836**	**8,023**	**24,912**	**186,262**
Total balance sheet and off-balance sheet exposure to credit risk	**1,619,404**	**9,748**	**59,250**	**179,047**	**18,403**	**266,448**	**1,352,956**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Received collaterals and other credit security instruments (continued)

December 31, 2023	Gross exposure	Allocated value of collateral					Net exposure
		Deposits	Received guarantees	Mortgages	Other	Total collateral	
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Balance sheet assets							
Cash and cash equivalents	153,044	-	-	-	-	-	153,044
Financial assets at fair value through other comprehensive income	82,973	-	-	-	-	-	82,973
Financial assets at amortized cost	**997,548**	**3,473**	**80,241**	**138,356**	**11,850**	**233,920**	**763,628**
Obligatory reserve at the CB	97,303	-	-	-	-	-	97,303
Loans and receivables with banks	222,999	-	-	-	-	-	222,999
Loans and receivables with clients	677,246	3,473	80,241	138,356	11,850	233,920	443,326
Other assets	9,619	-	-	-	-	-	9,619
Total balance sheet assets exposed to credit risk	**1,243,185**	**3,473**	**80,241**	**138,356**	**11,850**	**233,920**	**1,009,265**
Off-balance sheet assets							
Guarantees and other guarantees	103,346	2,811	3,585	9,249	4,954	20,599	82,747
Approved overdrafts, credit lines and guarantees	76,357	1,059	-	3,988	204	5,251	71,106
Total off-balance sheet assets exposed to credit risk	**179,703**	**3,870**	**3,585**	**13,237**	**5,158**	**25,850**	**153,853**
Total on-balance sheet and off-balance sheet exposure	**1,422,888**	**7,343**	**83,826**	**151,593**	**17,008**	**259,770**	**1,163,118**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Allowance for expected credit losses (ECL)

With each reporting date, the Bank checks whether there are objective signs of impairment of financial assets, as previously explained in Note 2.7. For the purposes of credit monitoring and credit risk management, the Bank divides the credit portfolio into the following groups:

- Level 1 and 2: performing loans, and
- Level 3: non-performing loans.

Financial assets, consisting of securities (Sec), are classified as credit risk level 1, in accordance with the BARS regulation, which defines that all placements to central governments are assigned to level 1, while, in accordance with the group approach, in reports to the Group, the Bank classified them to level 2, considering that they do not have investment grade (" noninvestment grade ").

The value adjustment for expected credit losses also includes the FLI (forward looking information) component, that is, it takes into account the impact of macroeconomic trends on the credit risk to which the Bank is exposed.

Definition of default status and recovery

The client is in default if they are late in paying the material amount for more than 90 consecutive calendar days or when it is unlikely that they will pay one of their obligations in full (UTP event).
The Bank and the Group apply days past due counter that takes into account the materiality threshold. Significant material liability is assumed when the Bank's claims from legal entities are greater than BAM 1,000 and 1% of the debtor's exposure, and from natural persons greater than 1% of the debtor's exposure and BAM 200.
The collection period is defined as an indicator of the borrower's ability and willingness to fulfil contractual collection conditions.
This period is also intended to prevent repeat defaults by the debtor shortly after the payment / agreement / entry into force of the postponement.
The collection period (reacting) implies that no new event of non-fulfilment of obligations can occur during this period and that the amount of overdue receivables must not exceed the defined materiality threshold.

PD assessment process

Probability of default (PD) is an assessment of the probability of default, that is, of the client's transition into default status. It gives an estimate of the probability that the client will not be able to settle his obligations within a certain period of time.
Probability of Default (PD) reflects the 12-month probability of default based on a long-term average of the one-year default rate which is then adjusted to a specific point in time, as described in more detail below.
There are two approaches to determining PD for the purpose of calculating impairment.
For the low-risk portfolio (sovereign, banks), the Group coefficient is applied to PD based on the group's rating model, and for the rest of the portfolio, the Bank's internal data is used, i.e. PD created based on data on the historical default rate of individual exposure groups based on days delays and type of product.

EAD

EAD (Exposure at Default) is a measure of exposure at the time of the event of default. The duration of the EAD is obtained taking into account the expected changes in future periods, based on the repayment plan.
The above estimate includes balance and off-balance items (guarantees, letters of credit and the unused part of loans and guarantee frameworks), later weighted so-called CCF factor (credit conversion factor).
The minimum expected credit loss rates prescribed by the Decision on Credit Risk Management and Determination of Expected Credit Losses are calculated on the total exposure, which represents the gross carrying amount of the balance sheet and off-balance sheet asset item.

7. Risk Management (continued)

7.1. Credit Risk (continued)

LGD

LGD (Loss Given Default) represents the percentage of the estimated loss, and thus the expected rate of return, on the date of occurrence of the default event.
To estimate the LGD, the Bank segmented the portfolio for the economy and the population into homogeneous portfolios based on key characteristics that are relevant for the assessment of future cash flows. The data used is based on historically collected loss data and includes a broader set of transaction characteristics (e.g. product type).
LGD is calculated on the basis of the recovery rate and discounted values of the collateral after applying the haircut and the efficiency factor (calculated on the basis of historical information on collateral indebtedness).
PD and LGD adjustments are applied according to the requirements of IFRS 9:

- Application of PIT adjustment instead of TTC;
- Inclusion of FLI information;
- Expanding credit risk parameters in a multi-year perspective

Incorporation of forward-looking information

Since IFRS 9 requires the use of point-in-time PDs as well as forward-looking PDs, the lifetime PD TTC curves are adjusted using the delta default rate (forward-looking component) provided by Group (Satellite Models) , which is applied on top of the latest default rate (Default Rate, PIT component). The group has a special team that develops models for obtaining estimates of forward-looking parameters, i.e. PD/LGD deltas by country, which are then incorporated into local PD/LGD models. The Bank's role in the development of satellite models is reflected in the delivery of time series data that is used as model input. Estimates of forward-looking parameters are obtained at the country level, whereby the Group aggregates the data, thus creating a unified sample for Bosnia and Herzegovina used in modelling. The time series is updated every two years, which results in a new parameterization of the satellite models. The key step in the development of satellite models is the selection of independent variable models (macro-economic variables, e.g. GDP, unemployment rate, prices of oil and other natural resources, consumer price index, etc.) - and the same is done through various statistical processes in combination with domain knowledge in order to obtain simple, intuitive and robust assessments of forward-looking parameters. Model validation is performed by the Group before submitting the final deltas that the Bank applies.
The selection of satellite models aims to ensure appropriate alignment between the various processes within the Bank that foresee the use of macroeconomic assessments (e.g. portfolio strategy, budgeting, stress testing).

7. Risk Management (continued)

7.1. Credit Risk (continued)

Incorporation of forward-looking information (continued)

Satellite models are based on internal estimates of forecasts of macroeconomic indicators and are developed according to well-known econometric models. The key drivers of credit risk are: GDP growth, unemployment rate, inflation, average salary and real estate price index, on the basis of which the list of variables used for the satellite model is created.
IFRS 9 requires that the estimate of expected credit losses reflect an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes.
The chosen approach involved the use of two different macroeconomic scenarios and probability weights for each, namely one baseline and one negative scenario. UniCredit's research department prepares semi-annual macroeconomic forecasts according to basic and alternative negative scenarios. Each scenario provides three-year forecasts including all relevant macroeconomic factors considered in the satellite models (as shown in the table below). Each scenario is assigned a probability of occurrence, defined by the UniCredit Research Department, ensuring that the probability of negative scenarios is not biased towards extreme scenarios, otherwise the range and severity of scenarios would not be representative. The "average" scenario is defined as the weighted average of the DR deltas given in each of the previously mentioned scenarios.
Consideration of multiple scenarios is relevant if there is a non-linear relationship between the key components of the ECL and the relevant economic parameter.
Meeting the requirements of the standard explained above would require calculating the ECL under multiple scenarios and deriving a weighted average ECL based on the probability of each scenario occurring. Alternatively, banks are allowed to perform a multi-scenario overlay factor to take into account the non-linearity of the ECL risk components and relevant economic parameters. Running multiple scenarios as part of the loss provisioning process would not fit the loss provisioning timeline and was considered an unnecessary expense and effort for the Bank. Therefore, it was decided to take into account multiple macroeconomic scenarios based on the assessment of the annual overlay factor (multi-scenario overlay factor) that will be applied to the ECL calculated according to the base scenario.
A simple and straightforward approach to obtain the overlap factor consists in determining the ratio between the weighted probability of the ECL and the ECL under the base scenario as shown below:

$$Overlay\ factor = \frac{ECL_{ponderisani}}{ECL_{Osnovni}}$$

The weighted ECL is calculated based on the probability of the scenario (for 2024, 60% basic, 34% negative and 5% positive):

ECL weighted =60%*ECL basic +34% ECL negative+5% ECL positive

Overlap factor (multi-scenario overlay factor) is calibrated on a semi-annual basis as soon as new forecasts and weights for multiple scenarios are available. Multi-scenario overlay factors on portfolios across the Group (sovereign, banks) are assessed centrally and shared with the Bank in time for local application in the monthly provisioning process for loan losses.

Finally, it is underlined that the multi-scenario overlay factor is not an estimated parameter, but a multiplicative factor applied to the basic ECL to obtain the final ECL, which is a probability-weighted amount determined by evaluating a range of possible outcomes.
The final ECL is calculated as follows:

$$ECL_{final} = ECL_{basic} \times Overlay\ factor$$

The following table provides a list of macroeconomic assumptions used in the base and negative scenarios during the three-year period.

				Baseline scenario (weight 60%)				Negative scenario (weight 35%)				Positive scenario (weight 5%)			
Macroeconomic scenario	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2024**	**2025**	**2026**	**2027**	**2024**	**2025**	**2026**	**2027**
Real GDP, yoy % change	7,5	3,9	1,6	2,5	3,0	3,5	3,5	2,5	1,4	0,8	2,6	2,5	3,7	4,7	4,1
Inflation (CPI) yoy, eop	6,4	14,8	2,2	1,9	2,2	2,0	2,0	1,9	1,9	1,4	1,9	1,9	2,8	2,0	2,1
Inflation (CPI) yoy, average	2,0	14	6,1	1,7	2,2	2,1	2,0	1,7	2,1	1,7	2,1	1,7	2,5	2,4	2,1
Monthly Wage, nominal EUR	788,5	880,7	994,0	1.065,7	1.119,1	1.179,7	1.245,4	1.065,7	1.048,5	1.073,8	1.120,2	1.065,7	1.140,4	1.210,7	1.280,3
Unemployment rate, %	32,5	30,1	29,1	28,0	26,0	24,0	22,0	28,0	28,5	30,3	27,9	28,0	25,2	21,9	19,5
House Price Index, yoy % change	7,4	10,0	0,5	1,0	4,0	5,0	5,0	1,0	3,2	3,1	5,8	1,0	4,2	5,5	6,5

7. Risk Management (continued)

7.1. Credit Risk (continued)

Sensitivity of ECL to future economic conditions

The displayed values refer to ECL for total EAD by portfolio segments for the purposes of group consolidation (based on internal models) and are not adjusted for minimum coverage rates defined for local reporting purposes in accordance with the Decision on credit risk management and determination of expected credit losses.

ECL sensitivity was estimated as the ratio between:

- differences between ECL according to the alternative scenario (negative), according to the positive scenario and according to the basic scenario;
- deviations of GDP (on a cumulative three-year basis) between the negative and the base scenario (in % points) and between the positive and base scenario (in %points).

The following assumptions are implied:

- the GDP forecast (over 3 years) is assumed to be the most relevant economic factor that is an indicator of the severity of the scenario.

The analysis of the sensitivity of ECL to changes in GDP based on the presented scenarios showed that for a 1% drop in GDP, the ECL portfolio that is affected increases by 0.1%.

										IFRS9 23q4	
Cumulative 3-year GDP growth in %			ECL amount (KM / million)			ECL Difference Compared to Basic	ECL Difference Compared to Basic	% ECL Difference Compared to Basic	% ECL Difference Compared to Basic	Sensitivity of ECL to 3-year cumulated GDP (in KM)	Sensitivity of ECL to 3-year cumulated GDP (in %)
Baseline scenario	Negative Scenario	Positive scenario:	Baseline scenario	Negative Scenario	Positive scenario:	Negative Scenario	Positive scenario:	Negative Scenario	Positive scenario:	For a 1 bp GDP decline (based on a 3-year cumulative)	
9	4,6	10,9	36,75	36,90	36,72	-0,22	0,03	0,6%	0,10%	0,15	0,10%

Geopolitical overlay resulting from the Russia-Ukraine crisis

The beginning of the Russian-Ukrainian conflict in 2022 has become an obstacle to economic growth. The spillover effects of the Russian-Ukrainian crisis required a revision of forecasts for macroeconomic trends in the Eurozone, also fueled by inflationary pressure and rising interest rates.

In order to take into account the risks caused by the sudden increase in energy costs, inflation and interest rates for legal entities and individuals, a methodology for geopolitical overlap was adopted in 2022 and was applied throughout 2024.

The adoption of this framework is a measure that is in line with the IFRS9 models, which by their structure have already correctly and directly proven that they recognize the effect of geopolitical crises. In this context, while the IFRS9 models, and especially the satellite models, are able to recognize the effect of the macroeconomic scenario at the portfolio level, the geopolitical overlay effect concerns specific sub-segment portfolios that are considered particularly vulnerable in the event that the crisis situation turns into a severe crisis.

Provisions for credit losses as of December 31, 2024. include the effect of geopolitical overlay in the amount of 2,227 thousand BAM and consists of the following items:

- Legal entities: an overlapping effect for legal entities belonging to energy-intensive industry sectors that are more likely to be more affected by the spillover effects related to the crisis in Russia and Ukraine, especially from the aspect of energy supply and related price growth.
- Individuals: (i) mortgage loans with a variable interest rate (no days of delay, considering the sensitivity in terms of interest rate increases) loans with at least one overdue installment, which is considered the first signal for payment difficulties, and these clients are especially vulnerable in this specific situation.

As far as calculations are concerned, credit exposures belonging to the mentioned categories are identified according to their specific, described characteristics. Starting from this, the satellite models are guided by the application of macroeconomic indicators from the recessionary scenario used for the preparation of the Bank's three-year business plan, in order to determine the necessary adjustment of the existing default rate.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Geopolitical overlay resulting from the Russia-Ukraine crisis

An update in the geopolitical overlay allocation process for energy-intensive sectors was introduced in the 4th quarter of 2023. In particular, the new allocation process aims to allocate ECL by focusing more, compared to the initial approach, on riskiness in terms of the level of credit risk, therefore using the ability of the SICR framework to be sensitive to all the risk signals that are currently present. As such, given the PD outcomes derived from the model and the different level of default risk embedded in the credit risk level framework, this is used to assign the ECL derived from the geopolitical overlay.

In detail, taking into account the scope of application of the geopolitical overlay (overlay) for energy-intensive sectors on the latest portfolio, the following ratio should be calculated:

x% = (avg. IFRS9 1Y PD_Level 2) / ((avg. IFRS9 1Y PD_Level 1+avg. IFRS9 1Y PD_Level 2))

Where is:

- average IFRS9 1Y PD_(Level 2) - average IFRS9 1Y PD Level 2, which belong to the scope of application of geopolitical overlay for energy-intensive sectors on the latest portfolio,
- average IFRS9 1Y PD_(Level1) - average IFRS9 1Y PD Level 1, which belong to the scope of application of geopolitical overlay for energy-intensive sectors on the latest portfolio.

Then at least x% of the total additional ECL due to the energy-intensive geopolitical overlap (overlay) should be allocated to credit risk level 2 positions of the relevant portfolio, and the rest (1-x%) to credit risk level 1 positions.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Geopolitical overlay resulting from the Russia-Ukraine crisis (continued)

Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of exposures into default status, the additional provisions of which are then calculated according to the average coverage rate applied to loans with the "Unlikely to Pay" classification).

The geopolitical overlay is a multiplicative overlay applied to the calculated ECL following the formula

$$ECL_{Geo-political} = ECL \times Preklapanje_{Geo-political}$$

Grouping of financial assets measured on a collective and individual approach

In order to determine the impairment of loans and receivables, the Bank differentiates between two approaches:

- loans, which are assessed individually
- loans, which are assessed on a portfolio basis

Loans, which are assessed individually

Individually significant loans are assessed individually, in order to determine whether there are objective signs of impairment. There are many factors that can influence the ability and willingness of each individual debtor to fulfil his obligation to the Bank, and they are divided into strong and weak conditions of UTP ("unlikely to pay"), and some of them are given below:

- default or delay in payment of interest or principal,
- non-compliance with the terms of the contract,
- changes in enforcement or bankruptcy proceedings,
- specific information about difficulties in business (e.g. expressed in insufficient liquidity of the client),
- significant changes in the client's market environment, i
- global economic situation.

A detailed overview and description of UTP conditions is defined in the Guideline on the definition of the case of default.

Loans, which are assessed on a portfolio basis

For the purpose of assessing loan impairment, which are not individually significant, loans are grouped based on similar credit risk characteristics. The Bank segmented the portfolio and, within it, divided it into risk groups on the basis of ratings for legal entities and types of products and days of delay for individuals, and accordingly, applying parameters (probability of default, loss due to default and the amount the Bank claims in case of default) established by Basel III standards and aligned with IFRS requirements, as well as the ABRS Decision, creates a value correction.

The rating of the client class of legal entities implies a certain range of PD at the time of approval (PD at the inception). The final rating of the client is influenced by financial and qualitative ratings. The financial rating is determined on the basis of financial indicators available in the client's financial statements, such as the ratio of capital, liquidity, ROI, and the size of the client. The qualitative rating is determined on the basis of qualitative data such as the management structure, accounting and information systems, technical equipment, and the state of the market and competition.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Manual adjustments for clients with significantly increased credit risk

For clients, for whom a significantly increased exposure to credit risk has been identified, i.e. clients classified in level 2, in exceptional cases, where it has been established that the calculation on a portfolio basis does not reflect the identified level of credit risk of the client, the Bank reserves the right to individual assessment of ECL. This is especially true for clients classified as clients on the monitoring list (WL Watch list), performance status codes (PSC Performance Status CODE 600 and 601) and clients classified as restructuring (PSC 651), who are still in the income portfolio.

The proposed amount of ECL is determined by Monitoring and Special Credits Management whereby the amount of ECL cannot be higher than the minimum defined amount of ECL for exposures in default status, for which the calculation of ECL is determined according to the principle of individual assessment. The approval of the proposed ECL amounts is the responsibility of the Bank's Credit Committee.

If, in accordance with the internal methodology, the determined amount of expected credit losses is greater than those resulting from the provisions defined in the Decision, the Bank is obliged to apply the higher amount thus determined.

The analysis of the loan portfolio in accordance with the mentioned categories is given below:

	December 31, 2024			December 31, 2023		
	Gross loans BAM 000	impairment BAM 000	%	Gross loans BAM 000	impairment BAM 000	%
Level 1 credit risk						
loans to legal entities	296,261	4,452	1.5%	246,036	3,755	1.50%
loans to private individuals	416,224	4,080	1.0%	385,238	5,805	1.50%
Total level 1	**712,485**	**8,532**	**1.2%**	**631,274**	**9,560**	**1.50%**
Level 2 credit risk						
loans to legal entities	29,583	4,853	16.4%	27,658	4,406	15.90%
loans to private individuals	42,759	4,721	11.0%	29,317	4,693	16.00%
Total level 2	**72,342**	**9,575**	**13.2%**	**56,975**	**9,099**	**16.00%**
Level 3 credit risk						
loans to legal entities	19,469	12,766	65.6%	20,106	13,191	65.60%
loans to private individuals	13,679	12,904	94.3%	14,743	14,001	95.00%
Total level 3	**33,148**	**25,670**	**77.4%**	**34,849**	**27,192**	**78.00%**
Total loans	**817,975**	**43,777**	**5.4%**	**723,098**	**45,851**	**6.30%**

The coverage of the nonperforming portfolio loans by impairment (ECL) is 77.4% (2023: 78%).

7. Risk Management (continued)

7.1. Credit Risk (continued)

Below is an analysis of gross and net loans and receivables from clients:

	December 31, 2024			December 31, 2023		
	Undue	Due	Total	Undue	Due	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Legal entities						
Credit risk level 1	293,277	2,984	296,261	243,902	2,134	246,036
(Loss allowance)	(4,411)	(41)	(4,452)	(3,717)	(37)	(3,755)
Credit risk level 2	28,249	1,334	29,583	26,998	660	27,658
(Loss allowance)	(4,663)	(190)	(4,853)	(4,287)	(119)	(4,406)
Credit risk level 3	19,377	92	19,469	19,815	291	20,106
(Loss allowance)	(12,698)	(68)	(12,766)	(12,900)	(291)	(13,191)
Gross exposure of legal entities	**340,903**	**4,411**	**345,314**	**290,715**	**3,085**	**293,800**
(Value adjustment)	**(21,772)**	**(299)**	**(22,071)**	**(20,905)**	**(447)**	**(21,352)**
Net exposure of legal entities	**319,131**	**4,111**	**323,242**	**269,810**	**2,638**	**272,448**
Private individuals						
Credit risk level 1	414,370	1,854	416,224	382,817	2,419	385,237
(Loss allowance)	(4,048)	(32)	(4,080)	(5,752)	(53)	(5,805)
Credit risk level 2	42,392	367	42,759	28,906	412	29,318
(Loss allowance)	(4,659)	(62)	(4,721)	(4,574)	(119)	(4,693)
Credit risk level 3	7,830	5,849	13,679	9,541	5,202	14,743
(Loss allowance)	(7,219)	(5,685)	(12,904)	(8,854)	(5,147)	(14,001)
Gross exposure to private individuals	**464,591**	**8,070**	**472,661**	**421,264**	**8,034**	**429,298**
(Loss allowance)	**(15,927)**	**(5,779)**	**(21,706)**	**(19,180)**	**(5,320)**	**(24,499)**
Net exposure of private individuals	**448,665**	**2,291**	**450,956**	**402,084**	**2,714**	**404,798**
Total gross loans	**805,494**	**12,480**	**817,975**	**711,979**	**11,118**	**723,097**
(Total loss allowance)	**(37,699)**	**(6,078)**	**(43,777)**	**(40,085)**	**(5,767)**	**(45,851)**
Total net loans	**767,796**	**6,402**	**774,198**	**671,895**	**5,352**	**677,246**

Level 1 and 2: undue performing loans

The quality of the portfolio of loans to clients that have not matured can be assessed on the basis of internal standard monitoring. Client credits are regularly monitored and systematically reviewed to detect irregularities or warning signs. They are the subject of constant monitoring with the aim of taking timely actions, which are aligned with the improvement/deterioration of the client's risk profile.

An overview of the gross exposure of overdue loans executed by type of client is as follows:

	Loans to individuals				Loans to legal entities			
	Consumer loans	Housing loans	Credit cards and overdrafts on current accounts	Total	Public and financial sector and international clients	Domestic businesses	Business banking	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
December 31, 2024								
Level 1 Standard Monitoring	295,211	102,063	17,095	414,370	103,113	180,812	9,351	293,277
Level 2 Standard Monitoring	29,293	11,517	1,582	42,392	15,960	12,063	225	28,249
December 31, 2023								
Level 1 Standard Monitoring	261,831	100,853	20,133	**382,817**	132,686	105,501	5,715	**243,902**
Level 2 Standard Monitoring	18,783	8,797	1,326	**28,906**	13,884	12,100	1,014	**26,998**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Level 1 and 2: due performing loans

The gross amount of overdue loans that are executed and receivables from clients are shown in the table below:

	Consumer loans	Housing loans	Credit cards and overdrafts on current accounts	Total	Public and financial sector and international clients	Domestic businesses	Business banking	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
December 31, 2024								
Due – Level 1								
up to 30 dpd	1,161	282	411	**1,854**	419	2,128	437	**2,984**
from 30 to 60 dpd	-	-	-	**-**	-	-	-	-
from 60 to 90 dpd	-	-	-	**-**	-	-	-	-
over 90 days	-	-	-	**-**	-	-	-	-
Total	**1,161**	**282**	**411**	**1,854**	419	2,128	437	**2,984**
Collateral value	**171**	**38,982**	**-**	**39,153**	**12,503**	**31,832**	**2,797**	**47,132**
Due – Level 2								
up to 30 dpd	195	43	31	**269**	147	365	13	**525**
from 30 to 60 dpd	46	7	17	**70**	-	8	2	10
from 60 to 90 dpd	22	1	5	**28**	-	799	-	799
over 90 dpd	-	-	-	**-**	-	-	-	-
Total	**263**	**52**	**53**	**367**	**147**	**1,173**	**14**	**1,334**
Collateral value	**46**	**4,249**	**-**	**4,295**	**5,797**	**5,198**	**85**	**11,080**
December 31, 2023								
Due – Level 1								
up to 30 dpd	1,711	306	402	**2,419**	374	-	442	**816**
from 30 to 60 dpd	-	-	-	**-**	-	1,318	-	1,318
from 60 to 90 dpd	-	-	-	**-**	-	-	-	-
over 90 dpd	-	-	-	**-**	-	-	-	**-**
Total	**1,711**	**306**	**402**	**2,419**	**374**	**1,318**	**442**	**2,134**
Collateral value	**367**	**45,282**	**-**	**45,650**	**32,525**	**16,600**	**2,140**	**51,266**
Due – Level 2								
up to 30 dpd	173	37	46	**255**	80	-	27	**107**
from 30 to 60 dpd	66	6	18	**90**	-	540	5	545
from 60 to 90 dpd	54	3	10	**67**	-	8	-	8
over 90 dpd	-	-	-	**-**	-	-	-	-
Total	**292**	**47**	**73**	**412**	80	**548**	**32**	**660**
Collateral value	**22**	**3,205**	**-**	**3,227**	**1,562**	**2,702**	**401**	**4,665**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Level 3: non-performing loan

The breakdown of non-performing loans from clients, together with the allocated value of related collateral, is as follows:

	Loans private individuals				Loans legal entities			
	Consumer loans	Housing loans	Credit cards and overdrafts on current accounts	Total	Public and financial sector and international clients	Domestic business subjects	Business banking	Total
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
December 31, 2024								
Level 3 credit risk	11,352	1,384	943	**13,679**	-	19,215	254	**19,469**
Collateral value	8	1,237	-	**1,245**	-	12,835	-	**12,835**
December 31, 2023								
Level 3 credit risk	11,959	1,867	917	**14,743**	-	20,003	103	**20,106**
Collateral value	9	1,368	-	**1,377**	-	17,577	-	**17,577**

7. Risk Management (continued)

7.1. Credit Risk (continued)

Restructured Loans and Receivables

During the year, the Bank restructured certain loans to clients, with the aim of improving their ultimate collectability. Restructuring is mainly carried out due to the deterioration or prevention of further deterioration of the client's financial position based on the analysis of the possibility of successful restructuring, with the aim of eliminating difficulties in the client's business within a defined period and returning the client to a profitable portfolio.

Restructured loans as of December 31, 2024 (exposure to all restructured placements, regardless of whether they are under the jurisdiction of Business segments or Monitoring and Special Credit Management) totaled BAM 20,428 thousand (December 31, 2023: BAM 21,417 thousand).

The reduction of the total exposure of restructured placements is the result of regular repayment.

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Restructured loans	20,428	21,417
Gross loan portfolio	817,975	723,097
The share of restructured loans in the gross loan portfolio	2.5%	3.0%

Restructured exposures by credit risk levels are shown in the table below:

	Restructured exposures (credit risk level)					
	Level 1		Level 2		Level 3	
	restructured exposure gross	Loss allowance	restructured exposure gross	Loss allowance	restructured exposure gross	Loss allowance
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
December 31, 2023						
Private individuals	-	-	388	29	431	415
Legal entities	-	-	130	41	19,479	12,755
Total	**-**	**-**	**518**	**70**	**19,910**	**13,170**
December 31, 2023						
Private individuals	6	-	538	36	503	484
Legal entities	-	-	568	367	19,802	12,872
Total	**6**	**-**	**1,106**	**403**	**20,305**	**13,356**

Geographic Concentration of Credit Risk

The geographic concentration of the risk of the loan portfolio fully refers to legal entities and private individuals and other entities located in Bosnia and Herzegovina.

7. Risk Management (continued)

7.1. Credit Risk (continued)

Concentration of credit risk by industry

The Bank's credit portfolio as of December 31, 2024 and December 31, 2023 is analyzed according to economic branches in the following table:

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Legal entities and entrepreneurs		
Agriculture, forestry and fishing	3,430	4,086
Mining of ores and stones	1,771	1,256
Manufacturing industry	81,298	67,751
Production and supply of electricity and gas	1,285	1,003
Water supply and environmental remediation activities	231	161
Construction	21,062	11,101
Wholesale and retail trade	62,377	29,732
Transportation and storage	28,729	30,576
Hotel and catering activities	75	88
Information and communications	4,035	2,543
Financial activities and insurance activities	10,924	9,572
Real estate business	3	31
Professional, scientific and technical activities	15,544	4,348
Administrative and support service activities	5,490	2
Public administration and defense, mandatory social insurance	83,189	111,935
Education	2	36
Health and social protection activities	25,664	19,565
Arts, entertainment and recreation	50	4
Other service activities	155	12
Total loans to legal entities and entrepreneurs	**345,314**	**293,800**
Total loans to private individuals	472,661	429,298
Total gross loans	**817,975**	**723,097**
Loan impairment	(43,777)	(45,851)
Total net loans	**774,198**	**677,246**

The structure of the loan portfolio is regularly monitored in Risk Management in order to identify possible events that could have a major impact on the loan portfolio (common risk factors) and, if necessary, mitigate the Bank's exposure to certain sectors in the economy.

Large exposure to credit risk *	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Number clients with exposure greater than 10% of the reg.capital	**2**	**3**
Balance sheet and off-balance sheet exposure gross	111,974	149,315
Impairment and provision on off-balance sheet (ECL)	(476)	(1,142)
Balance sheet and off-balance sheet exposure net	111,498	148,173

* refers to individual clients and does not include exposure to banks

Exposure to public sector (central institutions)*	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Balance sheet and off-balance sheet exposure gross (loans) and debt investments securities)	149,088	174,607
Impairment and provision on off-balance sheet (ECL)	(2,944)	(2,490)
Balance sheet and off-balance sheet exposure net	146,144	172,117

* not including exposure to the Central Bank

7. Risk Management (continued)

7.2. Liquidity Risk

Liquidity risk represents the risk that the Bank will not be able to settle its financial obligations completely and without delay. In this sense, the main goal of the Bank in liquidity risk management, as a central risk present in banking operations, is to coordinate its business activities and ensure optimal liquidity, in accordance with the minimum standards and limits prescribed by the Banking Agency of the Republika Srpska, the Central Bank of BiH and Groups.

The Bank has access to various sources of financing, which include various types of deposits from individuals and legal entities, banks (within and outside the Group), and credit lines. The mentioned sources enable the flexibility of financing sources, and limit dependence on any single source, thereby ensuring a high level of self-sustainability in possible crisis periods.

The Bank has implemented the Group's liquidity policies, which define the methods and procedures for analyzing liquidity parameters, and which cover the management and control of liquidity risk, both in normal business conditions and in crisis situations. In accordance with the Group's guidelines and the requirements of the local regulator, the exposure to liquidity risk is kept at a level where the Bank can meet its payment obligations on a regular basis, but also in periods of crisis.

Regular business includes normal daily activities, for which it is usual that no phase from the Liquidity Plan is activated for unforeseen cases of liquidity disruption.

The most important activities are focused on performing usual market transactions, within the prescribed risk exposure limits, in accordance with the defined financing plan, as well as the decisions of competent authorities and operational functions.
These activities mainly boil down to managing short-term and long-term liquidity, managing the execution of the financing plan, regular monitoring and analysis of liquidity risk stress test results, as well as consistent application of internal pricing principles.

Short-term liquidity risk is measured through operating baskets with maturities of up to one year (OML), through net cash flows (inflows / outflows), as well as through the liquidity coverage ratio (LCR), where the Bank is obliged to provide an appropriate level of liquidity protection layer, in order to meet the liquidity needs for the liquidity stress scenario of 30 calendar days.
Short-term liquidity limits exposures in all currencies, as well as total exposure. Structural liquidity measures aim to ensure an appropriate balance between assets and liabilities in the medium/long term (over a year), in order to ensure structural stability and limit dependence on short-term, less stable financing.

Short-term liquidity stress testing measures whether the available liquidity reserves can ensure that the Bank can withstand a hypothetical shortage of short-term sources of funds. The scenarios are based on the concept of a basket of asset maturities and their depreciation. Relevant scenarios are defined with the aim of presenting possible events with a potentially negative impact on liquidity. Given the nature of the liquidity stress test, a combined stress scenario is used to assess the various liquidity risks.

The Bank has defined liquidity management in emergency situations with the document Liquidity Policy of UniCredit Bank a.d. Banja Luka, Annex 1: Liquidity plan for unforeseen cases of liquidity disruption of UniCredit Bank a.d. Banja Luka.

The bank has an obligation to maintain liquidity within the framework prescribed by the Banking Agency of the Republika Srpska and the Central Bank of Bosnia and Herzegovina:

- maintaining a mandatory reserve,
- maintenance of daily liquidity,
- liquidity coverage ratio (LCR),
- net stable funding ratio (NSFR).

The bank is obliged to report to the Republika Srpska Banking Agency on the liquidity coverage ratio on a monthly basis, while the obligation to report on the ratio of net stable financing is on a quarterly basis.

The liquidity coverage ratio at the end of the year was:

	December 31, 2024	December 31, 2023
Liquidity Coverage Ratio (LCR)	210.8%	302.1%
Net Stable Funding Ratio (NSFR)	164.2 %	168.5%

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

The goal of structural liquidity management is to ensure the Bank's financial stability. The main goal is to avoid excessive and unexpected pressures on the financing needs of the short-term liquidity position and to ensure optimal sources of financing and related costs. This can be achieved by establishing a balance between medium and long-term stable assets and appropriate stable sources of financing.

Structural liquidity risk is monitored through structural liquidity ratios (SLR) with time baskets over one and over three years. The structural liquidity ratio is an indicator from an economic perspective (it takes into account behavioral assumptions), in contrast to the NSFR, which represents a regulatory perspective. It is calculated as the ratio of medium-term / long-term liabilities and assets.

SLR (structural liquidity rate)	December 31, 2024		December 31, 2023	
	(in million BAM) >1G	(in million BAM) >3G	(in million BAM) >1G	(in million BAM) >3G
Cumulative liabilities	737	650	690	608
Cumulative assets	785	484	717	463
Warning level	90%	100%	74%	95%
Value	**94%**	**134%**	**96%**	**131%**

Structural liquidity is also monitored individually by currency, through the foreign exchange (FX) structural liquidity gap indicator. The foreign exchange (FX) structural liquidity gap also relies on the economic aspect, based on behavioral models and management assumptions, with the aim of adequately showing the structural position of the Bank in a certain currency.

The indicator is based on a behaviorally adjusted maturity profile of balance sheet positions, instead of the contractual maturity. Financial positions treated in this way are short-term assets and liabilities, required reserves, securities and derivatives.

EUR FX SLG >1G	December 31, 2024 (in million BAM)	December 31, 2023 (in million BAM)
Cumulative liabilities	123	131
Cumulative assets	153	183
Warning level	(41)	(196)
Value	**(30)**	**(51)**

OTHER FX SLG >1G	December 31, 2024 (in million BAM)	December 31, 2023 (in million BAM)
Cumulative liabilities	0.18	0.30
Cumulative assets	0.00	0.02
Warning level	(2)	(2)
Value	**0.17**	**0.28**

The following tables show the liquidity structure as of December 31, 2024 and December 31, 2023, which represents an overview of assets and liabilities by appropriate time baskets based on the period remaining until the agreed maturity.

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

The presented liquidity structure does not take into account the stability of demand deposits, and all demand deposits are presented in the maturity basket of up to 30 days.

December 31, 2024	Up to a month BAM 000	From 1 to 3 months BAM 000	From 3 to 12 months BAM 000	From 1 to 5 years BAM 000	Over 5 years BAM 000	Total BAM 000
Cash and cash equivalents	201,845	-	-	-	-	**201,845**
Financial assets at fair value through other comprehensive income	86,581	-	292	-	-	86,872
Financial assets at amortized cost	**353,927**	**57,644**	**160,342**	**374,260**	**163,318**	**1,109,491**
Obligatory reserve at the CB	108,530	-	-	-	-	108,530
Loans and receivables with banks	226,762	-	-	-	-	226,762
Loans and receivables with clients	18,634	57,644	160,342	374,260	163,318	**774,198**
Other assets	6,083	2,030	2,764	(111)	-	**10,766**
Total receivables	**648,436**	**59,674**	**163,397**	**374,149**	**163,318**	**1,408,974**
Financial liabilities at amortized cost	**868,874**	**17,554**	**132,705**	**114,223**	**15,569**	**1,148,925**
Deposits and borrowings from banks	60	849	3,570	3,570	-	8,049
Deposits and borrowings from clients	868,752	16,581	128,573	109,820	15,569	1,139,295
Lease liabilities	62	125	561	832	-	1,581
Current tax liabilities	-	-	2,179	-	-	2,179
Other liabilities	9,543	4,757	5,871	2,731	-	22,902
Liabilities for guarantees and LC's	3,157	1,754	8,738	98,697	-	112,346
Loan commitments	2,978	7,997	43,690	44,163	-	98,828
Total liabilities	**884,552**	**32,063**	**193,184**	**259,813**	**15,569**	**1,385,180**

The Bank expects to meet obligations from operating cash flows and inflows from overdue financial assets and assets at fair value through other comprehensive income.

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

December 31, 2023	Up to a month	From 1 to 3 months BAM 000	From 3 to 12 months BAM 000	From 1 to 5 years BAM 000	Over 5 years BAM 000	Total BAM 000
Cash and cash equivalents	153,044	-	-	-	-	**153,044**
Financial assets at fair value through other comprehensive income	82,682	-	291	-	-	82,973
Financial assets at amortized cost	**333,213**	**52,970**	**128,227**	**337,570**	**145,568**	**997,548**
Obligatory reserve at the CB	97,303	-	-	-	-	**97,303**
Loans and receivables with banks	222,999	-	-	-	-	**222,999**
Loans and receivables with clients	12,911	52,970	128,227	337,570	145,568	**677,246**
Other assets	5,787	1,259	2,048	524	0	**9,618**
Total receivables	**574,727**	**54,229**	**130,567**	**338,094**	**145,568**	**1,243,185**
Financial liabilities at amortized cost	**696,491**	**26,989**	**78,589**	**179,346**	**14,924**	**996,338**
Deposits and borrowings from banks	1	859	5,419	7,984	-	**14,263**
Deposits and borrowings from clients	696,422	25,995	72,636	170,332	14,924	**980,309**
Lease liabilities	68	135	533	1,030	-	1,766
Current tax liabilities	777	-	-	-	-	777
Other liabilities	10,584	6,492	4,587	2,860	-	24,523
Liabilities for guarantees and letters of credit	5,181	-	98,432	-	-	103,613
Loan commitments	4,754	-	71,337	-	-	76,090
Total liabilities	**717,786**	**33,481**	**252,944**	**182,207**	**14,924**	**1,201,341**

7. Risk Management (continued)

7.3. Market Risks

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

Management of exposure to market risks includes activities related to client risk management and asset and liability management, and is regulated through a system of internal acts and a network of defined limits and warning signals, which are monitored on a daily basis. Therefore, the market risk in the Bank is assessed, controlled and limited mainly through two sets of measures, within the framework of the market risk strategy and CSRBB strategy

- Global risk measures should set a limit on regulatory capital absorption and economic loss accepted for FVOCI and/or FVTPL exposures. The limits of the global market risk measures must be reviewed at least once a year in the context of developing market risk strategies and must be in line with the budget and defined risk appetite. There are three global measures of market risk defined for management:
    1. Value at Risk (VaR): estimated potential loss of portfolio value during one day with a confidence level of 99%; VaR is calculated using a historical simulation approach over the last 250 days of time series. It is calculated daily and is defined on the basis of fair value through profit and loss (FVtPL) and fair value through other comprehensive income (FVOCI);

Review of Bank's VaR metrics:

Var FVtOCI	**2024**	**2023**
	BAM 000	**BAM 000**
average for the period	210	635
maximum for the period	508	739
minimum for the period	119	508

Var FVtPL	**2024**	**2023**
	BAM 000	**BAM 000**
average for the period	0.33	0.42
maximum for the period	0.84	5.28
minimum for the period	0.06	0.10

2. Loss Warning Level (LWL): is defined for each risk taker as a cumulative economic P&L for the period of the last 60 calendar days without cancellation at the end of the year. The metric is defined for the positions of fair value through profit and loss (FVtPL) and fair value through other comprehensive income (FVtOCI);
3. Stress Test Warning Level (STWL): the maximum conditional loss on a certain portfolio to which risk takers can be exposed based on a predefined set of scenarios.

- Granular risk measures are metrics designed to assess market risk arising from specific risk factors or products. Granular market risk measure limits complement global measures and provide transparent, in-depth and rigorous control over risk exposures, as they are set for individual sensitivities, nominal exposures or stress scenarios. GML supplements the Market Risk Management Framework in areas where global market risk measures cannot take into account certain risk factors due to computational complexity or historical data availability.

Starting from 2024, UniCredit Group, following the EBA guidelines that define credit margin risk in the banking book (CSRBB) as a new type of risk within financial risks, defined credit margin risk in the banking book.
CSRBB's risk strategies are determined by the Holding at least once a year, in accordance with the definition of the Group's overall risk appetite and in accordance with the framework of CSRBB's limits.
The holding company's financial risk function initiates an iterative process with the respective risk functions of the member banks, supported by the business line functions, in order to identify the metrics to be limited, the scope of application and the level of granularity.

7. Risk Management (continued)

7.3. Market Risks (continued)

KPIs that are relevant for monitoring the credit margin risk in the banking book are defined:

- CSRBB EV sensitivity, which measures the maximum acceptable percentage of capital (Tier 1) that the Bank can lose due to credit spread shocks that affect securities sensitive to the credit spread in the banking book. KPI covers only assets;
- Exposure to government securities, which includes the amount of nominal exposure to the government in the banking book in the form of securities issued by central and local governments, central banks, supranational authorities, government-guaranteed bonds and government agencies/authorities.

In addition to the above RAF KPIs, CSRBB is also limited through the granular metric CPV (Credit Point Value) which measures the sensitivity of the instrument in the event of a change in the credit spread by 1 basis point.

Factors, which are also important for assessing the impact of market risks on the Bank's portfolio, are stress-oriented warning levels and limits, and the results are included in regular FCRC reports (reports presented to the Financial and Credit Risks Committee).

The revision of market risk limits is carried out by the Bank in close cooperation with UniCredit Group. These activities are carried out at least on an annual basis, and if necessary more often, in accordance with business changes caused by changes in legal regulations, development of business strategy goals, as well as the targeted risk profile.

A set of documents with rules for business activities, which is performed by Client Risk Management for market risk management, was created in the form of internal acts of Financial Markets and Market Risk Strategy. Only permitted risk bearers are allowed to enter risk positions.

In addition to the implemented Group techniques, methods and models for measuring market risks, the Bank continuously works to improve business processes and data quality.

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk

Currency risk is the risk of possible negative effects on the Bank's financial result and capital due to changes in the exchange rate. Exposure to currency risk arises from credit, deposit and trading activities and is monitored daily, according to legal and Group-determined limits for individual currencies, and in the total amount for all assets and liabilities denominated in foreign currency or related to foreign currency.

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

In accordance with the regulator's decision, which regulates the minimum standards for foreign exchange risk management, the Bank is obliged to maintain the relationship between assets and liabilities in each individual currency so that its total open foreign exchange position at the end of each working day does not exceed 40% of its recognized (regulatory) capital.

The Bank directs its business activities in the direction of minimizing mismatches between asset and liability items in foreign currencies or with the agreed currency clause, maintaining daily operations within the set limits.

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

	2024	2024
Currency risk indicators:		
As of December 31	0.48%	0.98%
maximum for the period - month of December	20.39%	33.37%
minimum for the period – month of December	0.29%	0.16%

The foreign exchange position is calculated as the ratio of the sum of the values of all long and short individual foreign exchange positions of the Bank and its recognized (regulatory) capital on the reporting date (maximum allowed up to 40% of the recognized capital) for the total open foreign exchange position and the foreign exchange position in EUR currency, while for other currencies maximum allowed up to 20% of recognized capital of the Bank).

Considering the presence of the Currency Board (Currency Board of the Central Bank of Bosnia and Herzegovina), according to which the relationship between the domestic currency and the euro is fixed, it can be considered that there is no exposure of the Bank to the risk of changes in the EUR/BAM exchange rate.

The Bank protects itself from the risk of exposure to currency risk in foreign currencies other than EUR by managing the foreign exchange position within the framework of the Market strategy in such a way that the positions opened through business with clients are closed with opposite transactions, so that the Bank's open position is reduced to a minimum.

The analysis of assets and liabilities expressed in foreign currency amounts as of December 31, 2024 and December 31, 2023 is presented in the following tables.

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk (continued)

December 31, 2024	EUR BAM 000	EUR-linked items BAM 000	USD BAM 000	Other currencies BAM 000	Total currencies BAM 000	BAM BAM 000	Total BAM 000
Assets							
Cash and cash equivalents	52,165	-	1,100	14,982	68,256	133,589	201,845
Financial assets at fair value through other comprehensive income	33,550	23,031	-	-	56,581	30,292	86,872
Financial assets at amortized cost	**222,018**	**143,811**	**8,981**	**-**	**374,811**	**734,680**	**1,109,491**
Obligatory reserve at the CB	2,244	-	-	-	2,244	106,286	108,530
Loans and receivables with banks	217,781	-	8,981	-	226,762	-	226,762
Loans and receivables with clients	1,993	143,811	-	-	145,805	628,393	774,198
Tangible assets	-	-	-	-	-	22,195	22,195
Intangible assets	-	-	-	-	-	8,100	8,100
Current tax asset	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	743	743
Other assets	171	-	2	1	175	9,848	10,023
Total assets	**307,905**	**166,842**	**10,093**	**14,983**	**499,822**	**939,447**	**1,439,269**
Liabilities							
Financial liabilities at amortized cost	**355,815**	**97,173**	**10,022**	**14,794**	**477,804**	**671,121**	**1,148,925**
Deposits and borrowings from banks	8,045	-	-	-	8,045	4.	8,049
Deposits and borrowings from clients	347,771	97,173	10,022	14,794	**469,760**	669,535	1,139,295
Lease liabilities	-	-	-	-	-	1,581	1,581
Current tax liabilities	-	-	-	-	**-**	1,410	1,410
Deferred tax liability	-	-	-	-	-	769	769
Other liabilities	2,685	-	72	103	2,860	20,042	22,902
Provisions for risks and costs	114	5	-	-	119	3,623	3,742
Total liabilities	**358,614**	**97,178**	**10,094**	**14,897**	**480,783**	**696,965**	**1,177,748**
Capital and reserves	(729)	102	-	-	(627)	262,148	261,521
Total liabilities, capital and reserves	**357,885**	**97,280**	**10,094**	**14,897**	**480,156**	**959,113**	**1,439,269**
Net foreign exchange position	**(49,980)**	**69,561**	**(1)**	**86**	**19,666**	**(19,666)**	**-**

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk (continued)

December 31, 2023	EUR BAM 000	EUR-linked items BAM 000	USD BAM 000	Other currencies BAM 000	Total currencies BAM 000	BAM BAM 000	Total BAM 000
Assets							
Cash and cash equivalents	15,789	-	1,250	4,165	21,205	131,839	153,044
Financial assets at fair value through other comprehensive income	31,742	50,940	-	-	82,683	291	82,973
Financial assets at amortized cost	**204,783**	**179,861**	**11,686**	**9,918**	**406,248**	**591,300**	**997,548**
Obligatory reserve at the CB	-	-	-	-	-	97,303	97,303
Loans and receivables with banks	201,394	-	11,686	9,918	222,999	-	222,999
Loans and receivables with clients	**3,388**	**179,861**	**-**	**-**	**183,250**	**493,996**	**677,246**
Tangible assets	-	-	-	-	-	21,987	21,987
Intangible assets	-	-	-	-	-	9,413	9,413
Current tax asset	-	-	-	-	-	216	216
Deferred tax assets	-	-	-	-	-	1,115	1,115
Other assets	220	-	7	2	229	9,390	9,619
Total assets	**252,534**	**230,802**	**12,944**	**14,085**	**510,364**	**765,551**	**1,275,916**
Liabilities							
Financial liabilities at amortized cost	**288,873**	**100,169**	**12,787**	**13,967**	**415,796**	**580,542**	**996,338**
Deposits and borrowings from banks	14,262	-	-	-	14,262	1	14,263
Deposits and borrowings from clients	274,611	100,169	12,787	13,967	401,534	578,775	980,309
Lease liabilities	-	-	-	-	-	1,766	1,766
Current tax liabilities	-	-	-	-	**-**	-	-
Deferred tax liability	-	-	-	-	-	777	777
Other liabilities	3,130	-	141	155	3,426	21,098	24,523
Provisions for risks and costs	2,051	5	-	-	2,056	4,957	7,013
Total liabilities	**294,054**	**100,174**	**12,928**	**14,122**	**421,278**	**607,374**	**1,028,652**
Capital and reserves	**(224)**	**58**	**-**	**-**	**(166)**	**247,430**	**247,264**
Total liabilities, capital and reserves	**293,830**	**100,232**	**12,928**	**14,122**	**421,112**	**854,803**	**1,275,916**
Net foreign exchange position	**(41,297)**	**130,570**	**16**	**(37)**	**89,252**	**(89,252)**	**-**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk

The Bank is exposed to interest rate risk, which is the result of the influence of fluctuations in market interest rates on the Bank's financial position and cash flows. The Bank's operations are affected by the risk of changes in interest rates to the extent that interest-bearing assets and liabilities mature differently or their interest rates change at different times or in different amounts. Interest rate margins can increase as a result of these fluctuations, but at the same time they can also be reduced and cause losses due to unexpected fluctuations.

The main sources of interest rate risk are:

- *repricing* risk , which results from unfavorable changes in the fair value of assets and liabilities during the remaining period until the next interest rate change (items with a fixed interest rate are classified according to the remaining maturity),
- the risk of changing the slope and shape of the yield curve (yield curve risk),
- the risk of different changes in interest receivable and interest payable rates (basis risk) of instruments that have an identical maturity and are expressed in an identical currency, but whose interest rates are based on different types of reference rates (e.g. EURIBOR),
- optionality risk, which results from options, including embedded options in interest-sensitive positions (e.g. loans with the possibility of early repayment, deposits with the possibility of early withdrawal, etc.).

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

Exposure to interest rate risk in accordance with the regulator's requirements is monitored for significant currencies individually and for all other currencies together, through monitoring changes in the economic value of the banking book for: items with a fixed interest rate, variable interest rate, total weighted position, as well as the impact of interest rate risk on net interest income.

The methodology, which is used to assess the risk of interest rate changes, is based on the analysis of time differences.

The differences between interest-bearing assets and liabilities in different time baskets show how the two sides of the balance sheet react differently to changes in interest rates:

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

In accordance with the Group's requirements, interest rate risk is measured from the perspective of the impact of interest rate changes on the Bank's economic capital (EV metric) and from the perspective of earnings, i.e. the impact of interest rate changes on the Bank's net interest income (NII metric). In addition to the above metrics, the impact of interest rate risk is also monitored by calculating the change in the net present value of the portfolio in the event of a shift in the reference rate curve by 0.01% (1 basis point) and is limited by the BP01 limit (base point value limit) as a measure of sensitivity.

Presentation of the impact of a shift in the reference rate curve by 0.01% (1 basis point) on the net present value of the portfolio (BP01):

	(in BAM) BP01 banking book December 31, 2024						
	03M	**3M1Y**	**1Y3Y**	**3Y10Y**	**>10Y**	**Sum**	**EUR**
TOTAL BP01	2,418	1,604	19,972	1,396	4,681	17,916	28,392
Limit	19,558	39,117	39,117	68,454	19,558	78,233	78,233
Limit utilization	**12%**	**4%**	**51%**	**2%**	**24%**	**23%**	**36%**

	(in BAM) BP01 banking book December 31, 2023						
	03M	**3M1Y**	**1Y3Y**	**3Y10Y**	**>10Y**	**Sum**	**EUR**
TOTAL BP01	3,857	2,460	4,072	50,387	11,791	56,709	33,157
Limit	19,558	39,117	39,117	68,454	19,558	78,233	78,233
Limit utilization	**20%**	**6%**	**10%**	**74%**	**60%**	**72%**	**42%**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk (continued)

Stress resistance testing, which the Bank conducts for the interest rate risk category, includes scenarios of various shocks on the interest rate curves. Shocks include changes in the level of interest rates (parallel shifts), rotations of curves, changes in the slope of curves and jumps in certain segments of interest curves.

Presentation of the Bank's exposure to interest rate risk according to the local regulatory requirement through the interest "gap " as of December 31, 2024, and December 31, 2023 is shown in the following tables.

Period of interest rate changes, analysis of interest rate risk and amounts to which fixed interest rates are applied

December 31, 2024	Up to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest-bearing	Total	Fixed interest rate
	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000	BAM 000
Assets								
Cash and cash equivalents	166,755	-	-	-	-	35,090	201,845	61,686
Financial assets at fair value through other comprehensive income	-	-	-	86,447	134	292	86,872	86,581
Financial assets at amortized cost	293,451	128,959	297,063	266,852	123,166	-	1,109,491	794,425
Obligatory reserve at the CB	-	-	108,530	-	-	-	108,530	-
Loans and receivables with banks	226,762	-	-	-	-		226,762	226,762
Loans and receivables with clients	66,688	128,959	188,532	266,852	123,166	-	774,198	567,663
Tangible assets	-	-	-	-	-	22,195	22,195	-
Intangible assets	-	-	-	-	-	8,100	8,100	-
Current tax asset plus paid income tax	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	743	743	-
Other assets	-	-	-	-	-	10,023	10,023	-
Total assets	460,206	128,959	297,063	353,299	123,300	76,443	1,439,269	942,692
Liabilities								
Financial liabilities at amortized cost	54,189	27,068	958,421	92,180	15,487	1,581	1,148,925	1,139,276
Deposits and borrowings from banks	4	2,426	5,619	-	-	-	8,049	77
Deposits and borrowings from clients	54,184	24,642	952,802	92,180	15,487		1,139,295	1,139,200
Lease liabilities	-	-	-	-	-	1,581	1,581	-
Current tax liabilities	-	-	-	-	-	1,410	1,410	-
Deferred tax liabilities	-	-	-	-	-	769	769	-
Other liabilities	-	-	-	-	-	22,902	22,902	-
Provisions for risks and costs	-	-	-	-	-	3,742	3,742	-
Total liabilities	54,189	27,068	958,421	92,180	15,487	30,404	1,177,748	1,139,276
Capital and reserves	-	-	-	-	-	261,521	261,521	-
Total liabilities, capital and reserves	54,189	27,068	958,421	92,180	15,487	291,925	1,439,269	1,139,276
Interest rate mismatch	406,017	101,891	(661,359)	261,119	107,813	(215,482)	-	(196,584)

7. Risk Management (continued)

7.3 Market Risks (continued)

Kamatni rizik (nastavak)

December 31, 2023	Up to a month BAM 000	From 1 to 3 months BAM 000	From 3 to 12 months BAM 000	From 1 to 5 years BAM 000	Over 5 years BAM 000	Non-interest-bearing BAM 000	Total BAM 000	Fixed interest rate BAM 000
Assets								
Cash and cash equivalents	120,412	-	-	-	-	32,632	**153,044**	15,231
Financial assets at fair value through other comprehensive income	-	16,495	12,424	53,637	126	291	**82,973**	82,683
Financial assets at amortized cost	**225,818**	**204,279**	**295,337**	**181,514**	**86,316**	**4,284**	**997,548**	**613,358**
Obligatory reserve at the CB	-	-	97,303	-	-	-	**97,303**	-
Loans and receivables with banks	222,836	-	-	-	-	162	**222,999**	222,836
Loans and receivables with clients	2,982	204,279	198,034	181,514	86,316	4,122	**677,246**	390,522
Tangible assets	-	-	-	-	-	21,987	**21,987**	-
Intangible assets	-	-	-	-	-	9,413	**9,413**	-
Current tax asset plus paid income tax	-	-	-	-	-	216	**216**	-
Deferred tax assets	-	-	-	-	-	1,115	**1,115**	-
Other assets	-	-	-	-	-	9,619	**9,619**	-
Total assets	**346,230**	**220,775**	**307,761**	**235,151**	**86,441**	**79,557**	**1,275,916**	**711,272**
Liabilities								
Financial liabilities at amortized cost	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**4,964**	**996,338**	**977,177**
Deposits and borrowings from banks	18	3,882	10,185	-	-	177	**14,263**	18
Deposits and borrowings from clients	108,129	25,148	677,285	151,858	14,869	3,020	**980,309**	977,159
Lease liabilities	-	-	-	-	-	1,766	**1,766**	-
Current tax liabilities	-	-	-	-	-	**-**	**-**	-
Deferred tax liabilities	-	-	-	-	-	777	**777**	-
Other liabilities	-	-	-	-	-	24,523	**24,523**	-
Provisions for risks and expenses	-	-	-	-	-	7,013	**7,013**	-
Total liabilities	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**37,278**	**1,028,652**	**977,177**
Capital and reserves	**-**	**-**	**-**	**-**	**-**	**247,264**	**247,264**	**-**
Total liabilities, capital and reserves	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**284,541**	**1,275,916**	**977,177**
Interest rate mismatch	**238,083**	**191,744**	**(379,709)**	**83,294**	**71,573**	**(204,985)**	**-**	**(265,905)**

7. Risk management (continued)

7.3. Market Risks (continued)

Interest Rate Risk (continued)

The following table shows the estimated future cash flow for the Bank's interest-bearing and non-interest-bearing liabilities as of December 31, 2024 and December 31, 2023:

December 31, 2024	Up to a month BAM 000	From 1 to 3 months BAM 000	From 3 to 12 months BAM 000	From 1 to 5 years BAM 000	Over 5 years BAM 000	Total BAM 000
Liabilities						
Bank transaction accounts and deposits	4	873	3,601	3,570	-	8,049
Client transaction accounts and deposits	54,184	24,642	952,802	92,180	15,487	1,139,295
Lease liabilities	1,581	-	-	-	-	1,581
Other liabilities	22,902	-	-	-	-	22,902
Total liabilities	**78,672**	**25,515**	**956,404**	**95,750**	**15,487**	**1,171,827**
December 31, 2023						
Bank transaction accounts and deposits	195	776	5,374	7,917	-	14,263
Client transaction accounts and deposits	111,150	25,148	677,285	151,858	14,869	980,309
Lease liabilities	1,766	-	-	-	-	1,766
Other liabilities	24,523	-	-	-	-	24,523
Total liabilities	**137,634**	**25,925**	**682,658**	**159,775**	**14,869**	**1,020,861**

Effective Interest Rates

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

	December 31, 2024 %	December 31, 2023 %
Assets		
Funds in excess of the mandatory reserve held with the Central Bank	-	-
Loans and receivables due from banks	3.68	2.40
Loans and receivables due from clients	5.81	5.74
Financial assets at fair value through other comprehensive income	3.94	3.23
Liabilities		
Deposits due to banks*	-	(4.39)
Deposits due to clients	(0.49)	(0.44)

* the bank did not receive deposits from other banks in 2024

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk in the Banking Book

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

The system of restrictions in accordance with the rules of the Group is defined through the division into limits and warning levels depending on the type of restrictions and the time required for corrective actions in case of violation of restrictions.

The bank bases the management and control of interest rate risk in the banking book on the analysis of metrics/indicators from two perspectives:
- economic value and
- earnings.

The basic limits, through which the Bank monitors risk exposure from the perspective of economic value, are:
- BP01 sensitivity total sensitivity and time basket sensitivity is calculated as the change in the present value of interest-bearing sensitive positions, resulting from a current shock of 1 basis point for each foot along the curve. The sum of all sensitivities by time bins along the curve is BP01;
- EV supervisory standardized shocks for regulatory reasons, in addition to the BP01 metric, the Group calculates the sensitivity of the economic value as the worst result of the 6 SOT scenarios ("*parallel up*", "*parallel down*", "*flattening*", "*steepening*", "*short rates up* " and " *short rates down* "). The impact of economic sensitivity is measured in relation to *Tier 1* capital.

From an earnings perspective, the Bank monitors risk exposure through the following limits:
- sensitivity of net interest income – standard sensitivity of net interest income is calculated based on the scenario of current parallel shocks on rates with a maturity of up to one year and assuming a constant balance sheet and constant margin.

Indicators of interest rate risk in the banking book	2024	2023
Economic capital sensitivity (EV sensitivity) in %	-4.48%	-5.33%
Net interest income sensitivity (NII sensitivity) in %	-5.05%	-6.46%
Total BP01 in EUR	17,916	56,709

7.4. Operational Risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to employee failures, inappropriate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to the occurrence of unpredictable external events, including legal risk.

In accordance with the Group's methodology, as well as the regulations of the RS Banking Agency, the Bank has established and is constantly improving the operational risk management system. The system includes tools and mechanisms for continuous monitoring of damages suffered by the Bank from operational risks and exposure of the Bank to operational risks, assessment of operational risks in processes and products, monitoring of key risk indicators, and defining ways to avoid, control or transfer operational risks to third parties, as well as the reporting system.
The above processes and indicators, which make up the operational risk management system, are regularly informed and reported to the Non-Financial Risks Committee, the Management Board of the Bank and the Group, as well as the local regulator, and the operational risk management system is regularly harmonized with the Group's standards and local and international regulations.
Losses resulting from the following events can be considered an operational risk: internal or external fraud, employee relations and safety at work, client complaints, fines and penalties due to violations of regulations, damage to the Bank's tangible assets, work interruptions and system errors, management processes.

The Bank uses the group tool "ARGO" for recording data on damages from operational risks, recording and monitoring the values of risk indicators, while the Bank uses the group tool "BO Tool" ("Business Object Tool") for the reporting process and analysis of data related to operational risks.

7. Risk Management (continued)

7.4. Operational Risk (continued)

In the course of 2021, the Non-Financial Risks and Controls Committee of UniCredit Bank a.d. Banja Luka was formed. The Committee's responsibilities are:

- promoting the annual management process self-assessment activities and evaluating its results, in order to ensure a systematic approach to the assessment of operational risk and the supervision of the internal control system;
- monitoring non-financial risks in the Bank, emerging threats, as well as the strength of the internal control system, through monitoring the most important events and incidents, weaknesses and deficiencies;
- defining and prioritizing the necessary corrective actions, the aim of which is to mitigate perceived weaknesses and deficiencies;
- making decisions about reputational risk for transactions related to sensitive sectors and other cases of proposals from the business side (other relevant sectors or clients);
- monitoring actions to mitigate risks, efficiency and implementation plans;
- discussions on relevant risks / findings recognized by the Internal Audit function;
- making decisions related to crises, declaring a crisis situation as part of business continuity management;
- approval of risk-taking in terms of delay / avoidance / change of corrective actions, which implies delayed or incomplete reduction of risk.

Given that the Bank is exposed to operational risk in all its business activities, and in order to raise awareness of the concept, importance and responsibilities in the operational risk management process, the Bank has developed an electronic education system for all employees, as well as an education system for operational risk monitors by e-mail or by organizing meetings.

7.5. Reputation Risk

Taking into account the importance of reputational risk, which is defined as the risk of the possibility of negative effects on the Bank's financial result or capital due to a loss of confidence in the Bank's integrity, which occurs due to an unfavorable public opinion on the Bank's business practices or the activities of the members of the Bank's bodies, regardless of whether or not there is a basis for such a public opinion, the Bank manages reputational risk through adopted and implemented special policies and procedures, which regulate the area of reputational risk management, and dealing with transactions in specific industries (nuclear energy, arms industry, water/dam infrastructure, coal /energy production in coal, oil and gas power plants, and in the mining sector), as well as by constantly raising employee awareness of the importance of managing reputational risk through electronic training or training for all employees.

In the area of reputational risk management, the Non-Financial Risks and Controls Committee discusses and makes decisions on reputational risk for transactions related to sensitive sectors and other cases of proposals from the business side (other relevant sectors or clients), which are assessed as high-risk transactions.

7.6. Capital Management

The objectives of the Bank's capital management are:

- alignment with capital requirements, which are determined by bank and capital market regulators,
- maintaining the Bank's ability to continue its operations so that it can continue to provide returns to shareholders and benefits to other interested parties, and
- maintaining a strong capital base, which could support business development.

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

7. Risk Management (continued)

7.6. Capital Management (continued)

The minimum prescribed rates, which banks must meet at all times, are:

- rate of regular basic capital of 6.75%
- basic capital rate of 9% and
- regulatory capital rate of 12%.

On each of the above-mentioned rates, the continuous maintenance of the buffer for the preservation of capital is prescribed in the amount of 2.5%. In addition to the prescribed rates, there are requirements for other protective layers of capital, i.e. for a combined buffer, which represents the minimum regular basic capital, increased by a buffer for capital preservation and increased by the following buffers, depending on what is applicable and that :

- countercyclical buffer specific to the bank (prescribed by BARS in a special act in case of need),
- buffer for a systemically important bank (prescribed in the range from 0% to 3% and in accordance with the special BARS Decision applicable from June 30, 2025),
- buffer layer for systemic risk (defined by a special decision of the BARS, in accordance with the current methodology, the Bank does not have this requirement in 2024),
- additional capital requirement for banks related to the results of the SREP control, which represents an additional buffer of capital (BARS defines the annual post-supervision).

Iznos regulatornog, osnovnog (T 1) i redovnog osnovnog kapitala (CET 1), kao i njihove stope obračunate u skladu sa propisima ABRS, prikazani u narednoj tabeli:

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
REGULATORY CAPITAL	**219,769**	**210,159**
CORE CAPITAL	**219,769**	**210,159**
COMMON EQUITY TIER 1 CAPITAL	**219,769**	**210,159**
Equity instruments recognized as regular core capital	97,428	97,428
Paid-in equity instruments	97,055	97,055
Share issue premiums	373	373
Retained earnings	76,473	76,473
Other comprehensive income	(2,781)	(6,213)
Other reserves	53,260	52,999
(–) Other intangible assets	(3,869)	(9,413)
(–)Deferred tax assets that are dependent on future profitability and do not arise from temporary differences minus related tax liabilities	(42)	(63)
(–)Deferred tax assets that are dependent on future profitability and do arise from temporary differences minus related tax liabilities	(701)	(1,052)
SUPPLEMENTARY CAPITAL	**-**	**-**
Common Equity Tier 1 Capital ratio (CET1)	**25.5%**	**31.50%**
Core capital ratio (T1)	**25.5%**	**31.50%**
Regulatory capital ratio	**25.5%**	**31.50%**

The achieved capital ratios as of December 31, 2024 are significantly above the prescribed minimums.

7. Risk Management (continued)

7.6. Capital Management (continued)

In addition to these rates, banks are obliged to provide and maintain a financial leverage rate, as an additional security and simple protection, at least in the amount of 6%.

The financial leverage rate is calculated as the ratio of core capital and the Bank's total exposure to risk on the reporting date, expressed as a percentage and as of December 31, 2024 is significantly above the prescribed minimum and amounts to 14.78%.

On a monthly basis, the Bank updates its business plans through Forecast (balance sheet, income, capital, segment results, asset quality, costs, etc.) through which all key and regulatory business parameters are monitored and their compliance with prescribed and planned limits is ensured.

The financial leverage rate is shown in the table below:

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Financial Derivatives: Present Replacement Cost	**-**	**-**
Off-balance sheet items with a 10% conversion factor	**2,560**	**698**
Off-balance sheet items with a 20% conversion factor	35,996	28,512
Off-balance sheet items with a 50% conversion factor	14,202	15,967
Off-balance sheet items with a 100% conversion factor	-	-
Other assets	**1,439,269**	**1,275,916**
() Amount of deductible item	**(4,612)**	**(10,528)**
Financial leverage ratio exposure	**1,487,415**	**1,310,565**
Capital		
Share capital	**219,769**	**210,159**
Financial leverage		
Financial leverage ratio	**14.78%**	**16.04%**

The BARS regulation stipulates that banks are required to meet the minimum amount of regulatory capital and acceptable liabilities that provide sufficient amounts of instruments that can be written off or converted into capital in case of losses, after which operations could continue unhindered.
The Bank meets the MREL parameter in accordance with the requirement.

8. Operations on Behalf of and for the Account of Third Parties

The Bank manages assets by business in the name and for the account of third parties and keeps those in off-balance sheet records separately from the Bank's assets. The Bank charges a fee for managing funds on behalf of and for the account of third parties. Income and expenses for these funds are credited or debited to the owner or user.

Obligations for placements on behalf of and for the account of third parties in the Bank's balance sheet amount to:

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Consignment placement		
Liabilities based on principal	14	17
Liabilities based on interest	58	58
TOTAL	**72**	**75**

9. Analysis of Changes in Financing During the Year

Reconciliation of movements of liabilities on borrowings and based on business premises lease

2024	Borrowings	Lease liabilities
Balance as of January 1	**53,423**	**1,766**
Payment of lease liability	-	(533)
New lease liability	-	348
Loan proceeds	256	-
Loan repayment	(12,286)	-
Total changes in financial liabilities at amortized cost	**(12,030)**	**(185)**
Liabilities-related		
Interest expenses	1,006	55
Paid interest	(1,078)	(55)
Total liabilities-related other changes	**(72)**	**-**
Other changes	180	-
Balance as of December 31	**41,501**	**1,581**

2023	Borrowings	Lease liabilities
Balance as of January 1		**1,972**
Payment of lease liability	-	(774)
New lease liability	-	568
Income from interest on loans	390	-
Repayment of interest on loans	(19,256)	-
Total changes in financial liabilities at amortized cost	**(18,866)**	**(206)**
Liabilities-related		
Interest expenses	1,297	43
Paid interest	(1,295)	(43)
Total liabilities-related other changes	**2**	**-**
Other changes	5	-
Balance as of December 31	**53,423**	**1,766**

10. Disclosure of Related Parties

In accordance with the International Accounting Standard (IAS) 24, the persons connected with the Bank and the Bank's key management are:

IAS 24.19	Name	Description
IAS 24.19 (a),(b)	Parent entity and entities with common control or significant influence over the entity	UniCredit SpA. Italy
IAS 24.19 (c)	Subsidiaries and other entities from the same Group	Related banks and other legal entities within the UniCredit Group
IAS 24.19 (c), (e)	Associated entities and joint ventures	The bank had no subsidiaries or joint ventures in 2024
IAS 24.19 (f)	Key management of the institution or its parent entity	Members of the Supervisory Board and the Bank's Management Board; members of the Supervisory Board and Management of the parent entity, key management of the Bank, and persons related to the aforementioned members
IAS 24.19 (g)	Other related parties	The Bank had no other related parties in 2024

Positions included in the Statement of Profit or Loss

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Interest income		
UniCredit SpA Milan, Italy	1,267	1,066
Total interest income	**1,267**	**1,066**
Fee and commission income		
UniCredit SpA Milan, Italy	2	6
UniCredit Bank Austria AG Vienna, Austria	33	8
UniCredit Bank Czech Republic and Slovakia	-	2
Total fee and commission income	**35**	**16**
Interest expenses		
UniCredit SpA Milan, Italy	(95)	(728)
Total interest expenses	**(95)**	**(728)**
Fee and commission expenses		
UniCredit SpA Milan, Italy	(25)	(18)
UniCredit Bank AG Munich , Germany	(1)	(1)
Zagrebačka Banka dd Zagreb, Croatia	(269)	(234)
UniCredit Bank dd Mostar, Bosnia and Herzegovina	-	(1)
Total fee and commission expenses	**(295)**	**(254)**
Operating expenses of business		
UniCredit SpA Milan, Italy	(463)	(251)
UniCredit Services GmbH Austria	(1,618)	(1,647)
Zagrebačka Banka dd Zagreb, Croatia	-	(9)
UniCredit Bank dd Mostar, Bosnia and Herzegovina	(368)	(376)
UniCredit Bank Austria, AG Vienna	(5)	
Total operating expenses of business	**(2,454)**	**(2,283)**
Other operating expenses		
UniCredit Services GmbH Austria	-	(193)
Total other operating expenses	**-**	**(193)**
Net expenses	**(1,542)**	**(2,376)**

10. Disclosure of Related Parties (continued)

Positions included in the Statement of Financial Position

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Assets		
Foreign exchange demand accounts		
UniCredit SpA Milan, Italy	5,282	5,221
UniCredit Bank Austria AG Vienna, Austria	1,681	2,620
UniCredit Bank AG Munich, Germany	863	1,085
UniCredit Bank Serbia ad Belgrade, Serbia	472	141
Zagrebačka Banka dd Zagreb, Croatia	202	515
Total foreign exchange demand accounts	**8,500**	**9,582**
Term given deposits		
UniCredit SpA Milan, Italy	32,462	31,397
UniCredit Bank dd Mostar, Bosnia and Herzegovina	-	-
Total term given deposits	**32,462**	**31,397**
Other claims		
UniCredit SpA Milan, Italy	716	817
UniCredit Bank AG Munich , Germany	28	28
UniCredit Bank Slovenia dd Ljubljana	273	392
UniCredit Services GmbH Austria	-	45
UniCredit Bank Serbia ad Belgrade, Serbia	11	75
UniCredit Bank dd Mostar, Bosnia and Herzegovina	-	-
UniCredit Bulbank, Bulgaria	25	4
Total other receivables	**1,053**	**1,361**
Total assets	**42,015**	**42,340**
Liabilities		
Demand deposits		
UniCredit Bank Austria AG Vienna, Austria	4	1
Other obligations		
UniCredit Bank dd Mostar, Bosnia and Herzegovina	49	115
UniCredit SpA Milan, Italy	216	323
UniCredit Services GmbH Austria	-	2,217
Zagrebačka Banka dd Zagreb, Croatia	101	448
UniCredit Bank Serbia ad Belgrade, Serbia	570	457
UniCredit Bank Czech Republic and Slovakia	188	369
UniCredit Bank Austria AG Vienna, Austria	5	-
UniCredit Bulbank, Bulgaria	169	-
Total other liabilities	**1,298**	**3,929**
Total liabilities	**1,302**	**3,930**
Net liabilities	**40,713**	**38,410**

10. Disclosure of Related Parties (continued)

Transactions with Key Management

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

	December 31, 2024 BAM 000	December 31, 2023 BAM 000
Supervisory Board	91	85
Management Board		
Short-term compensation		
Gross salaries paid during the current year for the current year	2,656	1,613
Bonuses paid during the current year for the previous year gross	347	373
Long-term compensation		
Insurance policies paid during the current year gross	23	23
Payments during the current year based on previous years gross	300	239
Total Management Board	**3,326**	**2,248**
Other key management		
Short-term compensation		
Gross salaries paid during the current year for the current year	844	1,263
Bonuses paid during the current year for the previous year gross	198	212
Long-term compensation		
Insurance policies paid during the current year gross	20	25
Payments during the current year based on previous years gross	-	-
Total other key management	**1,062**	**1,500**

The Supervisory Board consists of 5 members, two of whom are employed by the Group, one is a former employee of the Group, and two are independent members. The Bank pays a monthly fee for work only to members who are not employed by the Group. Members of the Supervisory Board are not entitled to a variable remuneration.

The Bank's management consists of 5 members as of December 31, 2024. The amount within the framework of the long-term remuneration of members of the Management Board for gross payments during the current year based on previous years does not include payments to previous members of the Management Board.

Key management includes 10 members, which is 7 less than at the end of 2023 due to the change in the application of the Group's methodology to the Bank and the reduction of the level of authorization within the Bank.

As part of regular transactions, transactions with persons related to the Bank are carried out under standard and fair market conditions, which we consider to be "out of arm's length" and we estimate that the Bank has no tax risks related to transfer prices.

10. Disclosure of Related Parties (continued)

Transactions with Key Management (continued)

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

	2024 BAM 000	2023 BAM 000
Supervisory Board		
Loans as of December 31	-	-
Interest income for the year	-	-
Deposits as of December 31	3	1
Interest expenses for the year	-	-
Management Board		
Loans as of December 31	7	17
Interest income for the year	*1*	*3*
Deposits as of December 31	33	487
Interest expenses for the year	-	*(2)*
Other related parties (key Bank and Group management)		
Loans as of December 31	*194*	*439*
Interest income for the year	10	13
Deposits as of December 31	*243*	*568*
Interest expenses for the year	(2)	(3)
Total other related parties		
Total loans as of December 31	**201**	**456**
Total interest income for the year	**11**	**16**
Total deposits as of December 31	**279**	**1,056**
Total interest expenses for the year	**(2)**	**(5)**

11. Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset can be exchanged or a liability settled between informed and willing parties under normal market conditions. It can also be defined as the value at which an asset / liability can be disposed of, that is, the estimated value of neutralizing the market risk, which arises from this asset / liability in the appropriate time frame.
Assumptions used in the assessment and measurement of the fair value of financial instruments The Bank is based on the application of a centralized calculation, developed at the Group level, which uses IFRS 13 as a unique source of guidelines for fair value measurement.

Financial instruments are considered to be quoted on an active market if the quoted prices are easily and regularly available and if these prices represent real and regular market transactions according to usual market conditions.

All financial instruments are classified in accordance with the criteria for division into levels of the fair value hierarchy, which contains three different levels:

- hierarchy level 1: fair value taken on the basis of prices for an identical asset or liability, which can be accessed on the measurement date, i.e. if the financial instruments are represented on an active market;
- hierarchy level 2: fair value taken on the basis of the valuation model, for which data is taken from the active market when excluding the possibility of inputs used in the valuation of hierarchy level 1;
- hierarchy level 3: fair value taken on the basis of the valuation model, for which data are taken, which are not on the active market, i.e. when significant adjustments are required.

11. Fair Value of Financial Assets and Liabilities (continued)

The Group uses the following additional criteria in the methodology for determining the level of hierarchy for income loans and deposits from banks and clients:

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

Loans that are not settled are classified by the Bank in accordance with the Group's instructions by equating their book value and fair value.
All assets and liabilities of the Bank are classified on hierarchy level 2 and hierarchy level 3.
The Bank classifies debt securities at hierarchy level 2, and fair value adjustments are made in accordance with the Group's centralized calculation.
The Bank classifies equity securities in hierarchy level 3.

The Bank calculates the fair value of the bonds in its portfolio quarterly and reconciles the book value with the calculated fair value. The fair value calculation takes place in several steps:

- the first step is the calculation of local prices, respecting regulatory regulations,
- in the second step, the Group independently performs an independent price calculation (IPV - *Independent Price Verification*),
- in the third, last step, a comparison of local and IPV prices is made and, in case the IPV prices are lower than the local ones, an adjustment is made (FVA - *Fair Value Adjustment*).

The calculation of IPV prices is based on the model (Mark-to-Model). The bond valuation effect as of December 31, 2023 amounted to BAM 7.1 million, and as of December 31, 2024 BAM 3.6 million. The decrease of the negative effect at the end of 2024 compared to the end of the previous year is mostly the result of the change in the fair value of the ISIN XS2332900682 paper, which is the largest by volume, and the maturity of part of the portfolio during 2024.

The table below shows the fair value of financial assets and liabilities at amortized cost, while the fair value of assets at fair value through other comprehensive income is presented in note 5.2:

The levels of fair value of the Bank's assets and liabilities in accordance with IFRS 13 are shown in the table below:

	December 31, 2024 Fair value levels			December 31, 2023 Fair value levels		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
	BAM 000	**BAM 000**	**BAM 000**	**BAM 000**	**BAM 000**	**BAM 000**
Loans and receivables with banks	-	-	226,739	-	-	222,970
Loans and receivables with clients	-	168,792	589,472	-	117,650	537,564
Total loans	**-**	**168,792**	**816,211**	**-**	**117,650**	**760,534**
Deposits and borrowings from banks	-	8,034	-	-	-	14,070
Deposits and borrowings from clients	-	1,048,050	84,720	-	-	964,574
Total deposits	**-**	**1,056,084**	**84,720**	**-**	**-**	**978,643**

11. Fair Value of Financial Assets and Liabilities (continued)

	December 31, 2024				December 31, 2023			
	Fair value	Book value		Change	Fair value	Book value		Change
	BAM 000	BAM 000	BAM 000	%	BAM 000	BAM 000	BAM 000	%
Loans and receivables with banks	226,739	226,762	(23)	-0.01%	222,970	222,999	(29)	-0.01%
Loans and receivables with clients	756,098	774,198	(18,100)	-1.78%	655,214	677,246	(22,032)	-3.25%
Total loans	**982,837**	**1,000,960**	**(18,123)**	**-1.38%**	**878,184**	**900,245**	**(22,061)**	**-2.45%**
Deposits and borrowings from banks	8,034	8,049	(15)	-0.18%	14,070	14,263	(193)	-1.35%
Deposits and borrowings from clients	1,132,769	1,139,295	(6,526)	-0.57%	964,574	980,309	(15,736)	-1.61%
Total deposits	**1,140,803**	**1,147,344**	**(6,541)**	**-0.57%**	**978,643**	**994,572**	**(15,929)**	**-1.60%**

12. Pledged Property

As of December 31, 2024, the Bank has registered one pledge in favor of the pledge creditor of the Government of the Republika Srpska, based on the loan "IFAD 449 BA PROJECT_IFAD 772BA". Liabilities under this loan as of December 31, 2024 amount to BAM 95 thousand (December 31, 2023: BAM 132 thousand).

Apart from the above pledge, the Bank has no other pledges and mortgages on real estate and equipment as of December 31, 2024.

13. Events after the Reporting Date

After the balance sheet date, there were no events that would require additional disclosures or possible corrections of these financial statements (corrective events) until the date of their issuance.

14. Audit Costs

In accordance with the contract on the audit of the annual report, group package and regulatory reports for the Banking Agency of the Republika Srpska for the year 2024, the Bank contracted with "KPMG BH doo for audit" compensation in the amount of BAM 100,129 (2023: BAM 90,682).

In accordance with the contract on the audit of information systems for the year 2024 (obligatory reporting to the Banking Agency of the Republika Srpska), the Bank contracted with "KPMG BH doo for audit" compensation in the amount of BAM 17,037 (2023: BAM 16,957).

The total contracted amount for performing the audit, including other services related to giving an opinion, in 2024 was BAM 117,166 (2023: BAM 106,739).

All the amounts stated above represent the agreed fee for performing the audit in question without: VAT, increases based on the official inflation rate and direct costs.

ABBREVIATIONS

BARS	Banking Agency of the Republika Srpska
Bank	UniCredit Bank a.d. Banja Luka
BPV	Basis Point Value
CBAM	Mechanism for Regulating Carbon Emissions in International Trade
CET 1	Common Equity Tier 1 Capital ratio
CPV	Credit Spread Point Value
EAD	Exposure At Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EKS	effective interest rate
EU	European Union
EV	Economic Value
FCRC	Financial and Credit Risk Committee
FLI	Forward Looking Information
FV	Fair Value
Group	UniCredit Group
Sec	Securities
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IT	Information Technology
LGD	Loss Given Default
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NPE	Non-performing Exposure
PD	Probability of Default
VAT	Value Added Tax
POCI	Purchased or Originated Credit Impaired
PSC	Performance Status Code
RS	Republika Srpska
RWA	Risk Weighted Assets
SLG	Structural LIquidity Gap
SLR	Structural Liquidity Ratio
SMI	Tangible Assets Acquired by Collateral Foreclosure
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
TTC	Through the Cycle
UTP	Unlikely To Pay
VaR	Value at Risk
WL	Watch List

Empowering
Communities to Progress.

UniCredit Bank Banja Luka