Unlocking...

A better bank
A better world
A better future

2022
Annual Report

Empowering Communities to Progress. | UniCredit Bank Banja Luka

Annual Report and Financial Statements
For the year that ended as at 31 December 2022 and the
Independent Auditor's Report

Table of contents

37

Finacial statements

Address by the President of the Bank Management Board

Dear clients, shareholders and partners, dear colleagues,

behind us at UniCredit Bank a.d. Banja Luka is anything but not a simple calendar and business year, but it is also a year in which we managed to confirm our position as a leader and a systemically important bank, despite all the challenges that we were faced by 2022

In recent years, the pandemic has largely changed the way we live and work, it has shown that changes are a constant, which will continue to follow us, but it has also confirmed how quickly, as individuals, as a society and as an organization, we can adapt to those changes. The year 2022 was a particularly challenging year for UniCredit Bank Banja Luka, in which the Bank's strategy, conditioned by global and local influences and challenges, was largely changed.

Listening to the needs of clients, business goals were set at the beginning of the year with the aim of maintaining continuous support for the local communities where we operate. Unlike the previous year, when the focus was on maintaining business continuity, in 2022 our clients were faced with new challenges of finding ways and opportunities to increase the level of business activities and achieve growth again. In this, as always, we tried to help them and to be adequate support.

The war in Ukraine, in addition to local challenges to which the banking system was exposed during 2022, additionally encouraged us to keep a special focus on the Bank's liquidity and stability.

Our role as one of the leading banks on the local market is also very important in the process of general stability of the banking sector in the Republika Srpska and Bosnia and Herzegovina. Through partnership with institutions such as the Guarantee Fund of the Republika Srpska, the European Bank for Reconstruction and Development and the European Investment Bank, UniCredit Bank Banja Luka continued to support the local economy. We empower our clients by providing them the funds needed for business recovery and development, through credit lines, but also as a bank in which the public and private sector prefer to entrust money for safekeeping.

We believe in the future of the local market and continue to work on improving the conditions for investors, in order to encourage new investments together.

When we talk about the achievements of the Bank, we are talking about the achievements of its team, therefore I can say that I am extremely proud of our entire team. Previous year was an really successful year from the aspect of key financial indicators. It was a year in which we showed that as a team we can resist all challenges which are placed before us. My immense gratitude goes to the employees of the Bank, who remained dedicated and committed to the work they do and without whom the success of the Bank would not be as good.

In the course of 2022, the bank changed its strategy from the aspect of decentralization and additionally strengthened its position by strengthening the balance sheet, working on risk diversification and strengthening liquidity and capital.

In parallel, we worked on the growth and stabilization of income, which resulted in high profitability, primarily by maintaining stable net interest income, with significant growth in non-interest income, which ultimately contributed to the long-term and stability of the result itself.

In 2022, the Bank achieved a profit of BAM 23.37 million and, with assets of BAM 1.44 billion and capital of BAM 281.8 million. We can say that we have succeeded in reaffirming the position of a systemically strong and important financial institution on the domestic market.

We preserve the Bank's long-term stability and sustainability through a strong capital position (adequacy rate 27.6%), a loan portfolio with a low share of bad loans (4.27%) and a high coverage of bad loans by provisions (69.26%), as well as a well-balanced balance sheet and an adequate level of liquidity at all times.

The total number of active clients in the financial year 2022 was 125.8 thousand, while the number of active users of mobile banking increased by 17.5% y/y. This shows that clients increasingly recognize the advantages of digital banking services and the trust they have in the Bank .

We can say that with the largest capital, high liquidity, stable profitability and an excellent team, the Bank enters the next period stronger than ever, ready for all further market challenges and even more ready to further support the development of population, the economy and the business of the country in which it operates.

This is also a year of awards for all that we have achieved. We confirmed our position as the market leader and the best provider of transaction business services, as well as the position of the market leader and the best service provider in trade financing, according to Euromoney magazine 2022 was the third year in a row, in which we have won the award Gold BAM for Best Mobile App, awarded by the magazine Banks and Business in Bosnia and Herzegovina, for the best mobile application.

In addition, this year Euromoney declared UniCredit in Bosnia and Herzegovina the market leader in the category of socially responsible activities and digital solutions. On this we are particularly proud of.

We continue to focus on the digitization and improvement of our digital channels, in order to make it easier for clients to do business with the Bank and to efficiently respond to their needs. Today, UniCredit aspires to become a real bank for the European future, with a special focus on digital transformation, working to constantly improve services and customer experience, making transactions faster and simpler.

The strategic plan "UniCredit Unlocked", presented by UniCredit Group at the end of 2021, is aimed at empowering communities to grow, transitioning to a sustainable economy, while creating a better and more inclusive society.

Thus, locally, in the course of 2022, we remained committed to UniCredit Group's strategic plan, and especially to banking activities with a social impact and the spread of financial literacy. The Bank cooperated with secondary schools and donated equipment to equip the cabinets, while the Bank's volunteers helped students expand their knowledge of finance and banking through a series of e-lectures. Also, the Bank's volunteers participated in a mentoring program for young people with sustainable business ideas, and we also raised the roots of financial literacy among the youngest, through socializing and playing with preschool children and the joint celebration of International Savings Day in all Bank branches.

As a Bank, we also showed a high degree of empathy towards sensitive categories of society, such as children and young people. Through the "Childhood Support" project, together with the UniCredit Foundation, we supported seven projects of non-profit organizations aimed at improving the quality of life of their members and beneficiaries. Our employees who collected and donated more than 100 New Year's packets to the youngest also provided support for the children and their healthy upbringing.

In cooperation with partners, in 2022 we also supported the Association "Think Pink – Together We Are One" and through the campaign "My Circle of Support" influenced the raising of awareness about the importance of early prevention in the treatment of breast cancer.

In 2022, UniCredit Bank Banja Luka also demonstrated its commitment to responsible business in accordance with the principles of environmental, social and corporate governance (ESG). As the first and only bank in Bosnia and Herzegovina, UniCredit Bank Banja Luka joined MasterCard's Priceless Planet Coalition, which aims to restore the forest fund globally. With the ecological actions we carry out, we show how important a clean environment is to us, as well as human responsibility towards the ecosystem. In this regard, on the occasion of the celebration of International Earth Day, we cleaned the banks of the Vrbas River and thereby tried to contribute to the preservation of the "green" capital of the Banja Luka region and the cleanliness of the Vrbas River.

Through various activities in continuity, we work to improve the quality of life of our employees, respect diversity and promote equality. By providing different types of support in some of the most important moments in the lives of our employees (wedding, birth of a child, children starting kindergarten and school), the Bank has also for years monitored and ensured that comparable salaries of employees do not differ by gender structure, thus providing equal opportunities for men and women.

We believe that all results can be achieved by a good team. Because of this I am extremely proud that at UniCredit we have people full of potential, empowered to take responsibility and respond to clients' needs in the best way. We also believe that quality education is a condition for individual and joint development. The real proof of this is a fact that in the past year, our employees spent almost 7,800 hours on internal and external trainings and mandatory trainings.

Our ambition is to be the most desirable place to work in our segment, to continuously develop internal staff and fairly reward individual contributions and work.

We will continue to strengthen each other, in order to intensify the operations of business entities and accelerate growth, but also to support our clients, individuals, and their financial needs. I believe that after all the challenges that we as a society and economy have faced in the previous period, we will emerge with a new view of the world that surrounds us. On this path, UniCredit Bank Banja Luka will continue to be a leader in the local market and a trusted partner for our clients and the community.

With respect,

Gordan Pehar,
President of the Bank's Management Board


UniCredit
AC

About UniCredit Group

UniCredit is a successful pan-European commercial banking group, with a unique range of services in Italy, Germany, Central and Eastern Europe. Through its network of local banks, UniCredit is available to over 15 million customers worldwide every day.

UniCredit offers local excellence and international reach in 4 regions, in 13 key markets in Europe in which it operates (Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia and Slovenia) striving to turn the current challenges we face into opportunities.

Our core values and purpose

UniCredit Unlocked is a new strategic plan of UniCredit aimed at unlocking the potential within the Group to get out of the restructuring period in the era of purpose, growth and value creation. Our new purpose is **to empower communities to progress**, delivering best-in-class services to all our stakeholders, and unlocking the potential of all our clients, communities and employees across Europe.

Clients are at the heart of everything we do, so moving into a new era of growth means keeping the focus on them, those for whom we exist. We support our clients in their daily activities by understanding the expectations they have of UniCredit, using the resources of the entire Group to develop and offer the best products in all markets.

In the long run, we want to become a truly **digital bank**. Digitization and our **commitment to ESG principles** enable us to deliver excellence to all our stakeholders and help create a sustainable future for all our clients, communities and employees.

United within a common culture and encouraging each other, we put the values of integrity, ownership and care at the heart of decision-making and everything we do to work together as one team to be a true partner to our clients and communities.

In this way, UniCredit will become **a bank for Europe's future** - a bank that provides services to all stakeholders and is able to unleash the potential of people, businesses and communities across Europe, and empower them to progress.

T25 Strategic Plan

The Bank's operations in 2022 were under the influence of turbulent and challenging conditions that affected the entire banking system in Bosnia and Herzegovina. The war in Ukraine, the rise in inflation and interest rates are just some of the events that marked the past business year.

Taking into account changed business conditions, new assessments of macroeconomic indicators, and expectations of interest rate movements, a new three-year strategic plan "T25" for the period from 2023 to 2025 was adopted. With the "T25" strategy, the Bank will deliver positive results to shareholders with balanced business growth and maintenance of capital strength.

The new strategic plan optimizes the Bank's operations today and builds a clear long-term program for the future with purpose, growth and value creation for all our partners and stakeholders, following the following strategic imperatives and financial ambitions:

Growth and development of our customer network, through changes in our business model and the way our people work

- Quality growth based on working with existing and new clients;
- Development of the best products and services, independently or in cooperation with external partners;
- Growth of "*capital-light*" business (with lower capital requirements), through a focus on products and services with added value for customers;
- Effective cost management while further enabling investment;
- Responsible risk management.

Transformation of our technologies through digitization and the use of unique information platforms ("*Digital & Data*") and the incorporation of the principle of sustainability in everything we do

- Centralized management in the domain where we create added value with it;
- Internal empowerment of people within a clearly defined framework of risk and behaviour;
- Redesign of the operational model;
- A new way of work focused on clients;
- Lead by example, strive for the same high standards that we ask of those with whom we do business;
- Equip ourselves with tools to support our clients and communities on the way to environmentally conscious and socially responsible business.

Achieving financial results through three interconnected levers

- Responsible cost and risk management;
- Capital management: generating organic capital through increased profitability, optimal capital allocation and active portfolio management;
- Realization of net income, which brings profitability above the cost of capital, driven by the growth of fee income and the return of market share.

The Bank is part of the pan-European UniCredit network, united by a common purpose through strengthening the role of all employees in achieving progress, investing in digital business, bringing the client back into focus, a new way of working for our employees, and a targeted capital model in which, as in all other aspects of business, the principle of sustainability is fully embedded.

On our way we follow the basic principles of the UniCredit Group Strategy

We optimize today: customers, people and organization

We build for the future, putting our clients at the heart of everything we do and following a strategy of harmonized service model and customer segmentation, process simplification and a common organizational structure. We use our technology platforms and data and strengthen our principles to provide our customers with the best products and services. We develop corporate and individual solutions, which serve all our customers, using the advantages provided by a large banking group and a comprehensive offer of best-in-class products for all our clients.

The role of our employees in business will be further strengthened within well-defined guidelines for behaviour and risk assessment and assumption, in order to advance and take responsibility for decision-making, take advantage of talent development opportunities and thus contribute to regaining market share.
This includes uniting behind one ambition and a common goal: empowering communities to progress.

We are building for the future: the benefits of digitization and information platforms ("*Digital & Data*")

Digitization is at the heart of our strategy and our ultimate ambition is to be a truly digital bank, which we implement through four key projects at the Bank level: user experience, new digital offer, electronic payment and "cyber" security.

We are building for the future: Sustainability

The principle of sustainability will be built into our corporate culture. We will demand the same level of responsibility and achievement of the same standards that we expect from our clients, and we will invest and support the communities within which we operate, through:
• reduction of harmful gas emissions;
• the use of renewable energy in our premises and the cessation of the use of disposable plastic items;
• further development of social responsibility and contribution to philanthropic initiatives and education of young people;
• commitment to meeting our global policies, which cover issues of environmental, social and managerial responsibility in business (ESG policy).

Financial ambition: *UNICREDIT UNLOCKED*

Using our potential gives us the opportunity to increase our financial ambitions.
Macro assumptions exclude unexpected materially unfavourable developments such as the COVID-19 pandemic, a situation we are closely monitoring.
Our financial ambition is based on six pillars, which will ensure sustainable efficiency and profitable growth through:
• optimization: improving operational and capital efficiency,
• investments: cash investments in "*Digital & Data*", targeted growth initiatives including ESG,
• growth: growth in net income, fees and net profit;
• return: return on equity (RoTE),
• strength: stable capital parameters, NPE ratio,
• distribution of results: in line with organic capital formation from net profit and development of risk weighted assets.

The Strategic Plan refers to more than the near future. It is about laying the foundations of the Bank for its long-term success and stability even after 2025.

Macroeconomic Environment in 2022

Although according to initial expectations, the year 2022 in the global economic sense was supposed to be marked by the end of the pandemic and become the year of full economic recovery, the events that followed led to completely opposite effects. Along with COVID, the supply chain problems that plagued businesses and consumers began to subside, but in late February 2022, the war in Ukraine began. That war, which lasted throughout the year 2022 (and is still going on), caused major disruptions in the world's energy markets. Especially for European countries that relied on Russian natural gas, and it contributed significantly to the problem of global inflation. War-induced fuel and food shortages are exacerbating post-pandemic inflation. Supply chain disruptions are also a major contributor to inflation, although some of the pressure on supply should actually be related to the sudden surge in demand. Before the conflict, Russia and Ukraine together accounted for a quarter of the world's wheat exports, and Russia is a major supplier of fossil fuels, especially in Europe.

Due to Russia's attack on Ukraine, Western countries imposed numerous economic and financial sanctions on Moscow during the year, with the European Union bringing as many as nine packages of punitive measures, the last of which on December 16. Sanctions have resulted in skyrocketing prices on global energy markets. Across all regions, food and fuel accounted for more than half of inflation this year on average. On world stock markets in 2022, stock prices fell sharply due to a number of reasons, from the war in Ukraine to the weakness of the Chinese economy.

The energy position of Bosnia and Herzegovina is complex, but not too worrying. A cautious approach to supply and consumption is still recommended. Regarding electricity, Bosnia and Herzegovina is a net exporter of electricity, where approximately one third of the total production in normal years can be exported, making it less vulnerable than many Western European countries in terms of energy security. However, the authorities recommend a cautious approach to consumption due to high input prices and the drought that has affected production at hydroelectric plants.

For a long time, inflation in Bosnia and Herzegovina was below the inflation in the Eurozone, but in this period it increased significantly due to the strong influence of a higher share of food and energy prices in the consumer basket. Food and energy prices in Bosnia and Herzegovina had already risen significantly even before the war in Ukraine began, which only accelerated further price growth. Bosnia and Herzegovina remains very exposed to higher commodity prices, slower economic growth in Europe, BiH's main trading partners. In December 2022 Price level is higher by 14.8% compared to the same month in previous year.

The authorities in Bosnia and Herzegovina discussed possible measures to alleviate inflationary pressures in the sense of reducing VAT rates on certain groups of products, primarily food and medicine, while the decrease in income would be compensated by the increase in total income due to the increase in prices and through the introduction of a special higher VAT rate for a group of luxury goods. Also, one of the initiatives referred to the abolition of excise duty on fuel in a certain period. However, none of these measures were implemented. Instead, entity governments introduced some other temporary measures that would at least partially ease life and business in conditions of high inflation, such as: increasing pensions higher than expected, banning the export of wood pellets and limiting pellet prices, subsidizing electricity bills for some categories of households, 20% of the upper limit of electricity prices for companies, tax-free amount for employees up to BAM 1,080. Bosnia and Herzegovina also counts on the energy package approved by the European Union for the countries of the Western Balkans in the amount of 500 million euros, of which 70 million euros is intended directly for remediation of the consequences of rising energy prices for the economy and vulnerable households in Bosnia and Herzegovina.

Even with these completely extraordinary economic circumstances in 2022, economic growth proved to be strong in the first half of the year with GDP growth of 5.9%, fuelled by strong investments and higher private consumption. In the third quarter, growth slowed down to 2.6%. Domestic demand in the first half of 2022 increased thanks to strengthening investment supported by infrastructure works and higher private consumption - investment was particularly boosted by infrastructure works and private investment.

In June 2022, the European Council expressed its readiness to grant Bosnia and Herzegovina the status of a candidate country. The commission conditionally recommended candidate status for BiH. The recommendation implies the fulfilment of eight conditions, of which judicial reform is at the top of the priorities. In December 2022, six years after the application was submitted, Bosnia and Herzegovina was confirmed as a candidate for the European Union. It is important that BiH takes advantage of the reform incentive of confirming the status of a candidate for EU membership.

During 2022, the credit rating of the country of Bosnia and Herzegovina was confirmed by Moody's and Standard & Poor's agencies. In February 2022, the international rating agency Standard and Poor's (S&P) confirmed the current credit rating of Bosnia and Herzegovina, "B" with a stable outlook. According to S&P analysts, the credit rating of Bosnia and Herzegovina could be increased if domestic political conditions improve, including a higher level of consensus and less confrontation, with a focus on structural reforms and economic growth. In July 2022, Moody's Investor Service confirmed the credit rating of Bosnia and Herzegovina at B3 with a stable outlook. Moody's expects a significant slowdown in economic activity during the year, and estimates GDP growth at around 2.5% in 2022 and 2023. According to analysts, the credit rating could be increased if reforms are implemented that would strengthen the country's governance and address structural challenges that persist for many years, and lead to visible progress on the road to the European Union.

Macroeconomic Expectations

The main drivers of the slowdown in economic growth in 2023 are likely to be a decline in real income (real wage growth is likely to remain negative in 2023), a slowdown in the inflow of remittances, along with a decline in external demand (the country's main trading partners in the Eurozone are facing recession, while a significant slowdown in growth is expected in Croatia and Serbia). Inflation trends and expectations have worsened significantly in 2022 and are likely to extend their impact on price movements in 2023. Inflation is expected to slow down in late 2023 and 2024, prompted by moderate energy and food prices, but is unlikely to fall to levels seen before the recent price hike.

Banking Sector in 2022

During the year 2022, the banking sector of BiH experienced major changes, both financially and structurally. The payment moratorium imposed by the EU bank restructuring authority on Sberbank, a Russian bank operating in Europe, led to a massive withdrawal of deposits in two branches of Sberbank operating in BiH. Entity banking agencies quickly took control and sold branches to two domestic banks, thereby limiting the spread of the mass withdrawal trend to other banks. Banks in BiH have maintained adequate protective layers of capital, solid profit, sufficient liquidity, as well as the trend of reducing the share of non-performing loans.

The number of banks on the market of BiH has decreased by 1 compared to the end of 2021, and there are a total of 21 banks operating, given that the merger process of two banks in the Federation of BiH took place.

The American Central Bank (Fed) and the European Central Bank (ECB) have started raising interest rates in 2022 in response to a significant increase in inflation. In July 2022, the ECB raised interest rates for the first time in 11 years. This was followed by an increase in interest rates in September, which was the largest in the history of the ECB. ECB thus implemented four interest rate increases during 2022 (July, September, October and December), which brought the rates out of negative territory for the first time since 2014. By increasing interest rates, the ECB contributes to reducing inflation and with its planned subsequent steps, it returns to the path of the target inflation rate of 2%.

As a continuation of the increase in interest rates, in September 2022, the Banking Agency of the FBiH and the Banking Agency of the RS adopted a Decision on Temporary Measures to Mitigate the Risk of Interest Rate Growth, in order to be able to act in a timely manner on possible negative effects on the financial system, financial users services and the economy of BiH.

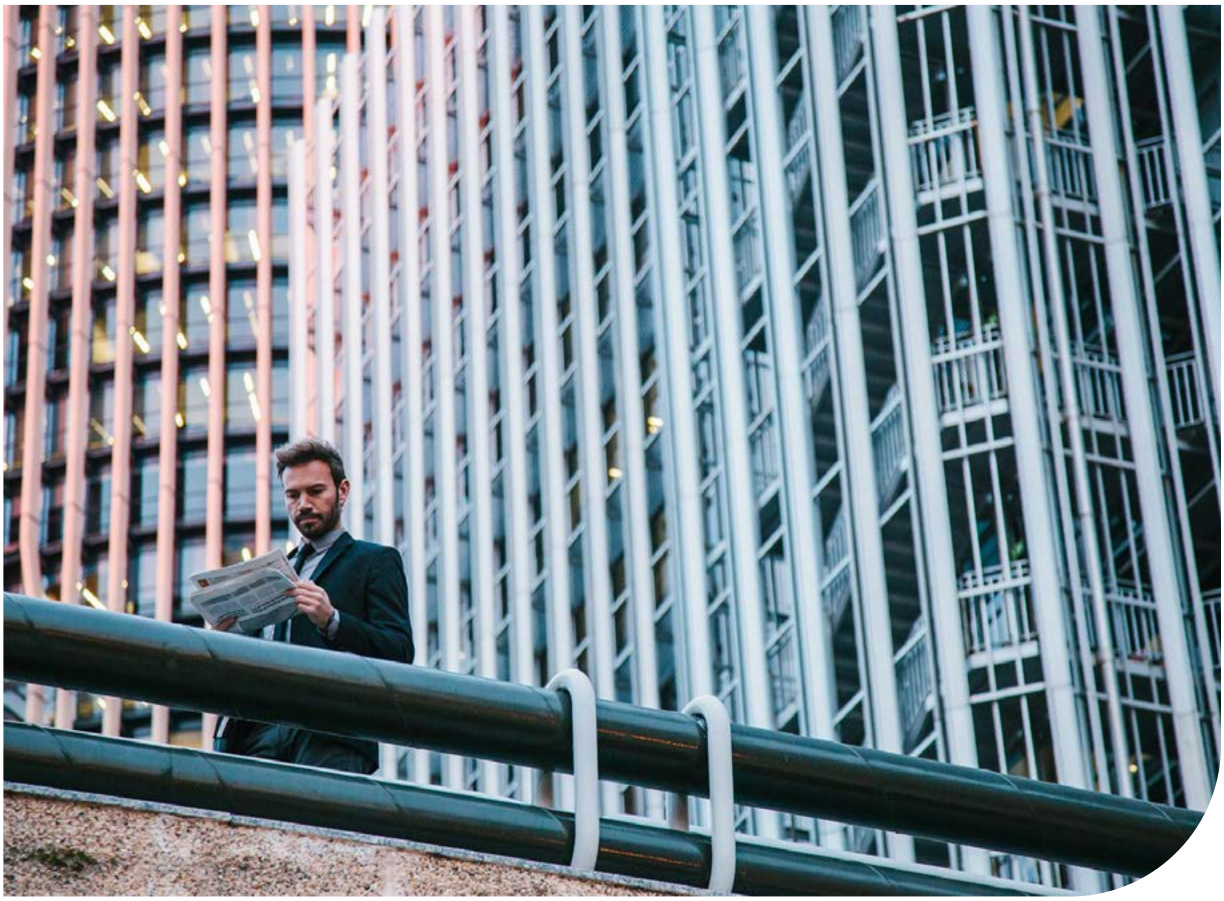
The increase in interest rates in Bosnia and Herzegovina did not have the same dynamics nor did it follow the same interest rate values as the ECB. In July, the Central Bank of Bosnia and Herzegovina passed a Decision reducing the fee on funds above the required reserve from -0.75% to -0.25%. Also, with this decision, the fee on mandatory reserve assets is reduced from the current -0.60% to -0.10% based on the base in foreign currency and in domestic currency with a currency clause. No fee is charged on mandatory reserve assets based on the base in the local currency, BAM. In December 2022, the Central Bank of Bosnia and Herzegovina passed a new Decision on the Change of Interest Rates, which will enter into force on January 1, 2023, in such a way that on mandatory reserve funds based on the base in the domestic currency, BAM - a fee is calculated and paid at the rate of 25 basis points, on mandatory reserve funds based on the base in foreign currencies and in the domestic currency with a currency clause - a fee is calculated and paid at rate of 10 basis points. No fee is charged on funds above the mandatory reserve.

The latest available financial indicators of the banking sector of Bosnia and Herzegovina for the 3rd quarter of 2022 show that the banking sector is stable and profitable. The total realized profit before tax in the nine months of 2022 was BAM 421 million, which is a growth of 13.5% compared to the same period of the previous year. The total revenues of the sector recorded a significant annual growth, primarily driven by the increase in non-interest income (+18% y/y). The operational costs of the sector increased by 6.7% y/y, while provisioning costs grew by 48% y/y.

In December 2022 loan volumes are growing by 4.7% compared to end of 2021. At the same time, volumes of deposits are growing by 5.0% compared to end of 2021, as result od increase of deposits from Legal entities by 11.5%, while deposits from households recorded slight decrease in volumes of 0.8%.

Expectations for the Banking Sector

Considering the macroeconomic projections, in 2023 the banking sector will operate in the conditions of a rather uncertain situation in the global environment. Given the slower economic growth in the country and the surrounding area, it is expected that loan growth rates will be somewhat slower than in 2022. The result is the continuation of inflationary pressure on spending power and real wages, an increase in interest rates, but also an uncertain environment for strengthening investment project.



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 110-year history, the Bank went through several different transformations and operated successfully in different legal and organisational forms.

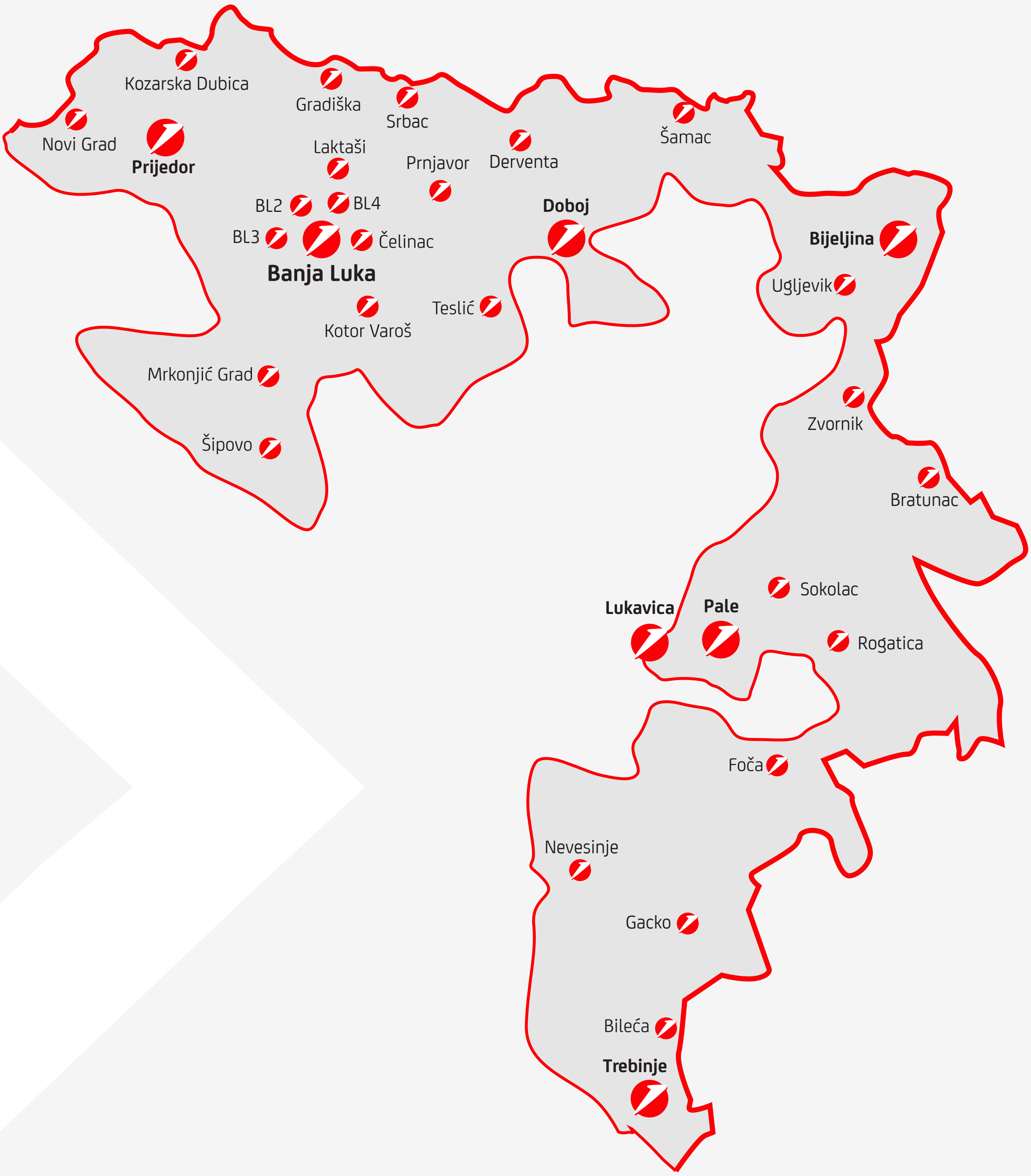
The Bank provides a full range of financial services to legal entities and private individuals in the Republika Srpska, one of the two entities in Bosnia and Herzegovina. The set of banking services provided by the Bank includes all types of operations with private individuals, small and medium sized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

The Branch Network Map



Business Segments Overview

RETAIL SEGMENT

Organization

The Retail segment provides customers 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 2022, 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 32 organizational units at the end of 2022.

In its portfolio Retail has more than 125 thousand active customers within the segment of private individuals and micro business.

Retail goals are constantly focused on improving relationships with existing and acquiring new customers, 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 customers together with 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 customers from traditional to digital channels, their education about them, but also improving the speed of service and customer satisfaction.

Business Activities in 2022

The volume of Retail loans at the end of 2022 was BAM 497.7 million (-5.0% compared to December 2021t). The market share in loans to private individuals is 17.5% in Republika Srpska (-82bp compared to the end of 2021) at the end of September 2021.

Retail deposits amount to BAM 547.9 million at the end of 2022 (-9.4% compared to December 2021). The market share in deposits of private individuals is 12.3% (-60bp compared to the end of 2021) in the Republika Srpska as of the end of September 2021.

The development of the Bank's products continued in 2022, in the area of improving the quality of services, as well as through simplification and acceleration of processes. The focus in 2022 was on increasing the degree of digitization (mobile and internet banking, ATM, cards), the "End to End" application for approving loans (Consumer Finance Platform) was improved during the year, and activities on the implementation of the module for loans of legal entities, which is based on the same platform (SME tool), development and introduction of insurance products and implementation of operational CRM (a tool to support sales activities) have been intensified.

Digitization and strengthening of direct channels are recognized as a key direction of development, in which mobile banking occupies an important place. Modern technologies provide us with the possibility to access our bank account through a mobile phone and perform the desired transactions at any time and from any place, thus banking itself takes on the characteristics of a global one.

CORPORATE BANKING SEGMENT

Organization

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

Business Activities in 2022

The key focus of Corporate Banking in 2022 was on participation in the financing of significant projects in both the public and private sectors, more intensive use of credit lines and funds from the Guarantee Fund and directing clients to greater use of direct channels.

The balance of loans from corporate clients, with the total gross amount of loans at the end of 2022, amounted to BAM 377.5 million (-31.3% compared to the end of 2021), while deposits from corporate clients amounted to BAM 515.6 million (-18.6% compared to the end of 2021). As of September 2022, the market share in corporate loans on the Republika Srpska market was 15.4% (-394bp compared to the end of 2021), and in the part of deposits, the market share was 16.7% (-298bp compared to at the end of 2021).

The Bank also provided support to domestic companies through projects in the field of renewable energy and improving energy efficiency, as well as to small and medium-sized enterprises, in cooperation with international financial institutions.

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

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 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 (managerial and for the needs of preparation of the consolidated statements at the UniCredit Group level).

FINANCIAL INDICATORS

In 2022, the Bank achieved positive business results while maintaining a strong capital position and a balanced approach to sales activities.

Financial Indicators Performance Overview, in BAM tsd	2022	2021	+/-
Profit and Loss			
Total operating income	67 157	62 401	7.6%
Total operating expenses	(38 171)	(35 822)	6.6%
Profit before tax	25 664	26 798	-4.2%
Net profit for the year	23 379	25 342	-7.7%
Balance sheet			
Loans and receivables with customers	828 527	1 029 838	-19.5%
Deposits and borrowings from customers	1 063 610	1 237 924	-14.1%
Equity and reserves	281 802	256 583	9.8%
Total assets	1 436 111	1 677 075	-14.4%
Capital adequacy			
Total risk weighted assets (RWA)	756 206	914 858	-17.3%
Own funds (regulatory capital)	209 015	208 341	0.3%
Capital adequacy ratio (CAR)	27.6%	22.8%	4.9pp
Business indicators			
C/I ratio, total operating expenses/ total operating income	56.8%	57.4%	-0.6pp
ROAE Return on average equity	8.3%	9.9%	-1.6pp
ROAA Return on average net assets	1.6%	1.5%	0.1pp
L/D ratio, Ratio of loans and deposits of customers	77.9%	83.2%	-5.3pp
Number of employees	422	437	-15
Number of branches	32	35	-3

PROFIT AND LOSS

The realized Net profit in 2022 amounts to BAM 23.4 million and is by 7.7% lower than the profit realized in the previous year, mostly due to higher operating costs and lower positive effects of impairment on Securities, while Operating income were higher by 7.6% y/y.

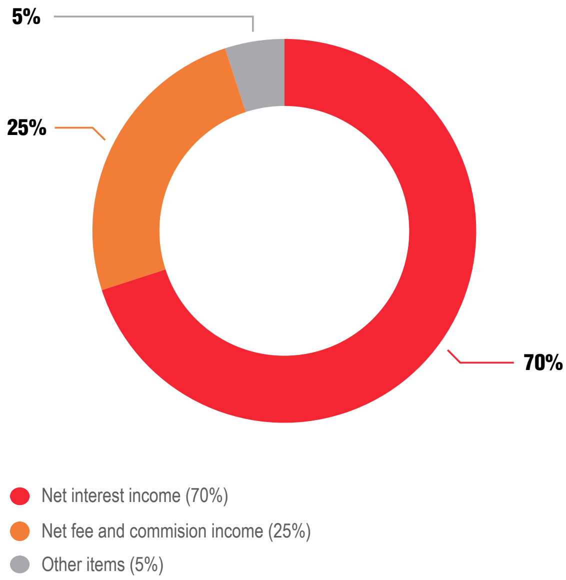
The total operating income in 2022 amounts to BAM 67.2 million, which is by 7.6% higher compared to the previous year as a result of lower interest expenses, higher income from fees and growth in trading income.

Total operating costs in 2022 amount to BAM 38.2 million and record a growth of 6.6% compared to the previous year, mainly as a result of the increase in staff expenses and consulting expenses.

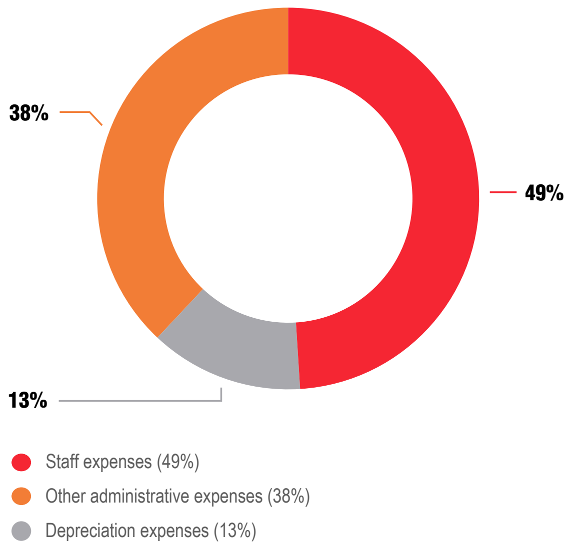
Bearing in mind that Operating income had a higher growth rate than Operating expenses, the key efficiency parameter C/I ratio is 56.8% and has improved by 0.6 pp compared to the previous year.

Chart: Operating income and operating expenses structure

Operating income



Operating expenses



Net interest income was realized in the amount of BAM 46.9 million, which is by 3.0% higher compared to the same period of the previous year, and makes 70% of the Bank's total operating income. The growth of Net interest income compared to the previous year is the result of a decrease in Interest expenses and growth in Interest income from loans by 2.5% y/y that fully compensated decline in Interest income on Securities.

Net income from fees and commissions amounts to BAM 16.8 million, which is by 13.4% higher compared to the same period of the previous year, and makes 25% of the total Operating income. The increase in fees is mainly the result of a higher realization of payment transaction fees, card business fees, and currency dealing fees.

Other income include Net gains from trading and exchange rate differences in the amount of BAM 3.5 million, income from dividends and equity shares in the amount of BAM 4 thousand and together make 5% of the total operating income of the Bank and are significantly higher y/y by 66.9%.

Total operating costs amount to BAM 38.2 million, which is by 6.6% higher than in the same period of the previous year. Staff expenses amount to BAM 18.6 million and record a growth of 5.4% compared to the previous year, and make 49% of total Operating expenses. Other administrative costs with BAM 14.4 million participate with 38% in the total Operating expenses, while depreciation expenses of tangible and intangible assets amount to BAM 5.1 million and make 13% of the total operating costs.

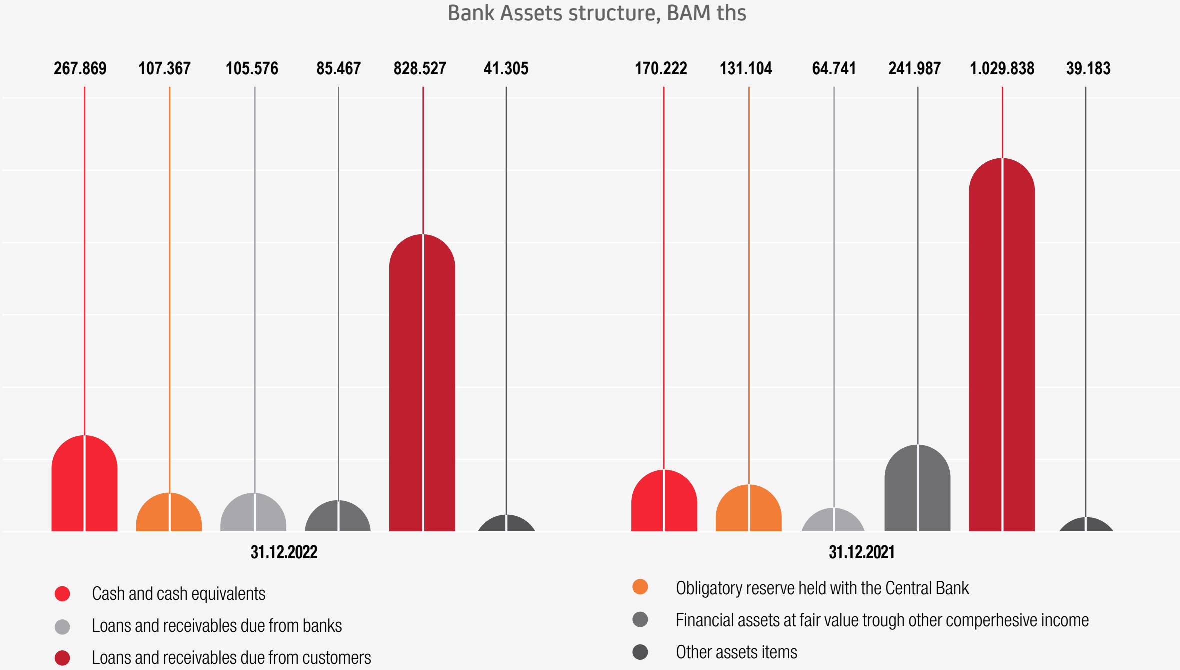
The recorded increase in total Operating expenses compared to the previous year is mostly the result of the increase in staff expenses and other expenses (costs of consulting services).

Balance Sheet

ASSETS

At the end of 2022, the Bank's total assets amount to BAM 1.4 billion and are by 14.4% lower compared to the same period last year due to the reduction of loans and receivables from clients and the Securities portfolio.

Bank Assets structure



In the structure of the Bank's assets, the most significant share of 57.7% is loans and receivables from customers, which amount to BAM 828.5 million and record a decrease of 19.5% compared to the end of the previous year. Loans and receivables from banks amount to BAM 105.6 million, and together with the mandatory reserve held at Central Bank of BiH in the amount of BAM 107.4 million, cash and cash balances in the amount of BAM 267.9 million make up a third of the Bank's total assets.

Financial assets at fair value through other comprehensive income account for 5.9% of the Bank's total assets. The same amounts to BAM 85.5 million, which is significantly less compared to the previous year due to lower investment in new securities and the sale of part of the existing portfolio.

Other assets include financial assets at fair value through the profit and loss account, tangible and intangible assets, deferred tax assets and other assets.

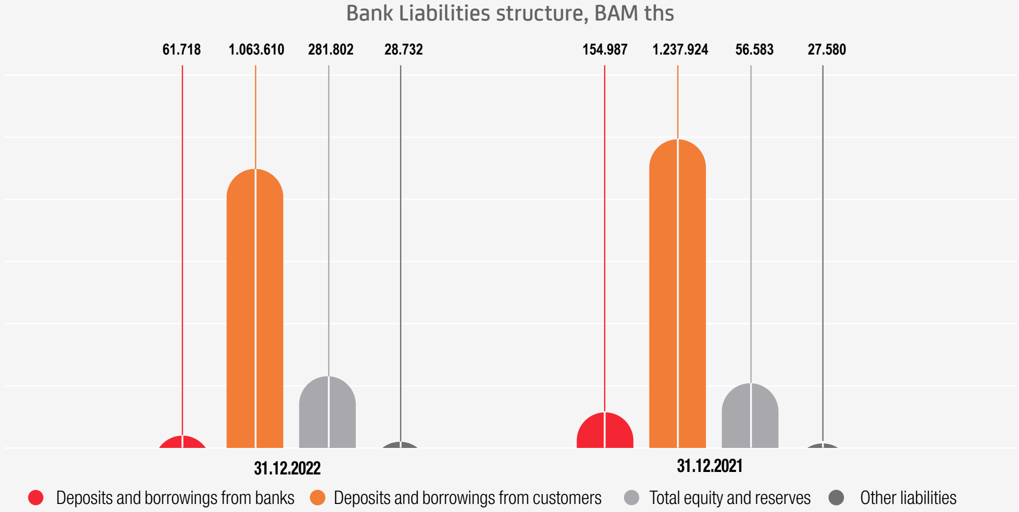
In the structure of loans and receivables from clients, loans to legal entities make 45%, and loans to private individuals 55% of the participation. Net loans to legal entities as of December 31, 2022 amount to BAM 375 million, while net loans to private individuals amount to BAM 453.5 million.

Gross loans to legal entities decreased by 31.1%, while gross loans to private individuals decreased by 4.2% compared to the end of the previous year.

LIABILITIES

In the structure of the Bank's liabilities, deposits and borowings from customers have the most significant share (74%). Total deposits from customers amount to BAM 1 063.6 million and are 14.1% lower than at the end of the previous year.
Deposits and loans from banks amount to BAM 61.7 million, which is 60.2% less compared to the end of the previous year.

Bank Liabilities structure



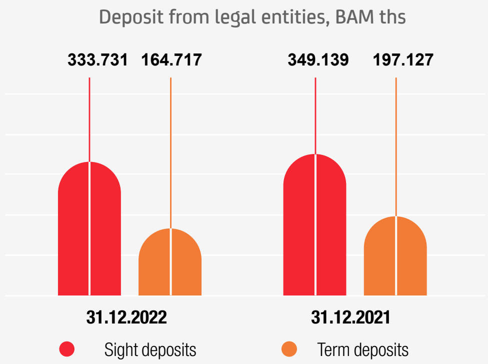
In the structure of Deposits and borrowings from customers, Deposits from legal entities make 53%, while Deposits from individuals make 47%.

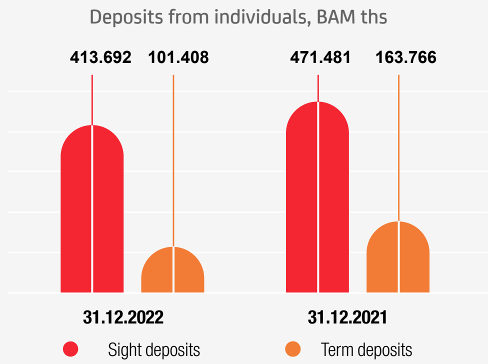
Deposits from legal entities, which also include deposits of entrepreneurs, amounted to BAM 515.1 million at the end of 2022, which is by 18.9% lower compared to the end of the previous year. Demand deposits of legal entities account for 80.3%, while time deposits account for 19.7% of total deposits from legal entities.

Deposits from private individuals amounted to BAM 498.4 million, which is 8.8% lower compared to the previous year. Demand deposits of private individuals make 67%, while time deposits make 33% of total deposits of private individuals.

The L/D as the ratio of loans and deposits of clients is 77.9% and is lower by 5 pp compared to the same period last year as a result of a greater reduction in the client's loan portfolio compared to the decrease of deposits from clients.

Structure of legal entities and private individuals' deposits





CAPITAL AND RESERVES

The Bank's capital and reserves at the end of 2022 amount to BAM 281.8 million, which is by 9.8% or BAM 25.2 million higher than at the end of the previous year. The net increase in capital in the stated amount is mostly the result of the total realized profit in 2022 in the amount of BAM 23.4 million and covering the negative effect of regulatory reserves for credit losses from retained earnings in the amount of BAM 5 million.

Capital adequacy as of 31 December 2022 is 27.6% (significantly above the regulatory minimum of 12%) and is higher by 4.9 pp compared to the same period last year.

Governance and Management

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

BANK SHAREHOLDERS' MEETING

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

As of December 31, 2022, the Bank had a total of 55 shareholders, of which UniCredit S.p.A., Milan, holds the largest share with 99.608% of the Bank's total capital.

Share capital of the Bank as of December 31, 2022 amounts to BAM 97,055 thousand, and consists of 138,650 ordinary shares of class "B", nominal value BAM 700.00 BAM per share.

According to the ownership structure of the shareholders, the private capital participates with 99.96%, and the cooperative with 0.04% in the total capital of the Bank, and by origin of the capital 99.7% is composed of the foreign capital, and 0.30% of the domestic capital.

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

SUPERVISORY BOARD

The Supervisory Board manages the Bank's operations and the work of Management Board, determines the proposal for the Bank's business policy and strategy, the business plan and submits them to the Bank Shareholders' Assembly for the final approval. It adopts the general acts, and has the other competencies 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' Assembly of the Bank for a period of four years.

Members of the Bank Supervisory Board in 2022 are as follows:

1.	Pasquale Giamboi	President	UniCredit S.p.A.
2.	Daniel Svoboda	Deputy 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

MANAGEMENT BOARD

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

The Management Board members of the Bank in 2022 were:

1.	Gordan Pehar	President of the Management Board of the Bank
2.	Jasminka Bajić	Member of the Management Board of the Bank responsible for Finance
3.	Dragana Janjić	Member of the Management Board of the Bank responsible for Risk Management up to 28 February 2023
4.	Željko Kišić	Member of the Management Board of the Bank responsible for Retail and Corporate banking
5.	Roland Viskupič	Member of the Management Board of the Bank responsible for COO
6.	Anita Grabner	Member of the Management Board of the Bank responsible for Human Resources until 31.01.2022
	Diana Bevanda	Acting Member of the Management Board of the Bank, responsible for for Human Resources from 01.02.2022 to 01.03.2022 Member of the Management Board of the Bank responsible for P&C from 01.03.2022

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 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.

Members of the Audit Committee of the Bank in 2022 were:

1.	Jelena Poljašević	President	Independent member
2.	Ante Križan	Member	Zagrebačka banka d.d., Zagreb.
3.	Graziana Mazzone	Member	UniCredit SpA

EMPLOYEES

As of December 31, 2022, the Bank has a total of 422 employees.

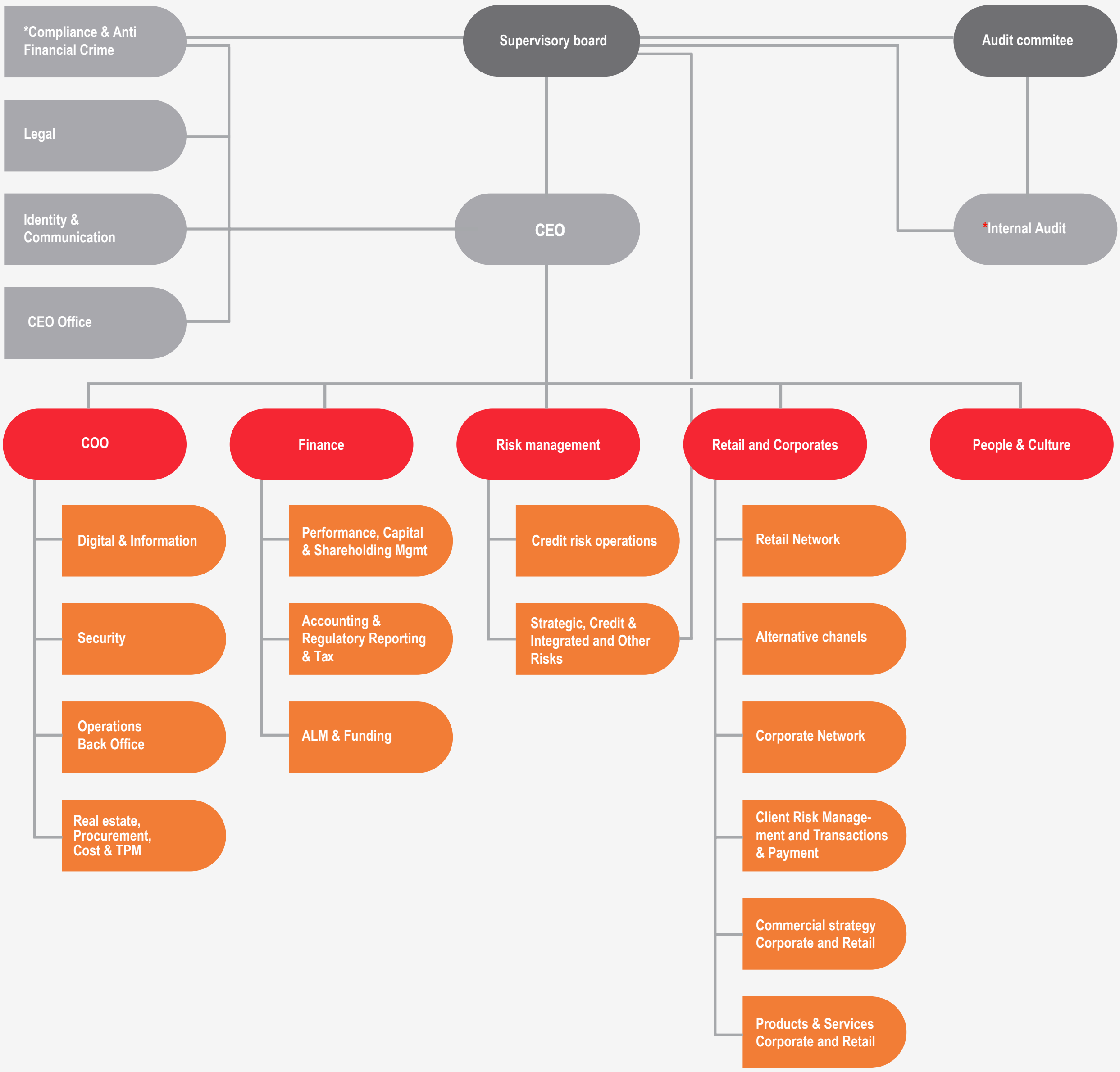
We are committed to our role in society and strive to act as an engine of social progress to help and empower the local community and provide our employees with the best place to work.

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 employees. Regardless of the challenging situation during the year, we are aware that our further development and success depends on the quality and commitment of our employees, and we 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 2022 we continued with the implementation of the introduction to the job, so-called on-boarding. In accordance with the needs and dynamics within the Bank, in 2022 we had over 40 new 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 the previously listed activities contain our core values: integrity, responsibility and care for workers, which give us guidelines in everything we do every day.

Organizational Structure of the Bank as of 31 December 2022



Business Network of UniCredit Bank a.d. Banja Luka as of 31.12.2022

BRANCH	ADDRESS	TOWN	PHONE NO.
FREE INFO LINE			**080/051-051**
BANJALUKA-PRIJEDOR REGION			
BRANCH BANJA LUKA	Marije Bursać 7	Banja Luka	051/243-200
BRANCH BANJA LUKA 2	Jevrejska 50	Banja Luka	051/246-662
BRANCH BANJA LUKA 3	Carice Milice 2	Banja Luka	051/246-645
BRANCH BANJA LUKA 4	Bulevar srpske vojske 8	Banja Luka	051/243-441
BRANCH ČELINAC	Kralja Petra I Karađorđevića 65	Čelinac	051/551-144
BRANCH KOTOR VAROŠ	Cara Dušana 28	Kotor Varoš	051/783-260
BRANCH MRKONJIĆ GRAD	Svetog Save 13	Mrkonjić Grad	050/212-948
BRANCH ŠIPOVO	Prve šipovačke brigada 1	Šipovo	050/371-338
BRANCH PRIJEDOR	Vožda Karađorđa 9	Prijedor	052/240-385
BRANCH NOVI GRAD	Karađorđa Petrovića 33	Novi Grad	052/751-756
BRANCH KOZARSKA DUBICA	Svetosavska 41	Kozarska Dubica	052/416-346
DOBOJ-GRADIŠKA REGION			
BRANCH LAKTAŠI	Karađorđeva 63	Laktaši	051/532-215
BRANCH GRADIŠKA	Vidovdanska bb	Gradiška	051/813-412
BRANCH SRBAC	Mome Vidovića 17	Srbac	051/740-251
BRANCH DOBOJ	Karađorđeva 1	Doboj	053/490-351
BRANCH TESLIĆ	Svetog Save 77	Teslić	053/431-501
BRANCH DERVENTA	Kralja Petra 1 Karađorđevića bb	Derventa	053/312-212
BRANCH ŠAMAC	Svetosavska 9	Šamac	054/490-116
BRANCH PRNJAVOR	Svetog Save 25	Prnjavor	051/660-295
SARAJEVO-BIJELJINA REGION			
BRANCH BIJELJINA	Patrijarha Pavla 3a	Bijeljina	055/221-285
BRANCH UGLJEVIK	Ulica Ćirila i Metodija bb	Ugljevik	055/771-302
BRANCH ZVORNIK	Karađorđeva bb	Zvornik	056/214-147
BRANCH BRATUNAC	Svetog Save bb	Bratunac	056/411-214
BRANCH PALE	Milana Simovića bb	Pale	057/203-022
BRANCH LUKAVICA	Spasovdanska 31	Lukavica	057/318-299
BRANCH SOKOLAC	Cara Lazara bb	Sokolac	057/401 062
BRANCH ROGATICA	Srpski sloge bb	Rogatica	058/420-092
TREBINJE-FOČA REGION			
BRANCH TREBINJE	Kralja Petra Prvog Oslobodioca br. 22	Trebinje	059/270-625
BRANCH BILEĆA	Kralja Aleksandra 14	Bileća	059/370-066
BRANCH GACKO	Trg Save Vladislavića bb	Gacko	059/471-530
BRANCH NEVESINJE	Nevesinjskih ustanika 27	Nevesinje	059/610-471
BRANCH FOČA	Njegoševa 10	Foča	058/220 972

Responsibility for the Financial Statements

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

In preparation these financial statements, the responsibilities of the Management Board include ensuring that:

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

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.The financial statements set out on pages 32 to 130 were authorised by the Management Board for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

Bank Board President
Gordan Pehar

UniCredit Bank a.d. Banja Luka
1

Bank Board member
Jasminka Bajić

Bank Board member
Željko Kisić

Bank Board member
Roland Viskupič

Bank Board member
Diana Bevanda

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

21 April 2023

Independent Auditors' report

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

KPMG

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 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant 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 2022 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.

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 customers

As at 31 December 2022, gross loans and receivables from customers: BAM 875,2 million, related impairment allowance: BAM 46,7 million and, for the year then ended, impairment loss recognised in the statement of profit or loss: BAM 6,0 million (31 December 2021: gross loans and receivables: BAM 1.073,2 million, related impairment allowance: BAM 43,4 million and, for the year then ended, impairment loss recognised in the statement of profit or loss: BAM 4,5 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

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 credit environment in 2022 reflected a recovery from the COVID-19 pandemic, it also reflected unfavourable changes in the economic outlook, disruption to energy and other commodity markets and slowing economic growth as well as elevated inflationary pressures and increase in interest rates.

In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook, 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

Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management ("FRM") and information technology (IT) 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 whether such models, assumptions, data and their application are appropriate in the context of the said requirements. 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 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, 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;
- 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.

Key Audit Matters (continued)

Bitminer court case

Refer to Accounting policies, Note 3.21 Provision for risk and expenses and Note 5.15 Provision for risk and expenses which specifically addressed the uncertainties related to the Bitminer legal case.

Key audit matter	How our audit addressed the matter
As discussed in Note 5.15, the Bank is the defendant in a lawsuit ("the Bitminer legal case"), in which damages are claimed therefrom for the alleged obstruction of the claimant's initial coin offering as a result of the closure of their transaction accounts by the Bank. On 30 December 2021, the court of first instance found the Bank guilty and accepted the majority of the claims, also obliging the Bank to pay damages in the amount of BAM 256.3 million. The Bank filed an appeal to a higher court, with secondary instance proceedings in progress at the current reporting date. On 18 April 2023, the court of second instance issued its verdict finding the Bank not guilty and dismissing the first instance verdict. Significant management judgement is required in assessing such litigations in order to determine, among other things, whether present obligation exists as a result of past events, the likelihood of an outflow of economic resources, and therefore, whether a provision or a disclosure of contingent liabilities is required. Significant judgment is also required in measuring the amounts of related liabilities or contingent liabilities, if any. The Bank, based on its own assessment of the legal merits of the case, and having considered the above court rullings, considered it to be more likely than not that it would be successful in ultimately defending the lawsuit brought against it. Accordingly, the Bank concluded that it does not have a present obligation under the applicable accounting standard and has not recognised a provision for any financial outcome of the case. In forming the above judgement, management sought support from its in-house and external legal advisers, as considered appropriate. Since additional appeals by the claimant cannot be excluded, some uncertainty remains as to the ultimate outcome of the matter. Given the uncertainties and complexities associated with the Bitminer court case, coupled with the magnitude of the amounts involved, we considered the area to be associated with a significant risk of material misstatement which required our increased attention in the audit. As such we determined it to be a key audit matter.	Our audit procedures in this area, performed, where applicable, with the assistance of our own legal specialist, included, among others: • Performing our own independent analysis of the dispute and forming our own independent conclusion on its expected ultimate outcome. This involved assessing the probability of an unfavourable outcome of the litigation, based upon, among other things: — Analysis of the Bank's bank account contract with the claimant and of the compliance of the Bank's actions with the contract, general terms of business and relevant legislation; — Inspecting the underlying case correspondence and related documentary evidence, including the first and second instance court rullings and the courts' written justifications of the verdict; — Inspecting the minutes of the Management Board's meetings for any deliberations and evidence related to the development of the dispute; — Evaluating the Bank's external legal and forensic advisers' written assessments of the case; — Evaluating the Bank's in-house and external lawyers' responses to our audit inquiry letters and making inquiries of selected members of the Board of Directors, in-house legal counsel and Supervisory Board as to the nature and status of the proceedings and potential related exposures; • Assessing the accuracy and completeness of the Bank's disclosures in the financial statements in respect of the litigation, including any related uncertainties and contingent liabilities, against the requirements of the relevant financial reporting standards.

Other Matter

The financial statements of the Bank for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 February 2022.

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.

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

Svetozara Markovića 5/11
78000 Banja Luka
Bosnia and Herzegovina

21 April 2023

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

Manal Bećirbegović
Executive Director

Vedran Vukotić
Certified Auditor

Financial Statements

Statement of profit or loss

	Note	31.12.2022 000 BAM	31.12.2021 000 BAM
Interest income calculated using the effective interest rate method		52.560	54.594
Interest expense		(5.637)	(9.054)
Net interest income	4.1.	**46.923**	**45.540**
Fees and commission income		21.106	18.888
Fees and commission expenses		(4.346)	(4.109)
Net fee and commission income	4.2.	**16.760**	**14.779**
Dividend and equity investment income		4	4
Gains and losses on financial assets and liabilities held for trading		3.470	2.078
Net trading income	4.3.	**3.474**	**2.082**
Total operating income		**67.157**	**62.401**
Staff expenses	4.4.	(18.632)	(17.680)
Depreciation on tangible assets	4.5.	(2.372)	(2.436)
Depreciation on intangible assets	4.5.	(2.722)	(2.681)
Other administrative expenses	4.6.	(14.444)	(13.025)
Total operating expenses		**(38.171)**	**(35.822)**
Operating result before impairment and provision		**28.987**	**26.579**
Net impairment losses / recoveries on financial instruments	4.7.	**(4.987)**	**(2.971)**
Financial assets at amortised cost		(5.254)	(5.118)
Financial assets at fair value through other comprehensive income		267	2.147
Provisions for risks and expenses	4.8.	**(426)**	**4**
Other operating income	4.9.	**2.741**	**3.913**
Other operating expenses	4.9.	**(650)**	**(726)**
Result before tax		**25.664**	**26.798**
Income tax	4.10.	**(2.286)**	**(1.456)**
Result after tax		**23.379**	**25.342**

	Note	31.12.2022 000 BAM	31.12.2021 000 BAM
Result after tax		**23.379**	**25.342**
Other comprehensive income		**1.840**	**(8.589)**
Items that may not be re-classified to profit or loss:			
Effects of tangible assets revaluation		1.198	(336)
Net (loss) / gain of the period recognised directly in capital		72	221
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		(267)	(2.147)
Net (losses) / gains from change in fair value of financial assets through other comprehensive income – debt instruments		837	(6.327)
Total comprehensive income for the year		**25.219**	**16.753**

	Note	31.12.2022 000 BAM	31.12.2021 000 BAM
Income after tax attributable to ordinary shareholders		**23.379**	**25.342**
Number of regular shares		138.650	138.650
Basic/diluted Earnings per share	4.11.	**0,1686**	**0,1828**

These financial statements were approved by the Bank's Management on 21 April 2023.

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

Bank Board President
Gordan Pehar

UniCredit Bank a.d. Banja Luka
1

Bank Board member
Jasminka Bajić

Financial Statements for the year that ended as at 31 December 2022

Statement of Financial Position

	Note	31.12.2022 000 BAM	31.12.2021 Restated* 000 BAM
Assets			
Cash and cash balances	5.1.	**267.869**	**170.222**
Financial assets at fair value through profit or loss		**1**	**-**
Financial assets at fair value through other comprehensive income	5.2.	**85.467**	**241.987**
Financial assets at amortised cost		**1.041.470**	**1.225.683**
Obligatory reserve held with the Central Bank	5.3.	107.367	131.103
Loans and receivables with banks	5.4.	105.576	64.741
Loans and receivables from customers	5.5.	828.527	1.029.838
Tangible assets	5.6.	**22.755**	**21.871**
Intangible assets	5.7.	**11.184**	**11.799**
Current tax assets		**-**	**-**
Deferred tax assets		**1.301**	**569**
Other assets	5.8.	**6.064**	**4.943**
Total assets		**1.436.110**	**1.677.075**
Liabilities			
Financial liabilities at fair value through profit and loss		**249**	**-**
Financial liabilities at amortised cost		**1.127.300**	**1.394.688**
Deposits and borrowings from banks	5.9.	61.718	154.987
Deposits and borrowings from customers	5.10.	1.063.610	1.237.924
Lease liabilities	5.11.	1.972	1.777
Financial liabilities held for trading		-	-
Tax liabilities		**1.206**	**931**
Current tax liabilities		444	385
Deferred tax liabilities	5.12.	762	546
Other liabilities	5.13.	**20.349**	**19.342**
Provisions for credit risks and guarantees	5.14.	**3.036**	**3.682**
Provisions for risks and charges	5.15.	**2.168**	**1.848**
Total liabilities		**1.154.308**	**1.420.492**
Capital and reserves			
Share capital	5.16.	97.055	97.055
Share premium		373	373
Legal reserves		9.706	9.706
Capital reserves		43.222	43.002
Regulatory reserves for credit losses		-	(5.076)
Revaluation reserves		(1.909)	(3.677)
Retained earnings		109.976	89.859
Net profit for the year		23.379	25.342
Total capital and reserves		**281.802**	**256.583**
Total liabilities, equity and reserves		**1.436.110**	**1.677.075**

**please refer to Note 2.5*

Statement of Changes in Equity

	Note	Share capital	Share premium	Legal reserves	Capital reserves	Regulatory reserves for credit losses	Reval-uation reserves	Retained earnings	Net profit for the year	Total
		BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance as at 01.01.2021		**97.055**	**373**	**9.706**	**42.897**	**(5.076)**	**5.133**	**88.345**	**16.178**	**254.611**
Profit distribution		-	-	-	-	-	-	16.178	(16.178)	**-**
Dividend payment	4.11.	-	-	-	-	-	-	(14.780)	-	**(14.780)**
Transfer to reserves					104			(104)	-	**-**
Net profit for the year		-	-	-	-	-	-	-	25.342	**25.342**
Other comprehensive income										
Net gain / (loss) from changes in fair value of financial assets through other comprehensive income		-	-	-	-	-	(6.327)	-	-	**(6.327)**
Net gain / (loss) from provisions for credit risks on financial assets at fair value through other comprehensive income		-	-	-	-	-	(2.147)	-	-	**(2.147)**
Net gain / (loss) for the period recognised directly in equity		-	-	-	-	-	-	220	-	**220**
Effects of tangible assets revaluation		-	-	-	-	-	(336)	-	-	**(336)**
Total other comprehensive income		-	-	-	-	-	(8.810)	220	-	**(8.590)**
Balance as at 31.12.2021		**97.055**	**373**	**9.706**	**43.001**	**(5.076)**	**(3.677)**	**89.859**	**25.342**	**256.583**
Profit distribution		-	-	-	-	-	-	25.342	(25.342)	-
Dividend payment	4.11.	-	-	-	-	-	-	-	-	-
Transfer to reserves		-	-	-	221	5.076	-	(5.297)	-	-
Net profit for the year		-	-	-	-	-	-	-	23.379	23.379
Other comprehensive income										
Net gain / (loss) from changes in fair value of financial assets through other comprehensive income		-	-	-	-	-	837	-	-	837
Net gain / (loss) from provisions for credit risks on financial assets at fair value through other comprehensive income		-	-	-	-	-	(267)	-	-	(267)
Net gain / (loss) for the period recognised directly in equity		-	-	-	-	-		72	-	72
Effects of tangible assets revaluation		-	-	-	-	-	1.198	-	-	1.198
Total other comprehensive income		-	-	-	-	-	1.768	72	-	**1.840**
Balance as at 31.12.2022		**97.055**	**373**	**9.706**	**43.222**	**-**	**(1.909)**	**109.976**	**23.379**	**281.802**

Statement of Cash Flows

	Note	31.12.2022 BAM '000	31.12.2021 BAM '000
Cash flows from operating activities			
Interest income and similar income		50.465	53.876
Interest expenses and similar expenses		(5.637)	(9.054)
Fee and commission income		21.105	18.874
Fee and commission expenses		(4.346)	(4.109)
Dividend and equity investmentincome		4	4
Gains and losses on financial assets and liabilities held for trading		3.470	2.078
Administrative operating expenses		(33.076)	(30.706)
Other inflows / (outflows)		2.092	3.186
a) Net cash from operating activities before changes in financial assets and liabilities at amortized cost		**34.077**	**34.149**
Changes in financial assets at amortized cost			
Obligatory reserve held with the Central Bank		23.812	(5.868)
Loans and receivables with banks		(40.719)	-
Loans and receivables with customers		195.916	(100.195)
Other assets		(1.156)	(1.245)
b) Net changes in financial assets at amortized cost		**177.853**	**(107.308)**
Changes in financial liabilities at amortised cost			
Deposits and borrowings from banks		(92.743)	(91.793)
Deposits and borrowings from customers		(166.214)	126.388
Other liabilities		(570)	(3.064)
c) Net changes in financial liabilities at amortized cost		**(259.527)**	**31.531**
Net cash flow from operating activities before tax (a+b+c)		**(47.597)**	**(41.628)**
Income tax		(2.266)	(389)
1. Net cash flow from operating activities		**(49.863)**	**(42.017)**
Cash flow from investment activities			
Investment in tangible assets		(1.832)	(1.357)
Sale of tangible assets		153	701
Investment in intangible assets		(1.747)	(3.705)
Investments in financial assets at fair value through other comprehensive income		-	(48.838)
Inflow from financial assets at fair value through other comprehensive income		156.740	40.880
2. Net cash flow from investment activities		**153.314**	**(12.319)**
Cash flow from financial activities			
Dividend payment		-	(14.780)
Repayment of long term leases		194	(629)
Inflow from loans		12.578	8.435
Repayment of loans		(18.576)	(19.552)
3. Net cash flow from financial activities		**(5.804)**	**(26.526)**
4. Net (decrease) / increase in cash (1+2+3)		**97.647**	**(80.862)**
5. Cash and cash equivalents at the beginning of year		**170.222**	**251.084**
6. Cash and cash equivalents at the end of year (4+5)		**267.869**	**170.222**

Notes to the Financial Statements

Notes to the Financial Statements

1. The Reporting Entity

UniCredit Bank a.d. Banja Luka (hereinafter referred to as: the Bank) is a shareholding company registered with the head office in Banja Luka, Street Marije Bursać 7 for performance of payment transactions, credit and deposit and other banking operations in the country and abroad in accordance with the regulations of the Republika Srpska and Bosnia and Herzegovina.

The bank was founded in 1910 and throughout the long history of its existence it 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. with headquarters in Italy, the holding company of UniCredit Group (hereinafter referred to as: UniCredit). UniCredit is organized into four key regions, through which it serves more than 15 million clients worldwide. UniCredit is a pan-European commercial bank with a unique range of services in Italy, Germany, Central and Eastern Europe.

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, 2022, the Bank consisted of the head office in Banja Luka and 32 branches (December 31, 2021: 35 branches).
As of December 31, 2022, the Bank had 422 employees (December 31, 2021: 437 employees).

Tax identification number of the Bank is 4400958880009, and VAT number is 400958880009.

2. Basis of the preparation and presentation of financial statements

2.1. Reporting Framework

The financial statements of the Bank have been prepared in accordance with the legal accounting regulations applicable to banks in the Republika Srpska ("RS"), which are based on the Law on Accounting and Auditing of the RS, the Law on Banks of the RS and bylaws of the RS Banking Agency adopted in accordance with the stated laws.
The RS Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with the International Financial Reporting Standards ("IFRS").
The Law on Banks of the RS prescribes the preparation of annual financial reports in accordance with the previously mentioned Law on Accounting and Auditing of the RS, this law, and bylaws adopted on the basis of both laws.

2.2. 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:

- rules for credit risk management,
- method of assigning exposure to credit risk levels and determining expected credit losses,
- acceptable collateral for the purposes of determining expected credit losses,
- acceptable collateral for the purposes of limiting the maximum permissible exposure in relation to recognized capital,
- treatment of material assets acquired in the debt collection procedure
- 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 amount 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.

The effects of the first application of the Decision, which were recognized in the capital in January 2020, as an item of negative regulatory reserves in the amount of BAM 5,076 thousand, were covered against retained earnings based on the Decision of the Bank's Shareholders' Meeting in April 2022

As of December 31, 2022, in accordance with the provisions of the Decision, the Bank recognized higher value Impairments and provisions for credit losses in the amount of BAM 1,747 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, 2021: BAM 243 thousand) (see note 3.17).
Considering the poorly developed real estate market in the Republika Srpska, the Decision prescribes the recognition of tangible assets acquired in the debt collection procedure at the lower of the following two values:

a) the net book value of the bank's receivables, whereby in the event that the net book value is equal to zero, the acquired tangible assets are recognized at their technical value in the amount of 1 KM, or
b) estimated fair values performed by an independent appraiser, less expected sales costs.

If the Bank does not sell the acquired tangible assets within three years from the date of initial recognition, the value thereof must be reduced to KM 1 in 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. Going concern basis

The financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate in the foreseeable future.

2.4. General Preparation Criteria

Annual financial statements include:

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

These financial statements have been prepared on the historical cost basis, except for building and land that are measured and stated by revaluation model and financial assets that are measured and stated at fair value (debt securities and equity shares in other legal entities). Transactions are recorded on the day of their occurrence.

Fair value is the price that would be received to sell or paid to transfer a liability in a regular transaction between market participants at the measurement date, whether that price was directly observable or estimated using another valuation technique. In estimating the fair value of assets or liabilities, the Bank considers the characteristics of assets or liabilities when market participants would take these characteristics into account when determining the price of assets or liabilities at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would apply when defining the price of the asset or liability, assuming that market participants are acting in their economic interest. The principles for measuring fair value are described in Note 3.10.).

The adopted measurement criteria are in line with the principles of accrual accounting, the relevance and significance of the accounting information, and prevalence of the economic substance over the legal form. Compliance with these criteria has not changed since the previous years, except for the changes described below, which relate to the introduction of new standards and interpretations, as well as implementation of the local Decision on Credit Risk Management and Determination of Expected Credit Losses.

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

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

2.5. Changes in the Presentation of Financial Statements

For the purpose of better presentation of compliance with applicable accounting standards, in 2022, in relation to the published reports for 2021, the Bank carried out certain reclassifications of positions, which have no impact on the total result, total assets and capital of the Bank:

- Item Other expenses is reclassified from position Other administrative expenses to Other operating expenses
- Provisions for credit risks on off balance items are reclassified from position Provisions for risk and expenses to position Net impairment losses / recoveries per credit risks
- Items Other operating income and expenses and Gains / (Losses) from property and equipment were reported as Net positions. The presentation was changed to present separately other operating income that includes gains from property plan and equipment and other operating expenses that include losses from property plan and equipment.
- Positions: deferred tax expense and current income tax were presented separately. After the change they are presented in one line income tax.

These changes can be seen in the table below:

	01.01.2021-31.12.2021 Reclassified			01.01.2021-31.12.2021 - Reclassified
	BAM '000	BAM '000	BAM '000	
Interest income and similar income	54.594	-	54.594	Interest income calculated using the effective interest rate method
Interest expenses and similar expenses	(9.054)	-	(9.054)	Interest expense
Net interest income	**45.540**	-	**45.540**	**Net interest income**
Fees and commission income	18.888	-	18.888	Fees and commission income
Fees and commission expenses	(4.109)	-	(4.109)	Fees and commission expenses
Net fee and commission income	**14.779**	-	**14.779**	**Net fee and commission income**
Dividend and equity investment income	4	-	4	Dividend and profit-sharing income
Gains and losses on financial assets and liabilities held for trading	2.078	-	2.078	Net foreign exchange gains upon translation of financial assets and liabilities
	2.082	**-**	**2.082**	**Net income from financial instruments**
Total operating income	**62.401**	-	**62.401**	**Total operating income**
Staffexpenses	(17.680)	-	(17.680)	Personnel expenses
Depreciation on Tangible assets	(2.436)	-	(2.436)	Tangible assets depreciation charge
Depreciation on Intangible assets	(2.681)	-	(2.681)	Intangible assets amortisation charge
Other administrative expenses	(13.032)	7	(13.025)	Other administrative expenses
Total operating expenses	**(35.829)**	**7**	**(35.822)**	**Total operating expenses**
Profit before impairment and provisions	**26.572**	**7**	**26.579**	**Operating result before impairment and provision**
Net impairment (losses) / recoveries per credit risks	**(2.002)**	(969)	**(2.971)**	**Net impairment losses / recoveries per credit risks**
- Financial assets at amortised cost	*(4.149)*	(969)	*(5.118)*	Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income	*2.147*	-	*2.147*	Financial assets at fair value through other comprehensive income
Provisions for risks and expenses	**(965)**	**969**	**4**	**Provisions for risks and expenses**
- Provisions for credit risks and guarantees	(969)	969	-	
- Long-term provisions for employees	4	(4)	-	
Other operating income and expenses	1.437	2.476	3.913	**Other operating income**
Gains / (Losses) from property and equipment	1.756	(2.482)	(726)	**Other operating expenses**
Result before tax	**26.798**	-	**26.798**	**Result before tax**
Income tax	(1.863)	407	(1.456)	Income tax
Gains from deferred taxes	466	(466)	-	
Losses from deferred taxes	(59)	59	-	
Result after tax	**25.342**	-	**25.342**	**Result before tax**

2.6. Functional Currency and Presentation Currency

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

The Central Bank of Bosnia and Herzegovina (hereinafter: the "Central Bank") implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is pegged to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2022 and 2021

2.7. Subsidiaries, Joint Ventures and Associates

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

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

2.8. 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, are mandatory for periods beginning on January 1, 2022:

Effective date	New standards or amendments
1 April 2021	Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendments to IFRS 16
1 Januar 2022	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
	Annual Improvements to IFRS Standards 2018-2020
	Property, Plant and Equipment, Proceeds before Intended Use (Amendments to IAS 16)
	Reference to Conceptual Framework (Amendments to IFRS 3)

The amendments to IFRS 16 Leases (Covid-19-Related Rent Concessions) extend the practical expedient in relation to Covid-19 related rent concession for any change in lease payments originally due on or before 30 June 2022 As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 April 2021 Earlier application is permitted. The Bank chose not to apply the practical expedient.

The collection of annual improvements to IFRSs 2018-2020 includes amendments to the following standards:

- The amendments to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent´s date of transition to IFRSs.
- The amendments to IFRS 9 clarify which fees an entity includes when it applies to "10 percent" test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other´s behalf.
- The amendment to IFRS 16 only regards changes in illustrative example 13 (no effective date is stated).

The amendments apply to annual reporting periods beginning on or after 1 January 2022 Earlier application is permitted. These amendments will not result in any significant changes within the Bank.

The amendments to IFRS 3 update outdated references in IFRS 3 without significantly changing its requirements. The amendment applies to annual reporting periods beginning on or after 1 January 2022 Earlier application is permitted. These amendments do not result in any significant changes within the Bank.

The amendments to IAS 16 relate to revenue incurred before an item of property, plant and equipment is ready for use. Costs for test runs to check whether an item of property, plant and equipment is functioning properly continue to be directly attributable costs. If goods are already produced as part of such test runs, both the income from their sale and their production costs must be recognised in profit or loss in accordance with the relevant standards. It is therefore no longer permissible to offset the net proceeds against the cost of the item of property, plant and equipment. The amendment applies to annual reporting periods beginning on or after 1 January 2022 Earlier application is permitted. These amendments do not result in any significant changes within the Bank.

The amendments to IAS 37 clarify which costs should be considered as costs of fulfilling the contract when assessing whether a contract is onerous. Costs of fulfilling a contract comprise the costs that relate directly to the contract. They can be incremental costs of fulfilling a contract or an allocation of other costs that relate directly to fulfilling contracts.
The amendment applies to annual reporting periods beginning on or after 1 January 2022 Earlier application is permitted. These amendments do not result in any significant changes within the Bank

2.9. New Standards not yet effective

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:

Datum primjene	New standards or amendments
1 Januar 2023	IFRS 17 Insurance Contracts
	Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
	Definition of Accounting Estimate - Amendments to IAS 8
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
1 Januar 2024	Lease Liability in a Sale and Leaseback -Amendments to IFRS 16
	Classification of Liabilities as Current or Non-current - Amendments to IAS 1
Available for optional adoption/effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

New IFRS 17 Insurance contracts will replace IFRS 4. It applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. Application of this standard in Republic of Srpska has been postponed until 1 January 2027. This new standard as well as its amendments are not expected to result in any significant changes within the Bank.

The amendments to IAS 1 clarify the requirements for disclosure of material accounting policy instead of significant accounting policies. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to IAS 8 replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to IAS 12 provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.
Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to IFRS 16 Leases require the seller-lessee to determine lease payments or revised lease payments such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. It applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank..

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 projected future events that appear probable from a current perspective. Given that such estimates and assumptions are subject to uncertainty, they may lead to results that will require adjustments to the carrying amounts of the subject assets and liabilities in future periods.
Estimates and assumptions and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amount 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 (impairement) of value that are generally 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 customers, mainly in the form of unused framework loans and guarantees (detailed in Note 3.12.).

Useful lives of property and equipment

As described in Notes 5.7. the Bank review the estimated useful lives of property and equipment at the end of each annual reporting period.

Fair value of financial instruments
The Bank uses judgment in selecting the appropriate valuation technique for financial instruments that are not quoted on an active market. Valuation techniques commonly used in the market are applied. Financial instruments, except loans and receivables, are valued based on the regulatory Instruction 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 market price, at the price obtained based on 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 - Independent Price Verification). (Note 3.10).

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 how likely it is that the fulfillment of that 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: litigation, severance pay for retirement, jubilee awards and other liabilities and expenses.

Taxes
The bank recognizes the tax liability in accordance with the tax regulations of the Republic of Srpska. Tax declarations are approved by the tax authorities that are responsible for the subsequent control of taxpayers.
The Bank has considered whether there are any uncertain tax positions, including those related to transfer pricing. Based on its tax compliance and transfer pricing analysis, the Bank has determined that its tax treatments are likely to be accepted by the tax authorities.

Regulatory requirements
The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Legal proceedings
The Bank make assessment of all legal proceedings. As of 31 December 2022 the Bank have provided BAM 1.372 thousand (2021: KM 1.486 thousand) which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Bank. Nature legal cases for which provisions are recognised are disclosed in the Note 5.15. of these financial statements.

3. Significant Accounting Policies

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

3.1. Interest Income and Expenses

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

Interest income 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 overall 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 life of the financial asset / liability.

Interest income and expenses also include income and expenses from commissions and fees related to loans and receivables from customers 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 and 73/21).

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

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

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 Revenue from contracts with customers. 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, revenue is recognized when the Bank fulfills the assumed obligation and delivers the promised service to the customer. Income is measured at 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 credit cards
- cards, which represent all income and expenses from fees related to debit, prepaid and credit cards,
- purchase and sale of currency 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 issuing guarantees and other sureties is presented as a separate item.
In note (xx) Income and expenses from fees and commissions, the presentation of products is used as a basis for presentation.

3.3. Conversion of Foreign Currencies

The translation of foreign currencies is performed 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 arising during that translation 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 futures transactions are recalculated at forward exchange rates on the re-reporting date.
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 translation are included in the statement of profit or loss for the period.
The Bank values 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 on December 31, 2022 and December 31, 2021, for the following major currencies, was:

	31.12.2022	31.12.2021
USD	1,833705	1,725631
CHF	1,986219	1,887320
EUR	1,955830	1,955830

3.4. Net Income from Financial Instruments

Net income from financial instruments includes the following items:

- Net gains and losses from trading and exchange differences on translation of monetary assets and liabilities (realized and unrealized gains and losses from trading and exchange differences of derivative financial instruments, gains and losses on translation of monetary assets and liabilities) and
- dividend income, which is recognized in the profit or loss statement 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 in favor 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 income statement in the period in which they were incurred.

3.6. Long-term Provisions for Employees

The Bank pays its employees jubilee bonuses in accordance with the regulations of the Republika Srpska. Jubilee awards are paid in the amount of one average monthly salary of the Bank calculated in the month preceding the payment for the completed 20 years, or two average monthly salaries of the Bank for the completed 30 years in the Bank.

In accordance with the internal regulations on salaries, the Bank pays severance pay to employees upon retirement in the amount of 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, and which in the sum of all special units form the final obligation, which is measured individually for each unit. The liability is measured at the present value of estimated future cash flows discounted by an econometrically modeled interest rate, which is more appropriate to existing market conditions than the interest rate on government long-term debt securities.

3.7. Cash and Cash balances

Cash and cash balances 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.

Obligatory funds held with Central bank are reported separately and are not included in 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 at the time of occurrence in the income statement.

3.9. Classification and Measurement

In accordance with IFRS 9, classification of assets and liabilities is based on the business model and characteristics of the contractual cash flows. Analysis of the business models has been performed by mapping the Bank's business areas and by allocating a specific business model to each of them.

In this regard, a "hold-to-collect" or "hold-to-collect and sell" business models have been allocated to the business areas comprising the Bank's portfolio in accordance with the intention of holding and expected sales of financial instruments. For the classification of financial assets into the categories stipulated by IFRS 9, the analysis of the business models was complemented by the analysis of the contractual cash flows ("SPPI Test").

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

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

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

3.9.1. Financial Assets at Fair Value through Profit or Loss

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

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

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

After initial recognition, these financial assets are measured at fair value through profit and loss account.
A gain or loss arising from the sale or repurchase or change in the fair value of a financial asset held for trading, including gains or losses from financial derivatives related to financial assets and/or financial liabilities designated at fair value or other financial assets that are mandatorily held at fair value is recognised in the profit and loss account under the item "Net trading income (note 4.3.)".

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

These assets are measured similarly to the "financial assets at fair value through profit or loss" but gains and losses, whether realised or unrealised, are recognised within the item of "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 "hold-to-collect and sell";
- their cash flows are solely payments of principal and interest.

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

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

After initial recognition, interest accrued on interest-bearing instruments is recorded in the profit and loss account under the criterion of amortised cost within the item of “interest income and similar income”.
Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income and reported in equity within the “fair value reserve” item.

In case of disposal 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 Amortised Cost

Financial assets are classified at amortised cost if:

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

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

Impairment losses are recorded in the profit and loss under the “net impairment losses/recoveries on loans relating to the financial assets at amortised cost”.
In case of disposal, accumulated gains and losses are recorded in the profit and loss under the “gains (losses) on disposal and redemption of financial assets at amortised cost”.

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

3.9.4. Financial Liabilities Measured at Amortized Cost

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

3.9.5. Financial Liabilities Held for Trading

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

These liabilities are measured at fair value upon initial recognition and for the duration of the transaction.
A gain or loss arising from the sale or repurchase or change in the fair value of a financial liability held for trading is recognised in the profit and loss account under the item of “net income from financial instruments“.

3.10. Qualitative information on Fair Value

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

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

3.10.1. Principles of fair value measurement

The fair value of financial assets and financial liabilities, which are traded in 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 fair value hierarchy rules, 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 relevant to determining the instrument's fair value.

3.10.2. Fair Value Assessment Models

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

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

3.10.3. Debt Securities

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

3.11. Financial Instruments netting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle, on a net principle, or realise the asset and settle the liability simultaneously.
Income and expenses are presented in the net amount only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Bank's trading activities.

3.12. Impairment (ECL – Expected Credit Loss))

3.12.1. General

Loans, fadilities to banks, debt securities and other receivables, classified as financial assets at amortised 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 that sense, these instruments are classified into Stage 1, Stage 2, or Stage 3 according to their absolute or relative credit quality compared to the initial payment.

Specifically:

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

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

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

For exposures in Stage 3, the loss allowance is calculated on a collective basis or on an individual basis, depending on the client's characteristics, and it is calculated over a time horizon corresponding to the entire lifetime of the exposure.

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

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

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

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

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

Tabela1

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

Tabela 2

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

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

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

In this context, forward-looking information is included through the elaboration of specific scenarios.
The credit risk Stage allocation model is the key aspect of the new accounting model required for expected credit loss calculation, whose aim is transfer of credit exposures from Stage 1 to Stage 2. Stage 3 includes exposures in default.
IFRS 9 guidelines are extensive in terms of principles of assessing significant increases in credit risk. However, the Standard does not precisely define the term "significant", so it is at the banks' discretion to define significance of increase in credit risk.

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

- Forbearance status classification - results in an exposure automatically classified in Stage 2 for a period of 24 months (from the date of classification);
- 30 days past due - if a transaction reaches 30 dpd, it should be classified as Stage 2;
- 30+ days past due during the past 12 months;
- Restructuring status - all performing exposures are automatically classified as Stage 2 (PSC 651);
- Watch list classification (Watch list; PSC 600 and 601);
- Manual adjustments - customers with recognised increasing credit risk but not classified using the main qualitative criteria;
- Criteria that the Bank follows in comprising the list of contracts / clients for manual Stage adjustments are:
    - o the client has not fulfilled their obligation of registering a mortgage in housing loans within defined deadlines;
    - o employees of a client-legal entity with recognised increasing credit risk;
    - o other - individual cases of recognised increasing credit risk.

Financial assets consisting of securities, are classified in Stage 1 in accordance with local regulations, prescribing that all placements to central governments should be classified as Stage 1, whereas in accordance the Group's approach, in reports for the Group, the Bank classified them to Stage 2, since the securities are classified as non-investment grade securities, because they were all placed to the central government of Republika Srpska, BiH.

The impairment calculated for assets includes forward-looking adjustments and multiple scenarios applicable to this class of assets.

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

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

Exposures assigned to Stage 2 are assigned to Stage 1 when the following conditions are met:
1) when all the reasons that indicated a significant increase in credit risk ceased to exist and
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 Stage 2 within 24 months from the date of restructuring,
    2. for restructured exposures that at the time of restructuring were assigned to Stage 3 within 24 months from the date of assignment to Stage 2; otherwise, the restructured exposure is reallocated to Stage 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 Stage 3 are assigned to Stage 2 when the following conditions are met:
1) when all conditions for assigning the client to Stage 3 have ceased to be applicable and
2) when the debtor during the defined period of recovery has continuously demonstrated regularity in repayment, 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 Stage 3 ceased to be applicable.

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

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

Furthermore, specific adjustments have been developed on probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters used in the expected credit loss (ECL) calculation. The new model has been developed for allocation of performing assets by Stage: Stage 1 and Stage 2 , at a transaction Stage.
The main difference between the two Stages refers to the time horizon for which the expected credit loss is expected to be calculated. In fact, for Stage 1 transactions a one-year expected credit loss is applied, while calculation of multi-year expected credit loss applies to Stage 2 transactions.

Basic adjustments made to the credit parameters are the following:

- inclusion of the “point-in-time” approach in the parameters' calculation, instead of the “through-the-cycle” adjustment (TTC),
- inclusion of forward-looking information (FLI), and
- credit parameters calculation considering the period of assets' duration

When it comes to calculating the multi-year PD, the TTC PD curves derived from the established cumulative default rates are further calibrated to reflect current and future portfolio default rate expectations.

3.12.2. Parameters and risk definitions used for impairment calculation

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

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

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

The methodology for calculating allowances for expected credit losses must be aligned with group standards and corected in accordance with local regulatory requirements by BARS and approved by the Bank's Management Board. The analysis and testing of the methodology of parameters is regularly performed by the Bank and the internal validation function is responsible for it.

3.12.3. Definition of Default

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

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

1) the debtor is over 90 days past due in liability settlement towards the Bank in materially significant amount,
2) the Bank considers it is certain that the customer will be unable to settle at least one of its credit liabilities in full without the Bank resorting to the collection measures (Unlikeliness to pay).

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

3.12.4. Significant increase in credit risk

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

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

See Note 7 Risk management for more details.

3.13. POCI Purchased or Originated Credit Impaired Assets

POCI financial asset is a financial asset that is credit impaired upon origination. The Standard and the local regulator stipulate different rules for such items in terms of their valuation rules, recognition of loss allowances for expected credit losses.

POCI assets include:

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

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

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

While determining POCI status of assets, the Bank is obliged to consider exposure on a single exposure Stage, not on a client Stage.

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

3.14. Write-offs

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

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

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

3.15. De-recognition of financial assets

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

When assessing the de-recognition of a loan to a client, the Bank shall, inter alia, consider the following factors: change in the currency of the loan, introduction of provisions on equity share, change of the other contracting party, or in the event that the amendment results in the instrument no longer meeting the SPPI test criteria.
If the change does not result in cash flows that are substantially different, the change does not result in derecognition. Based on the change in the cash flows discounted by the original EIR, the Bank record gain or loss on the change, to the extent that the impairment loss has not been recorded yet.
Financial assets (or any part thereof or part of a group of similar financial assets) are derecognised when the rights to receive cash flows from the financial asset have expired or when they are transferred, and or

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

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

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

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

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 BARS decision 31.12.2022 BAM '000	ECL according to IFRS 9 31.12.2022 BAM '000	DIFFERENCE 31.12.2022 BAM '000
Impairment			
1. Cash and cash balances	**283**	**266**	**17**
2. Financial assets at amortised cost	**46.929**	**45.438**	**1.491**
Obligatory reserve held with the Central Bank	133	133	
Loans and receivables with banks	106	39	67
Loans and receivables with customers	46.690	45.266	1.424
3. Other assets	**454**	**454**	**-**
4. Provisions for credit risk on commitments and financial guarantees issued	**3.036**	**1.979**	**1.057**
TOTAL (1+2+3+4)	**50.702**	**48.137**	**2.565**
5. Other financial assets at fair value through other comprehensive income	110	927	(818)
TOTAL (1+2+3+4+5)	**50.812**	**49.064**	**1.747**

	ECL according to BARS decision 31.12.2021 BAM '000	ECL according to IFRS 9 31.12.2021 BAM '000	DIFFERENCE 31.12.2021 BAM '000
Impairment			
1. Cash and cash balances	189	146	43
2. Financial assets at amortised cost	**43.755**	**41.764**	**1.991**
Obligatory reserve held with the Central Bank	208	208	-
Loans and receivables with banks	160	126	34
Loans and receivables with customers	43.387	41.430	1.957
3. Other assets	**519**	**519**	**-**
4. Provisions for credit risk on commitments and financial guarantees issued	**3.682**	**3.402**	**280**
TOTAL (1+2+3+4)	**48.145**	**45.831**	**2.314**
5. Other financial assets at fair value through other comprehensive income	377	2.448	(2.071)
TOTAL (1+2+3+4+5)	**48.522**	**48.279**	**243**

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 payment due in accordance with the terms of the debt instrument. Liabilities under financial guarantees are initially recognized at fair value, which is amortized over the term of the financial guarantee. Liabilities under the guarantees are subsequently valued at the amortized amount or the present value of the expected cash flows (when payment under the guarantee is probable), depending on which amount is greater.
Loan commitments are commitments for granting loans under previously agreed conditions.

3.19. Tangible assets

Tangible assets recognised according to IAS 16 – „Property, Plant and Equipment“ – include the following items:

- land and buildings;
- furniture and fixtures;
- plant and machinery;
- other machinery and equipment.

The position “Tangible assets” in the Report on the financial position includes:

- iproperty, which is used in business,
- property held for investment purposes (investment real estate),
- property resulting from the collection of collateral and
- long-term leases that are valued in accordance with IFRS 16.

Tangible assets used for own business purposes

Tangible assets used for own business purposes are held for use in production or supply of goods or services or for administrative purposes and are expected to be used longer than one year.

The item of “property, plant and equipment” includes assets that the Bank uses as a lessee in a lease contract (right of use), or leases out under operating lease, as well as leasehold improvements connected with assets that can be individually identified. Leasehold improvements are usually performed in order to adjust the leased space to the expected use.
Assets held as investment property are covered by IAS 40, i.e., those are held to earn rental income and / or for capital appreciation.
Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

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

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

After initial recognition, tangible assets are measured as follows:

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

The revaluation model requires that tangible assets are stated in the balance sheet at a value that is not significantly different from the fair value. Revaluation is performed by independent external appraisers via a “desktop“ or an “on-site” assessment, based on asset relevance.
Positive changes in the fair value are recognised within the other comprehensive income, under the item of tangible assets, and are accumulated within the revaluation reserves unless the said changes offset previous negative changes recognised in the profit and loss under item of other operative income and expenses.

Negative changes in the fair value are recognised under other operating income and expenses, unless they offset the previous positive changes recognized in the other comprehensive income, under the item tangible assets and accumulated within the revaluation reserves.

The cost model requires that the gross carrying value be amortised through the asset’s lifetime.
Tangible assets measured using both the revaluation model and the cost model are subject to straight-line depreciation during their useful lives for those if they have definite lifetimes.

Depreciation rates used for tangible assets are set out below:

	2022	2021
Buildings	2.0% - 5.0%	2.0% - 5.0%
Electronic system	12.5% - 25.0%	12.5% - 25.0%
Office furniture and equipment	12.5% - 20.0%	12.5% - 20.0%
Other	12.5% - 25.0%	12.5% - 25.0%
Leasehold improvements	20.0%	20.0%

Depreciation is calculated monthly and is recognised under the line item of "Depreciation of tangible assets ".
Items with an indefinite useful life are not depreciated.

Land and buildings are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings have a finite useful life and are therefore subject to depreciation.
The estimate of the useful life of an asset is reviewed at least at each accounting period-end based, inter alia, the terms of the asset's use, maintenance conditions and expected obsolescence, and, if expectations differ from the previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

At each reporting date, the property is reviewed to identify possible impairments. For this purpose, the current carrying amount is compared with the recoverable amount in accordance with IAS 36. The recoverable amount is the higher of the following two: fair value less costs to sell or value in use.

If the recoverable amount is less than the book value, an impairment is recognized. If the asset generates an inflow that is largely dependent on the cash inflow of other assets, an impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed at the cash-generating unit to which the asset belongs. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Impairment or reversal of impairment, if any, is shown under the item other operating income only up to the amount up to which the revaluation reduction of the same asset, which was previously recognized as an expense, is reversed or under the item other operating expenses only if it exceeds the amount of existing revaluation reserves within capital. In the event that the reason for impairment ceases to exist, the previously recognized impairment is reversed.
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

IItems of property, plant and equipment are derecognised in case of disposal or when no future economic benefits are expected from an asset's use or future sale, while any difference between the sale proceeds or the recoverable amount and its carrying value is recognised within gains/(losses) of corresponding tangible assets.
For tangible assets measured at revalued amounts, any gain on the sale, including the amounts accumulated in the revaluation reserves, is reclassified to the equity reserves, with no impact on the profit and loss.

Tangible Assets Acquired by Collateral Foreclosure

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

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

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

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

During 2022, the Bank reduced part of the acquired tangible assets in the amount of 366 thousand BAM, which met the prescribed conditions, to a technical value of 1 BAM per individual property.

Right-of-use Assets

Imovina s pravom korišćenja u računovodstvu zajmoprimca se priznaje u skladu sa MSFI 16, koji je na snazi od 1. januara 2019. godine, dok je računovodstvo zajmodavca ostalo nepromijenjeno.
Zakupi, u kojima je Banka zakupoprimac, se priznaju kao imovina, koja predstavlja pravo korišćenja predmetne imovine i istovremeno obaveze za buduća plaćanja ugovorenih zakupnina.

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 recognised 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 realised,
- 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.

On the date of first application of IFRS 16, January 1, 2019, the Bank recognized the right-of-use tangible assets in the amount of BAM 3.077 thousand, which relates to lease agreements for business premises and lease obligations in the same amount, and the value of this property as of 31 December 2022 is BAM 1.918 thousand (as of 31 December 2021: BAM 1.718 thousand).

As of December 31, 2022, the Bank held 17 lease contract, accounted for in accordance with IFRS 16, with the following durations:

	2023.	2024.	2025.	2026.	2027.	2028.	Total
Number of lease contracts	4	3	1	3	3	3	17

3.20. Intangible assets

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

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

Amortisation rates used for intangible assets are set out below:

	2022	2021
Intangible assets – software and licences	20.0% - 25.0%	20.0% - 25.0%

3.21. Provisions for Risks and Expenses

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

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

3.22. Equity

Share capital comprises common stock (ordinary) shares and is stated in BAM at nominal value.
Reserves from profit were formed through the distribution of the net profits from prior years, and include legal reserves and capital reserves.
According to the Law on Companies, upon distribution of profit as per the annual accounts, shareholding companies in the Republika Srpska are required to allocate a minimum of 5% of their annual profit to reserves from profit until the amount of such reserves reaches a Stage of 10% of the company's shareholding capital.
Share premium represents the accumulated positive difference between the nominal value of the issued shares and the paid-in amount.

Fair value reserves 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 recognised as a liability in the period in which they are approved by the Bank's shareholders.
Retained earnings or accumulated profit include retained and unallocated earnings that can be distributed in the ensuing period.
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 for and on behalf of third parties. These funds do not constitute part of the Bank's assets, and, therefore, they are excluded from the statement of financial position. The Bank receives fee income for providing these services and does not bear any credit risk.

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.
Management uses the profit or loss report listed below, as well as the amount of gross interest-bearing loans, the volume of deposits and related KPIs, as the primary method of determining the business success of the segments. 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: Enterprises and the public sector, Retail and Others.
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

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

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

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

The amount of deferred tax asset or liability is recognised using the tax rate that is expected to be applied to taxable profit for the period in which realisation or settlement of the carrying values of the assets or liabilities is expected, based on the tax rates applicable at the reporting date.
Measurement of deferred tax liabilities and assets reflects the tax effects that would result from the manner in which the Bank expects, at the reporting date, to recover or settle the net carrying values of these assets and liabilities.

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

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

3.26. Litigations

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

4. Notes to the Statement of the Comprehensive Income

4.1. Net Interest Income

Breakdown by type of financial asset

	31.12.2022 BAM '000	31.12.2021 BAM '000
Interest income calculated using the effective interest rate method		
1. Financial assets at fair value through other comprehensive income	5.041	8.657
2. Financial assets at amortised cost		
a) Obligatory reserve with the Central Bank	-	-
b) Loans and receivables with banks	668	223
c) Loans and receivables with customers	46.851	45.714
Total interest income	**52.560**	**54.594**
Interest expense		
Financial assets at amortised cost		
a) Deposits and borrowings from banks	(2.255)	(2.964)
b) Deposits and borrowings from customers	(3.382)	(6.091)
Total interest expenses	**(5.637)**	**(9.054)**
Net interest income	**46.923**	**45.540**

Breakdown by sectors

	31.12.2022 BAM '000	31.12.2021 BAM '000
Interest income calculated using the effective interest rate method		
Private individuals	28.939	27.904
Companies and entrepreneurs	10.490	10.010
Banks	668	223
Public sector	12.463	16.457
Total interest income	**52.560**	**54.594**
Interest expenses		
Private individuals	(1.687)	(3.069)
Companies and entrepreneurs	(1.176)	(1.884)
Banks	(2.255)	(2.964)
Public sector	(149)	(283)
Other organizations	(370)	(855)
Total interest expenses	**(5.637)**	**(9.054)**
Net interest income	**46.923**	**45.540**

4.2. Fee and Commission Income

	31.12.2022 BAM '000	31.12.2021 BAM '000
Packages and account maintenance	5.003	4.307
Payment operations transactions	7.761	7.054
Card fees	3.869	3.282
Loan fees	1.055	1.032
Forex dealing fees	1.332	1.242
Other fees and commissions	398	354
Total fee in accordance with IFRS 15	**19.418**	**17.271**
Financial guarantee contract and loan commitments	1.688	1.618
Total fee and commission income	**21.106**	**18.888**
Fee and commission expense		
Payment transactions fees	(978)	(939)
Card fees	(3.004)	(2.613)
Loan fees	(32)	(194)
Cash collection fees	(41)	(14)
Other fees and commissions	(291)	(349)
Total fee and commission expense	**(4.346)**	**(4.109)**
Net fee and commission income	**16.760**	**14.779**

4.3. Net trading income

	31.12.2022 BAM '000	31.12.2021 BAM '000
Dividend income	4	4
Trading income	12	(12)
Foreign exchange income	3.458	2.090
Net trading income	**3.474**	**2.082**

4.4. Staff expenses

	31.12.2022 BAM '000	31.12.2021 BAM '000
Regular income gross salary	(14.939)	(14.257)
Variable payments - bonuses	(1.283)	(1.365)
Other employee expenses	(1.935)	(1.803)
Expenses for severance pay	(268)	(63)
Other expenses (work contracts)	(208)	(193)
Total staff expenses	**(18.632)**	**(17.680)**

Staff expenses include pension and disability insurance contributions paid in 2022 in the amount of BAM 3,558 thousand (2021: BAM 3,311 thousand).

	31.12.2022	31.12.2021
Number of employees on reporting date	422	437
Average number of employees during the year based on working hours	430	438

4.5. Depreciation

	31.12.2022 BAM '000	31.12.2021 BAM '000
Depreciation of own business premises	(533)	(520)
Equipment depreciation costs	(1.055)	(1.073)
Depreciation of intangible assets	(2.722)	(2.681
Depreciation of investment in leasehold improvements	(148)	(199)
Depreciation of long-term leases	(636)	(644)
Total depreciation	**(5.094)**	**(5.117)**

4.6. Other administrative expenses

	31.12.2022 BAM '000	31.12.2021 BAM '000
ICT	(4.588)	(4.291)
Sundry operating expenses	(3.253)	(3.290)
Real estate expenses	(1.214)	(1.029)
Consulting & professional services	(2.356)	(1.639)
Security and cash management	(1.216)	(1.089)
Advertising & marketing expenses	(392)	(340)
Back office expenses	(735)	(606)
Other staff expenses	(302)	(200)
Indirect taxes and contributions	(217)	(280)
Loans approval and monitoring	(172)	(263)
Total other administrative expenses	**(14.444)**	**(13.025)**

4.7. Net impairment losses / recoveries on financial instruments

	31.12.2022 BAM '000	31.12.2021 BAM '000
Cash and cash equivalents	(94)	250
Obligatory reserve held with the Central Bank	75	109
Loans and receivables with banks	55	14
Loans and receivables with customers	(5.986)	(4.496)
Financial assets at fair value through other comprehensive income	267	2.147
Provision costs for undriven loans and guarantees	646	(969)
Other assets	50	(26)
Net impairment losses / recoveries on financial instruments	**(4.987)**	**(2.971)**

4.8. Provisions for risk and expenses

	31.12.2022 BAM '000	31.12.2021 BAM '000
Provision costs for other liabilities	(438)	-
Long-term provisions for employees	4	4
Provision cost for litigations	8	-
Total	**(426)**	**4**

4.9. Other operating income and expense

	31.12.2022 BAM '000	31.12.2021 BAM '000
Other operating income		
Revenues based on the collection of accounts receivable written off	1.339	1.550
Profits from the sale of equipment, which is carried at amortized cost	63	21
Profits from the sale of SMI	1.056	2.296
Profits from the sale of debt securities	221	0
Other income	63	46
Total other operating income	**2.741**	**3.913**
Other operating expenses		
Losses from the sale of debt securities	(320)	-
Expenses based on changes in the value of commercial properties that are carried at fair value	(16)	(4)
Expenses based on changes in SMI value (impairment and reduction to technical value)	-	(557)
Other expenses	(313)	(165)
Total other operating expenses	**(650)**	**(726)**
Net other operating income	**2.092**	**3.186**

4.10. Income tax

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

Income tax expenses recognized in the statement of profit or loss

	31.12.2022 BAM '000	31.12.2021 BAM '000
Income tax for the year		
Current income tax	2.325	1.863
Deferred income tax	(39)	(407)
Total income tax	**2.286**	**1.456**

Reconciliation of the income tax

	31.12.2022 BAM '000	31.12.2021 BAM '000
Profit before tax	**25.664**	**26.798**
Current income tax calculated at a rate of 10%	**2.566**	**2.680**
Adjustment of the tax base		
Tax reduction for excluded income	(554)	**(847)**
Tax increase for unrecognized expenses	313	31
Effects of changes in deferred taxes on temporary differences	(39)	(407)
Income tax	**2.286**	1.456
Average effective income tax rate	**8.91%**	**5.43%**

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 Stage 2 and 3.

4.11. Earnings per share

	31.12.2022 BAM '000	31.12.2021 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	**23.379**	25.342
Earnings per share in BAM	**168,62**	**182,78**

In 2022, the Bank did not pay a dividend (in 2021, a dividend in the amount of BAM 14,780 thousand was paid out of the net profit realized in 2019).

5. Notes to the Statement of Financial Position

5.1. Cash and cash balances

	31.12.2022 BAM '000	31.12.2021 BAM '000
Cash in the local currency	30.207	30.667
Funds held with the Central Bank	199.473	67.727
Cash in foreign currency	38.472	72.017
Impairment	(283)	(189)
Total cash and cash equivalents	**267.869**	**170.222**

5.2. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income by type

	31.12.2022 BAM '000	31.12.2021 BAM '000
Equity securities		
Domestic organizations - quoted	241	236
Foreign organizations - unquoted	43	8
Total equity securities	**284**	**244**
Debt securities		
Republika Srpska securities - quoted	**85.183**	**241.743**
Total financial assets at fair value through other comprehensive income	**85.467**	**241.987**

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

	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
31.12.2022				
Equity securities	-	-	284	284
Republika Srpska securities-quoted	-	85.183	-	85.183
Total	**-**	**85.183**	**284**	**85.467**
31.12.2021				
Equity securities	-	-	244	244
Republika Srpska securitiess-quoted	-	241.743	-	241.743
Total	**-**	**241.743**	**244**	**241.987**

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 hierarchy Level 2, 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 July 22, 2022, the Moody's Investors Service credit rating agency confirmed Bosnia and Herzegovina's sovereign credit rating of "B3 with a stable outlook". Securities are classified into exposures allocated to credit risk Stage 1 and expected credit losses are determined accordingly..

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

Gross exposure	31.12.2022 Credit risk level					31. 12.2021
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	Total BAM '000
Internal valuation Stage						
Performing loans	**85.183**	**-**	**-**	**-**	**85.183**	**241.743**
Low risk	85.183	-	-	-	85.183	241.743
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**85.183**	-	-	-	**85.183**	**241.743**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**241.743**	-	-	-	**241.743**
New funding	-	-	-	-	-
	-	-	-	-	-
Changes in fair value	180				180
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(34.877)	-	-	-	(34.877)
Amounts written-off	-	-	-	-	-
Other changes (sales)	(121.863)	-	-	-	(121.863)
Balance as of 31.12.2022	**85.183**	**-**	**-**	**-**	**85.183**

Loss allowance movements

Ispravka vrijednosti	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**377**	-	-	-	**377**
	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment	(267)	-	-	-	(267)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**110**	-	-	-	**110**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**240.100**	-	-	-	**240.100**
New funding	48.838	-	-	-	48.838
	-	-	-	-	-
Changes in fair value	(6.315)	-	-	-	(6.315)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(39.985)	-	-	-	(39.985)
Amounts written-off	-	-	-	-	-
Other changes	(895)	-	-	-	(895)
Balance as of 31.12.2021	**241.743**	-	-	-	**241.743**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01. 01.2021	**2.524**	-	-	-	**2.524**
Assets no longer recognized	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment change	(2.147)	-	-	-	(2.147)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**377**	-	-	-	**377**

5.3. Obligatory reserve with the Central Bank

	31.12.2022 BAM '000	31.12.2021 BAM '000
Obligatory reserve with the Central Bank in domestic currency	107.500	131.311
Cash impairment	(133)	(208)
Total	**107.367**	**131.103**

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

The basis for the calculation of the obligatory reserve is the average amount of deposits and borrowed funds in BAM, 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). The basis for calculation of the obligatory reserve excludes deposits placed with the Bank by domestic banks and domestic banks in bankruptcy.

Obligatory reserve rate of 10% is applied to the above said basis amount.

Until August 31, 2022, the Central Bank calculated a fee on the amount of obligatory reserve funds at the rate applied by the European Central Bank to deposits of commercial banks (Deposit Facility Rate) minus 10 basis points (0.60%).
As of January 1, 2022, the Central Bank has calculated the fee at the rate applied by the European Central Bank to deposits of commercial banks (Deposit Facility Rate), in the amount of (0.75%).
From 01 September 2022 with the aim of harmonizing with the reference interest rate of the European Central Bank (ECB) and mitigating the impact of the increase in the ECB reference interest rate on the operations of banks in Bosnia and Herzegovina, the fee on assets above the required reserve was reduced from (0.75%) to (0.25%).
The fee on mandatory reserve assets based on the base in foreign currency and in domestic currency with a currency clause was reduced from (0.60%) to (0.10%).
Fees are not calculated on obligatory reserve funds based on the base in local currency, BAM.

Gross exposure

Gross exposure	31.12.2022 Nivo kreditnog rizika					31. 12.2021
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	Total BAM '000
Internal valuation Stage						
Performing loans	**107.500**	**-**	**-**	**-**	**107.500**	**131.312**
Low risk	107.500	-	-	-	107.500	131.312
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**107.500**	**-**	**-**	**-**	**107.500**	**131.312**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01. 01.2022	**131.312**	-	-	-	**131.312**
New funding	3.758.360	-	-	-	**3.758.360**
Assets not longer recognized	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(3.782.172)	-	-	-	**(3.782.172)**
Amounts written-off	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Balance as of 31.12.2022	**107.500**	-	-	-	**107.500**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01. 01.2022	**208**	-	-	-	**208**
	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	**-**
Impairment change	(75)	-	-	-	**(75)**
Amounts written-off	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Balance as of 31.12.2022	**133**	-	-	-	**133**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01. 01.2021	**125.444**	**-**	**-**	**-**	**125.444**
New funding	3.553.795	-	-	-	3.553.795
	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(3.547.927)	-	-	-	(3.547.927)
Amounts written-off	-	-	-	-	-
Other change	-	-	-	-	-
Balance as of 31.12.2021	**131.312**	**-**	**-**	**-**	**131.312**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01. 01.2021	**316**	**-**	**-**	**-**	**316**
	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment change	(108)	-	-	-	(108)
Amounts written-off	-	-	-	-	-
Other change	-	-	-	-	-
Balance as of 31.12.2021	**208**	**-**	**-**	**-**	**208**

5.4. Loans and receivables due from banks

	31.12.2022 BAM '000	31.12.2021 BAM '000
Loans to foreign banks	105.682	48.896
Loans to domestic banks	-	16.006
Impairment allowance	(106)	(160)
Total	**105.576**	**64.741**

Of the loans and receivables due from banks with a balance as of 31.12.2022 in the amount of BAM 105,576 thousand, the amount of BAM 39,117 thousand refers to loans and receivables due from related banks (31.12.2021: BAM 16,000 thousand).

Gross exposure

Gross exposure	31.12.2022 Credit risk level					31. 12.2021
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	Total BAM '000
Internal rating grade*						
Performing loans	**105.682**	**-**	**-**	**-**	**105.682**	**64.901**
Low risk	105.682	-	-	-	105.682	64.901
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**105.682**	**-**	**-**	**-**	**105.682**	**64.901**

*The 12-month exposure-weighted PD for default risk varies as follows: 0.49%-7.25% for loans in credit risk level 1, and 0.49%-48.18% for loans in credit risk level 2, depending on the type of product and the number of days of the client's delay

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**64.901**	**-**	**-**	**-**	**64.901**
New funding	13.599.823				13.599.823
Assets no longer recognised		-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2					
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(13.559.042)	-	-	-	(13.559.042)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**105.682**	-	-	-	**105.682**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**160**	**-**	**-**	**-**	**160**
Assets no longer recognised		-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	-
Impairment changes	(54)	-	-	-	(54)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**106**	**-**	**-**	**-**	**106**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**64.902**	**-**	**-**	**-**	**64.902**
New funding	5.078.878	-	-	-	5.078.878
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(5.078.879)	-	-	-	(5.078.879)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**64.901**	**-**	**-**	**-**	**64.901**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**174**	**-**	**-**	**-**	**174**
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impairment changes	(14)	-	-	-	(14)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**160**	**-**	**-**	**-**	**160**

5.5. Loans and receivables from customers

Loans and receivables due from clients at amortised cost

	31.12.2022 BAM '000	31.12.2021 BAM '000
Legal entities		
in BAM	256.271	365.385
in foreign currencies	10.091	14.030
with a foreign currency clause	126.236	190.033
Total gross legal entities	**392.598**	**569.448**
Impairment allowance of loans	(17.567)	(14.459)
Net loans legal entities	**375.031**	**554.989**
Private individuals		
in BAM	347.023	333.573
in foreign currencies	-	-
with a foreign currency clause	135.596	170.203
Total gross private individuals	**482.619**	**503.777**
Impairment allowance of loans	(29.124)	(28.928)
Net loans private individuals	**453.495**	**474.849**
Total gross loans	**875.217**	**1.073.224**
Total net loans	**828.527**	**1.029.838**

Gross exposure

Gross exposure – legal entities	31.12.2022 Credit risk level Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	31. 12.2021 Total BAM '000
Internal valuation model						
Performing	**355.006**	**16.240**	**-**	**-**	**371.247**	**567.962**
Low risk	355.006	-	-	-	355.006	519.311
Medium risk	-	16.240	-	-	16.240	48.651
Non-performing loans	**-**	**-**	**21.351**	**-**	**21.351**	**1.486**
Default status	-	-	21.351	-	21.351	1.486
Total legal entities	**355.006**	**16.240**	**21.351**	**-**	**392.598**	**569.448**
Gross exposure – private individuals	**Stage 1 BAM '000**	**Stage 2 BAM '000**	**Stage 3 BAM '000**	**POCI BAM '000**	**Total BAM '000**	**Total BAM '000**
Internal valuation model						
Performing	**436.755**	**29.805**	**-**	**-**	**466.560**	**486.737**
Low risk	436.755	-	-	-	436.755	448.440
Medium risk	-	29.805	-	-	29.805	38.297
Non-performing loans	**-**	**-**	**16.059**	**-**	**16.059**	**17.040**
Default status	-	-	16.059	-	16.059	17.040
Total private individuals	**436.755**	**29.805**	**16.059**	**-**	**482.619**	**503.777**
Total loans to clients	**436.755**	**29.805**	**-**	**-**	**466.560**	**486.737**

Loans and receivables due from clients at amortised cost - legal entities

Gross exposure by internal rating level

31.12.2022	Gross exposure					Average IFRS9 PD weighted by balance sheet exposure				
Gross exposure	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Internal rating level										
Performing	**355.006**	**16.240**	**-**	**-**	**371.247**	**0.6%**	**1.0%**	**-**	**-**	**0.7%**
Rating 1	-	-	-	-	-	-	-	-	-	-
Rating 2	-	-	-	-	-	-	-	-	-	-
Rating 3	10.008	-	-	-	10.008	0.1%	-	-	-	**0.1%**
Rating 4	39.744	-	-	-	39.744	0.2%	0.2%	-	-	**0.2%**
Rating 5	224.651	10.329	-	-	234.980	0.5%	0.7%	-	-	**0.5%**
Rating 6	76.613	4.706	-	-	81.320	1.3%	1.2%	-	-	**1.3%**
Rating 7	3.842	785	-	-	4.627	3.2%	3.3%	-	-	**3.3%**
Rating 8	147	419	-	-	567	-	6.0%	-	-	**6.0%**
Nonperforming	**-**	**-**	**21.351**	**-**	**21.351**	**-**	**-**	**100%**	**-**	**100%**
Rating 8 -	-	-	20.221	-	20.221	-	-	100%	-	100%
Rating 9	-	-	95	-	95	-	-	100%	-	100%
Rating 10	-	-	1.036	-	1.036	-	-	100%	-	100%
Total	**355.006**	**16.240**	**21.351**	**-**	**392.598**	**-**	**-**	**-**	**-**	**-**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**519.311**	**48.651**	**1.486**	**-**	**569.448**
New funding	84.902	-	-	-	84.902
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	3.547	(3.547)	-	-	-
Transfers to Stage 2	(5.203)	5.203	-	-	-
Transfers to Stage 3	(19.899)	-	19.899	-	-
Repaid assets	(227.652)	(34.067)	(33)	-	(261.752)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**355.006**	**16.240**	**21.351**	**-**	**392.598**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**3.362**	**9.638**	**1.459**	**-**	**14.459**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	164	(164)	-	-	-
Transfers to Stage 2	(18)	18	-	-	-
Transfers to Stage 3	(92)	-	92	-	-
Impairment change	71	(6.672)	9.780	-	3.180
Amounts written-off	-	-	-	-	-
Other changes	-	-	(72)	-	(72)
Balance as of 31.12.2022	**3.488**	**2.820**	**11.259**	**-**	**17.567**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**429.273**	**82.956**	**6.668**	**-**	**518.897**
New funding	219.986	-	93	-	219.986
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	19.896	(19.896)	-	-	-
Transfers to Stage 2	(29.642)	3.776	(257)	-	-
Transfers to Stage 3	-101	-	101	-	-
Repaid assets	(120.008)	(44.308)	(1.889)	-	(166.205)
Amounts written-off	-	-	(3.230)	-	(3.230)
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**519.311**	**48.651**	**1.486**	**-**	**569.448**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**2.255**	**9.596**	**6.412**	-	**18.263**
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	55	(55)	-	-	-
Transfer to Stage 2	(177)	306	(129)	-	-
Transfer to Stage 3	(101)	-	101	-	-
Impairment changes	1.330	(209)	(1.695)	-	(574)
Amounts written-off	-	-	(3.230)	-	(3.230)
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**3.362**	**9.638**	**1.459**	-	**14.459**

Loans and receivables due from clients at amortised cost – Private individuals

Gross exposure by internal rating level

31.12.2022	Gross exposure					Average IFRS9 PD weighted by balance sheet exposure				
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Internal rating level										
Performing	**436.755**	**29.805**	**-**	**-**	**466.560**	**2.0%**	**4.1%**	**-**	**-**	**2.1%**
0 days late	326.638	13.526	-	-	340.165	1.1%	1.7%	-	-	1.1%
1-29 days late	110.117	13.961	-	-	124.078	4.6%	3.8%	-	-	4.6%
30-90 days late	-	2.318	-	-	2.318		19.8%	-	-	19.8%
Nonperforming	-	**-**	**16.059**	**-**	**16.059**	-	-	**100%**	**-**	**100%**
Default status	-	-	16.059	-	16.059	-	-	100%	-	100%
Total	**436.755**	**29.805**	**16.059**	**-**	**482.619**	**-**	**-**	**-**	**-**	**-**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**448.440**	**38.297**	**17.039**	**-**	**503.777**
New funding	116.569	-	-	-	116.569
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	14.374	(14.365)	(8)	-	-
Transfer to Stage 2	(15.514)	16.441	(927)	-	-
Transfer to Stage 3	(3.221)	(2.077)	5.298	-	-
Repaid assets	(123.892)	(8.491)	(2.760)	-	(135.143)
Amounts written-off	-	-	(2.584)	-	(2.584)
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**436.755**	**29.805**	**16.059**	**-**	**482.619**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**8.565**	**5.028**	**15.335**		**28.928**
Assets no longer recognised					0
Transfer to Stage 1	334	(334)	(0)		0
Transfer to Stage 2	(311)	403	(92)		-
Transfer to Stage 3	(115)	(538)	653		-
Impairment changes	1.105	396	1.306		2.806
Amounts written-off			(2.584)		(2.584)
Other changes			-27		-27
Balance as of 31.12.2022	**9.577**	**4.955**	**14.591**	**-**	**29.124**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**402.498**	**42.564**	**18.136**	**-**	**463.198**
New funding	178.181			-	178.181
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	12.529	(12.525)	(4)	-	-
Transfer to Stage 2	(22.338)	23.778	(1.440)	-	-
Transfer to Stage 3	(3.246)	(2.805)	6.051	-	-
Repaid assets	(119.184)	(12.715)	(752)	-	(132.651)
Amounts written-off	-	-	(4.951)	-	(4.951)
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**448.440**	**38.297**	**17.040**	**-**	**503.777**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**7.131**	**5.142**	**16.439**	-	**28.712**
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	255	(255)	-	-	-
Transfer to Stage 2	(996)	1.099	(103)	-	-
Transfer to Stage 3	(1.985)	(2.282)	4.267	-	-
Impairment changes	4.160	1.324	(317)	-	5.167
Amounts written-off	-	-	(4.951)	-	(4.951)
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**8.565**	**5.028**	**15.335**	-	**28.928**

5.6. Tangible assets

Tangible assets comprise:

	31.12.2022 BAM '000	31.12.2021 BAM '000
Property used for own business purposes		
Land and buildings	15.873	15.101
Equipment and other assets	2.425	2.419
Tangible assets in progress	**2.036**	**1.613**
Leasehold improvements	**503**	**654**
Rright of use assets	**1.918**	**1.718**
Total assets used for own business purposes	**22.755**	**21.505**
Property acquired in process of receivable collection - held for sale	**-**	**366**
Total tangible assets	**22.755**	**21.871**

Changes in tangible assets, which are used in business, are given in the table below:

	Land and buildings	Equipment and other assets	Fixed assets in progress	Leasehold improvements	Right of use assets	Total operating material assets
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Purchase price						
Balance as of 01.01.2021	**28.526**	**18.295**	**2.233**	**2.978**	**3.621**	**55.653**
Revaluation	(115)	-	-	-	-	(115)
New investments	-	-	1.922	10	-	1.932
Transfers	2.073	466	(2.539)	-	-	-
Sales, write-offs and other changes	(1.892)	(419)	(3)	-	-	(2.314)
Balance as of 31.12.2021	**28.592**	**18.342**	**1.613**	**2.988**	**3.621**	**55.156**
Balance as of 01.01.2022	**28.592**	**18.342**	**1.613**	**2.988**	**3.621**	**55.156**
Revaluation	1.428	-	-	-	-	1.428
New investments	-	-	1.576	32	860	2.468
Transfers	-	1.141	(1.153)	12	-	-
Sales, write-offs and other changes	(226)	(456)	-	(376)	-	(1.058)
Balance as of 31.12.2022	**29.794**	**19.027**	**2.036**	**2.656**	**4.481**	**57.994**
Impairment						
Balance as of 01.01.2021	**14.188**	**15.269**	**-**	**2.135**	**1.259**	**32.851**
Depreciation	520	1.073	-	199	644	2.436
Sales, write-offs and other changes	(1.217)	(419)	-	-	-	(1.636)
Balance as of 31.12.2021	**13.491**	**15.923**	**-**	**2.334**	**1.903**	**33.651**
Balance as of 01.01.2022	**13.491**	**15.923**	**-**	**2.334**	**1.903**	**33.651**
Depreciation	533	1.055	-	149	**636**	2.373
Sales, write-offs and other changes	(103)	(376)	-	(330)	24	(785)
Balance as of 31.12.2022	**13.921**	**16.602**	**-**	**2.153**	**2.563**	**35.239**
Net carrying value:						
Balance as of 31.12.2021	**15.101**	**2.419**	**1.613**	**654**	**1.718**	**21.505**
Balance as of 31.12.2022	**15.873**	**2.425**	**2.036**	**503**	**1.918**	**22.755**

The book value of the land, which is not amortized, within the construction facilities and land as of 31.12.2022 amounts to BAM 3,431 thousand (31.12.2021: BAM 3,202 thousand).
Fixed assets in progress as of 31.12.2022 in the amount of BAM 2,036 thousand (31.12. 2021: BAM 1,613 thousand) refer to investments in the reconstruction of business premises in the amount of BAM 645 thousand; investments in hardware and ATMs BAM 1,125 thousand and other equipment in the amount of BAM 265 thousand, which have not yet been put into use.

The revaluation of the Bank's real estate as of 31.12.2022 amount to BAM 3,801 thousand gross (31.12.2021: BAM 2,469 thousand), and were recorded within capital revaluation reserves in the amount of BAM 3,421 thousand (31.12.2021: BAM 2,222 thousand) and deferred tax liability in the amount of BAM 380 thousand (31.12.2021: BAM 247 thousand).
The negative effects of the revaluation are recorded as an impairment expense in the income statement, and in 2022 this expense was recorded in the amount of BAM 16 thousand (2021: BAM 4 thousand).

Property 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.

	Quantity	31.12.2022 BAM '000	31.12.2021 BAM '000
Land	1	*	*
Commercial and residential space	35	*	366
Machinery and equipment	2	*	*
Total	**38**	*	**366**

* recorded at a technical value of BAM 1.

5.7. Intangible assets

	Software BAM '000	Other BAM '000	Intangible assets investments in progress BAM '000	Total intangible assets BAM '000
Purchase price				
Balance as of 01.01.2021	**23.543**	**1.523**	**3.770**	**28.836**
New investments	-	-	2.929	**2.929**
Transfers	2.250	410	(2.660)	**-**
Sales, write-offs and other changes				
Balance as of 31.12.2021	**25.793**	**1.933**	**4.039**	**31.765**
Balance as of 01.01.2022	**25.793**	**1.933**	**4.039**	**31.765**
New investments	-	-	1.747	**1.747**
Transfers	851	265	(1.116)	**-**
Sales, write-offs and other changes			359	**359**
Balance as of 31.12.2022	**26.644**	**2.198**	**5.029**	**33.871**
Impairment				
Balance as of 01.01.2022	**16.573**	**712**	-	**17.285**
Depreciation	2.164	517	-	**2.681**
Sales, write-offs and other changes				
Balance as of 31.12.2022	**18.737**	**1.229**	**-**	**19.966**
Balance as of 01.01.2022	**18.737**	**1.229**	**-**	**19.966**
Depreciation	2.306	415	-	2.721
Sales, write-offs and other changes				
Balance as of 31.12.2022	**21.043**	**1.644**	**-**	**22.687**
Net carrying value:				
Balance as of 31.12.2021	**7.056**	**704**	**4.039**	**11.799**
Balance as of 31.12.2022	**5.601**	**554**	**5.029**	**11.184**

Intangible asset investments in progress as of 31.12.2022 in the amount of BAM 5.029 thousand (31.12.2021: BAM 4.039 thousand) refer to software and other intangible assets, which have not yet been put into use.
As of 31.12.2022, the Bank had no internally generated intangible assets.

5.8. Other assets

	31.12.2022 BAM '000	31.12.2021 BAM '000
Receivables from sale of assets	35	52
Fee receivables	147	146
Receivables for employee salaries	993	491
Receivables from card operations	3.763	3.305
Receivables from operating activities	251	318
Other receivables	1.328	1.150
Total other assets gross	**6.518**	**5.462**
Impairment	(454)	(519)
Total other assets net	**6.064**	**4.943**

Gross exposure by credit risk levels

Gross exposure	31.12.2022 Credit risk level					31.12.2021
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	Total BAM '000
Internal valuation Stage						
Performing status	**6.107**	**30**	**-**	**-**	**6.137**	**4.998**
Low risk	6.107	-	-	-	6.107	4.935
Medium risk	-	30	-	-	30	63
High risk	-	-	-	-	-	-
Non-performing status	**-**	**-**	**381**	**-**	**381**	**465**
Default status	-	-	381	-	381	465
Total	**6.107**	**30**	**381**	**-**	**6.518**	**5.462**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**4.935**	**63**	**465**	**-**	**5.462**
New funding	**1.172**	**-**	**-**	**-**	**1.172**
Assets no longer recognised	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	**-**
Repaid assets	-	-	-	-	**-**
Amounts written-off	-	-	-	-	**-**
Other changes	**-**	**32**	**84**	**-**	**116**
Balance as of 31.12.2022	**6.107**	**30**	**381**	**-**	**6.518**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**119**	**3**	**397**	**-**	**519**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment changes	(31)	(3)	(16)	-	**(50)**
Amounts written-off	-	-	-	-	**-**
Other changes	(15)	-	-	-	**(15)**
Balance as of 31.12.2022	**73**	**-**	**381**	**-**	**454**

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**5.109**	**12**	**447**	**-**	**5.568**
New funding	-	51	**18**	-	**69**
Assets no longer recognised	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	**-**
Repaid assets	**(174)**	-	-	-	**(174)**
Amounts written-off	-	-	-	-	**-**
Other changes	**-**	**-**	**-**	**-**	**-**
Balance as of 31.12.2021	**4.935**	**63**	**465**	**-**	**5.462**

Loss allowance movements

Loss allowance	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**70**	**44**	**380**	**-**	**495**
Assets no longer recognised	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	**-**
Impairment changes	50	(41)	16		**26**
Amounts written-off	-	-	-	-	**-**
Other changes	(2)	-	-	-	**(2)**
Balance as of 31.12.2021	**119**	**3**	**397**	-	**519**

5.9. Deposits and borrowings from banks

	31.12.2022 BAM '000	31.12.2021 BAM '000
Demand deposits		
in BAM	1	14
in foreign currencies	212	130
Total demand deposits	**213**	**144**
Term deposits		
in BAM	-	16.678
in foreign currencies	39.285	116.372
with a foreign currency clause	-	-
Total term deposits	**39.285**	**133.050**
Total deposits	**39.498**	**133.194**
Borrowings		
in foreign currencies	22.220	21.793
Total borrowings	**22.220**	**21.793**
Total deposits and borrowings from banks	**61.718**	**154.987**

Within the deposits and deposits from banks, the amount of BAM 39.286 thousand BAM (31.12.2021: BAM 133.064 thousand) refers to deposits and borrowings from related parties.

Overview of borrowings from banks

	31.12.2022 BAM '000	31.12.2021 BAM '000
EBRD - European Bank for Reconstruction and Development	14.033	9.117
EIB – European Investment Bank	8.105	12.600
MCI – Microcredit fund for the stabilization of the Balkans	82	76
Total	**22.220**	**21.793**

5.10. Deposits and borrowings from customers

	31.12.2022 BAM '000	31.12.2021 BAM '000
Legal entities and entrepreneurs		
Demand deposits		
in BAM	331.577	380.909
with a foreign currency clause	-	-
in foreign currencies	82.115	90.572
Total demand deposits- legal entities	**413.692**	**471.481**
Term deposits	-	-
in BAM	18.745	49.042
with a foreign currency clause	67.611	99.900
in foreign currencies	15.053	14.824
Total term deposits - legal entities	**101.408**	**163.766**
Total deposits - legal entities and entrepreneurs	**515.100**	**635.247**
Private individuals		
Demand deposits		
in BAM	221.686	230.846
with a foreign currency clause	33	103
in foreign currencies	112.012	118.190
Total demand deposits – private individuals	**333.731**	**349.139**
Term deposits		
in BAM	69.699	84.527
with a foreign currency clause	26	63
in foreign currencies	94.992	112.536
Total term deposits private individuals	**164.717**	**197.127**
Total deposits – private individuals	**498.448**	**546.266**
Total deposits from customers	**1.013.548**	**1.181.513**
Borrowings from customers		
in BAM		
with a foreign currency clause	50.062	56.411
in foreign currencies	-	-
Total borrowings from customers	**50.062**	**56.411**
Total deposits and borrowings from customers	**1.063.610**	**1.237.924**

Overview of borrowings from customers

	31.12.2022 BAM '000	31.12.2021 BAM '000
IRB RS – Fond stanovanja Republike Srpske	23.347	25.208
IRB RS – Fond za razvoj i zapošljavanje Republike Srpske	17.156	21.164
IRB RS – Fond za razvoj istočnog dijela Republike Srpske	9.389	9.803
MFRS – IFAD Project	170	206
IRB RS – World Bank	-	30
Total	**50.062**	**56.411**

5.11. Long term lease liabilities

	31.12.2022 BAM '000	31.12.2021 BAM '000
Long-term lease to legal entities	951	815
Long- term lease to private individuals	1.021	962
Total	**1.972**	**1.777**

5.12. Deferred tax assets and liabilitiese

Deferred tax assets and liabilities are calculated on temporary differences according to the balance sheet method using the legal tax rate of 10% (2021: 10%).

As of December 31, 2021, in accordance with current tax regulations and the ABRS Decision on Credit Risk Management and Determination of Expected Credit Losses, the bank calculated and booked the gain from deferred tax assets, which results from temporary differences on tax-unrecognized allowances for credit losses for placements classified in credit risk Stage 1, in the amount of BAM 442 thousand, and after initial recognition, the deferred tax asset is adjusted to changes in the state of expected credit losses for Stage 1.

	31.12.2022 BAM '000	31.12.2021 BAM '000
Deferred tax assets		
Deferred tax assets from re-allocation of CPI fees from previous years	90	127
Deferred tax assets based on financial assets at fair value through other comprehensive income	617	-
Deferred tax assets based on the different tax treatment of allowances for Stage 1 credit losses	594	442
Total deferred tax assets	**1.301**	**569**
Deferred tax liabilities		
Deferred tax liabilities from differences in methods of depreciation calculation and depreciation rates	382	299
Deferred tax liabilities based on change of real estate fair value	380	247
Total deferred tax liabilities	**762**	**546**
Deferred tax assets / liabilities net	**538**	**23**

Movements of deferred tax assets and liabilities

	Deferred tax assets BAM '000	Deferred tax liabilities BAM '000
Balance as of 01.01.2022	**569**	**546**
Loss / (gain) based on the decrease (**increase**) of deferred tax assets and **liabilities** based on differences in the method of calculating depreciation and different rates of depreciation through the income statement	-	83
Loss / (gain) based on the **decrease** (increase) of deferred tax **assets** based on the accrual of CPI benefits from earlier years	(37)	-
Gain / (loss) based on the **decrease** (increase) in deferred tax assets and **liabilities** based on the change in the fair value of assets	-	(8)
Decrease / (increase) in deferred tax assets and **liabilities** based on changes in the fair value of assets	-	141
Gain / (loss) based on **increase** (decrease) in deferred tax **assets** and liabilities of tax-unrecognized value adjustments for credit losses Stage 1	152	--
Gain / (loss) based on **increase** (decrease) in deferred tax assets on financial **assets** at fair value through other comprehensive income	617	-
Balance as of 31.12.2022	**1.301**	**762**
Effect on net result	115	75
Net result through statement of profit or loss	39	-
Balance as of 01.01.2021	**160**	**557**
Loss / (gain) based on the decrease (**increase**) of deferred tax assets and **liabilities** based on differences in the method of calculating depreciation and different rates of depreciation through the income statement	-	26
Loss / (gain) based on the **decrease** (increase) of deferred tax **assets** based on the accrual of CPI benefits from earlier years	(33)	-
Gain / (loss) based on the **decrease** (increase) in deferred tax assets and **liabilities** based on the change in the fair value of assets	-	(24)
Decrease/ (increase) in deferred tax assets and **liabilities** based on changes in the fair value of assets	-	(13)
Gain / (loss) based on **increase** (decrease) in deferred tax **assets** and liabilities of tax-unrecognized value adjustments for credit losses Stage 1	442	-
Balance as of 31.12. 2021	**569**	**546**

5.13. Other liabilities

	31.12.2022 BAM '000	31.12.2021 BAM '000
Liabilities due to employees	4.306	4.955
Received advances for collection of acquired material assets	87	110
Liabilities to suppliers	3.517	2.700
Liabilities for the execution of payment transaction orders in the country	1.120	1.386
Liabilities based on non-nominated deposits	657	657
Accruals and deferred income	318	313
Liabilities for card operations	3.021	1.876
VAT liabilities	310	284
Liabilities based on termination of business relationship	4.255	4.565
Other liabilities	2.758	2.497
Total other liabilities	**20.349**	**19.342**

5.14. Provisions for credit risk on loan commitments and guarantees

	31.12.2022 BAM '000	31.12.2021 BAM '000
Provisions for loan commitments	1.252	1.765
Provisions for guarantees and other warranties	1.784	1.917
Total provisions for credit risks and guarantees	**3.036**	**3.682**

5.15. Provisions for other risks and expenses

	31.12.2022 BAM '000	31.12.2021 BAM '000
Long-term provisions for employees	358	362
Provisions for litigations	1.372	1.486
Provisions for other liabilities	438	-
Total provisions for liabilities and expenses	**2.168**	**1.848**

Changes in provisions for risks and costs

	Long-term provisions for employees	Provisions for litigations	Provisions for other liabilities	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Balance as of 01.01.2021	**366**	**1.486**	**-**	**1.852**
Net gain / (loss) recognized in the statement of profit or loss	-	-		**-**
Provisions used during the period and transfers	(4)	-		**(4)**
Balance as of 31.12.2021	**362**	**1.486**	**-**	**1.848**
Net gain / (loss) recognized in the statement of profit or loss	(4)	(8)	438	**426**
Provisions used during the period and transfers		(106)		**(106)**
Balance as of 31.12.2022	**358**	**1.372**	**438**	**2.168**

In court disputes with legal claims, the dispute that was initiated against the Bank in July 2019 by „Bitminer Factory“ d.o.o. Gradiška (hereinafter: „Bitminer“) was also included. Bitminer has filed a lawsuit before the District Commercial Court in Banja Luka with a claim for damages due to the closure of the transaction accounts by the Bank, stating that the termination of the account obstructed its initial offering (ICO) in connection with the initial project of investing in renewable energy sources and cryptocurrency mining in Bosnia and Herzegovina.

On December 30, 2021, the court of first instance accepted most of Bitminer‘s claims and obliged the Bank to pay compensation in the amount of BAM 256.3 million (approx. EUR 131.2 million). The decision of the first-instance court was not legally binding or enforceable, because the Bank has filed an appeal in January 2022 to the Higher Commercial Court in Banja Luka.

Based on the assessment of the probability of the outcome of the court case, considering that the requirements prescribed by IAS 37 have not been met, the provision for the case against Bitminer has not been made.

On April 18, 2023, the Bank received the verdict of the Higher Commercial Court in Banja Luka number 57 0 Ps 129984 22 Pž dated January 30, 2023., in the legal matter of the plaintiff „Bitminer Factory“ doo Gradiška, in which the Higher Commercial Court fully accepted the appeals of UniCredit Bank ad Banja Luka, changed the first-instance verdict and rejected in full as unfounded the claim of the plaintiff, which demanded payment in the amount of 256.3 million BAM. Plaintiff Bitminer is obliged to pay the litigation cost to the Bank.

The Verdict of the Higher Commercial Court is final and binding and after expiration of voluntary payment period is enforcable.

Verdict of the Higher Commercial Court in Banja Luka provides additional evidence which confirms the Bank’s assessment of the outcome of the case. According to the legislation, Plaintiff has on his disposal extraordinary legal remedy towards the Supreme Court of the Republic of Srpska.

5.16. Share capital

	Regular shares BAM ‘000
Balance as of 01.01.2021	**97.055**
Changes	
Balance as of 31.12.2021	**97.055**
Changes	
Balance as of 31.12.2022	97.055
Nominal value (BAM)	700
Number of regular shares (Bank has no preferred shares)	138.650

The Bank’s shareholders as of December 31, 2022, consist of 1 majority shareholder and 54 minor shareholders: domestic and foreign legal entities and individuals with the share of:

	% share
UniCredit S.p.A. Italy	**99.6084%**
Minority shareholders	0.3916%
	100.00%

As of December 31, 2022, 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 share price on the last trading day in 2022 (17.11.2022) was BAM 1,800.00 (2021: BAM 1,910.00).

5.17. Loan commitments and financial guarantees

	31.12.2022 BAM '000	31.12.2021 BAM '000
Payment guarantees		
in BAM	9.622	14.403
in foreign currencies	16.104	21.594
Total payment guarantees	**25.726**	**35.997**
Performance guarantees		
in BAM	50.253	47.611
in foreign currencies	34.844	35.202
Total performance guarantees	**85.097**	**82.813**
Loan commitments		
in BAM	86.545	116.175
in foreign currencies	-	-
Total loan commitments and guarantees	**86.545**	**116.175**
Letters of credit in foreign currencies	313	4.075
Total contingent liabilities on undriwen credit lines and guarantees, given guarantees and other warrantees	**197.681**	**239.060**

As of 31.12.2022, provisions for the credit risk of assumed obligations and given financial guarantees amounted to BAM 3.036 thousand (31.12.2021: BAM 3.682 thousand).

Gross exposure by credit risk Stages

Gross exposure	31.12.2022 Credit risk level					31.12.2021
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	Total BAM '000
Internal valuation Stage						
Performing loans						
Low risk	169.536	-	-	-	169.536	223.518
Medium risk	-	28.075	-	-	28.075	15.466
Non-performing loans						
Default status	-	-	70	-	70	76
Total	**169.536**	**28.075**	**70**	**-**	**197.681**	**239.060**

Movements of gross exposure

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**223.518**	**15.466**	**76**	**-**	**239.060**
New funding	106.654	-	-	-	104.916
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	864	(862)	-2	-	-
Transfers to Stage 2	(25.727)	25.742	(15)	-	-
Transfers to Stage 3	(61)	(2)	63	-	-
Repaid assets	(135.712)	(12.269)	(52)	-	(148.033)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**169.536**	**28.075**	**70**	**-**	**197.681**

Movements of provision

Provision	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2022	**798**	**2.825**	**59**	**-**	**3.682**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	55	(55)	-	-	-
Transfers to Stage 2	(50)	59	(8)	-	-
Transfers to Stage 3	(5)	0	5	-	-
Impairment changes	646	(1.271)	(22)	-	(646)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2022	**1.444**	**1.558**	**34**	**-**	**3.036**

Movements of gross exposure

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**221.841**	**19.108**	**87**	-	**241.036**
New funding	131.175	11.270	-	-	142.445
Assets no longer recognised	-	**-**	**-**	-	-
Transfer to Stage 1	1.718	(1.717)	(1)	-	-
Transfer to Stage 2	(1.255)	1.265	(10)	-	-
Transfer to Stage 3	(50)	(13)	63	-	-
Repaid assets	(129.911)	(14.447)	(63)	-	(144.421)
Amounts written-off	-	**-**	**-**	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2021	**223.518**	**15.466**	**76**	**-**	**239.060**

Movements of provisions

Provision	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2021	**579**	**2.105**	**29**	-	**2.713**
Assets no longer recognised	-	**-**	**-**	-	-
Transfer to Stage 1	8	(8)	-	-	-
Transfer to Stage 2	(37)	39	(2)	-	-
Transfer to Stage 3	(41)	(10)	51	-	-
Impairment changes	289	699	(19)	-	**969**
Amounts written-off	-	**-**	**-**	-	-
Other changes	-	**-**	**-**	-	-
Balance as of 31.12.2021	**798**	**2.825**	**59**	-	**3.682**

6. Segment Report

In accordance with the internal business organization, the Bank performs customer segmentation as follows:

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

Until the end of 2021, the "Retail" segment included small businesses, and from 2022, small businesses were resegmented into "Enterprises and the public sector".

In order to data comparability, reports by segments for the 2021 were made according to the resegmentation mentioned above.

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

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

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

Report on Profit and Loss and Other Comprehensive Income by segments

31.12.2022	Enterprises and the 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	**14.477**	**30.000**	**2.485**	**46.962**	**(39)**	**46.923**
Net fee and commission income	**5.216**	**11.677**	**(134)**	**16.760**	**0**	**16.760**
ow Packages and account maintenance	143	4.774	-	4.916	87	5.003
ow Payment operations transactions	2.830	4.125	5	6.960	(177)	6.783
ow Card fees	162	877	-	1.039	(173)	865
ow Loan fees	135	830	-	965	57	1.023
ow Forex dealing fees	394	872	(12)	1.255	37	1.292
ow Financial guarantee contract and loan commitments	1.553	135	-	1.688	0	1.688
ow Other fees and commissions	1	64	(127)	(62)	169	107
Net income from financial instruments	2.641	817	(83)	3.375	99	3.474
Total operating income	**22.335**	**42.494**	**2.268**	**67.097**	**60**	**67.157**
Staff expenses	(2.393)	(6.094)	(10.360)	(18.848)	216	(18.632)
Depreciation	(456)	(2.483)	(2.006)	(4.946)	(148)	(5.094)
Other administrative expenses	(1.395)	(6.036)	(4.417)	(11.848)	(2.596)	(14.444)
Indirect and other allocated expenses	(5.066)	(11.292)	16.358	-	-	-
Total operating expenses	(9.311)	(25.906)	(425)	(35.641)	(2.529)	(38.171)
Profit before impairment and provisions	**13.024**	**16.588**	**1.843**	**31.456**	(2.469)	**28.987**
Net (losses) / recoveries from impairment for credit risks	**(1.966)**	**(3.168)**	**42**	**(5.092)**	**105**	**(4.987)**
Financial assets at amortised costs	(1.966)	(3.168)	42	(5.092)	(162)	(5.254)
Financial assets at fair value through other comprehensive income	-	-	-	-	267	267
Provisions for risks and expenses	**(1.963)**	**(2.239)**	**1.246**	**(2.956)**	**2.530**	**(426)**
Other operating income	127	1.012	2.623	3.761	(1.670)	2.091
Result before tax	**9.222**	**12.193**	**5.754**	**27.169**	**(1.505)**	**25.664**
Income tax	(1.248)	(434)	(802)	(2.485)	199	(2.286)
Result after tax	**7.974**	**11.759**	**4.952**	**24.685**	**(1.307)**	**23.379**

Statement of profit and loss and other comprehensive income by segments

31.12.2021	Enterprises and the 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	**13.647**	**27.180**	**4.676**	**45.503**	**37**	**45.540**
Net fee and commission income	**4.488**	**10.533**	**(241)**	**14.779**	**0**	**14.779**
ow Packages and account maintenance	139	4.026	-	4.165	142	4.307
ow Payment operations transactions	2.525	3.730	2	6.257	(141)	6.116
ow Card fees	(3)	835	-	833	(163)	669
ow Loan fees	79	871	-	949	(111)	838
ow Forex dealing fees	316	761	(31)	1.047	180	1.227
ow Financial guarantee contract and loan commitments	1.411	210	0	1.621	(3)	1.618
ow Other fees and commissions	20	99	(213)	(93)	98	5
Net income from financial instruments	**1.427**	**663**	**(12)**	**2.078**	**4**	**2.082**
Total operating income	**19.562**	**38.376**	**4.423**	**62.360**	**41**	**62.401**
Staff expenses	(2.194)	(6.136)	(9.377)	(17.707)	27	(17.680)
Depreciation	(508)	(2.456)	(1.954)	(4.918)	(199)	(5.117)
Other administrative expenses	(1.596)	(5.637)	(3.440)	(10.674)	(2.351)	(13.025)
Indirect and other allocated expenses	(3.871)	(10.574)	14.445	-	-	
Total operating expenses	(8.169)	(24.804)	(325)	(33.298)	(2.524)	(35.822)
Profit before impairment and provisions	**11.393**	**13.572**	**4.097**	**29.063**	(2.484)	**26.579**
Net (losses) / recoveries from impairment for credit risks	**(3.144)**	**(3.304)**	**383**	**(6.065)**	**3.094**	**(2.971)**
Financial assets at amortised costs	(3.144)	(3.304)	383	(6.065)	947	(5.118)
Financial assets at fair value through other comprehensive income	-	-	-	-	2.147	2.147
Provisions for risks and expenses	**(1.306)**	**(1.225)**	**4**	**(2.527)**	**2.531**	**4**
Other operating income	84	2.538	620	3.242	(55)	3.187
Result before tax	**7.027**	**11.581**	**5.104**	**23.713**	**3.085**	**26.798**
Income tax	(464)	(765)	(337)	(1.566)	110	(1.456)
Result after tax	**6.563**	**10.816**	**4.767**	**22.147**	**3.195**	**25.342**

Statement of financial position by segments

31.12.2022	Enterprises and the 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
Assets						
Cash and cash balances	-	-	267.886	267.886	(17)	**267.869**
Financial assets at fair value through profit and loss account	-	-	1	1	-	1
Financial assets at fair value through other comprehensive income	-	-	85.467	85.467	-	**85.467**
Financial assets at amortised cost	**362.356**	**467.594**	**213.010**	**1.042.960**	**(1.490)**	**1.041.470**
Obligatory reserve with the CB	-	-	107.500	107.500	(133)	107.367
Loans and receivables with banks	-	-	105.510	105.510	66	105.576
Loans and receivables with customers	362.356	467.594	0	829.951	(1.424)	828.527
Tangible and intangible assets	-	-	33.416	33.416	**523**	33.939
Deferred tax assets	-	-	1.126	1.126	175	1.301
Other assets	-	-	-	6.587	(523)	6.064
Total assets	**362.356**	**467.594**	**600.906**	**1.437.443**	**(1.333)**	**1.436.110**
Liabilities						
Financial liabilities at fair value through profit and loss account	-	-	-	-	249	249
Financial liabilities at amortised cost	**515.630**	**547.980**	**61.718**	**1.125.328**	**1.972**	**1.127.300**
Deposits and borrowings from banks	-	-	61.718	61.718	-	61.718
Deposits and borrowings from customers	515.630	547.980	-	1.063.610	-	1.063.610
Lease liabilities	-	-	-	-	1.972	1.972
Financial liabilities held for trading	-	-	-	-	-	
Tax liabilities	-	-	1.206	1.206	-	1.206
Other liabilities	-	-	22.764	22.764	(2.415)	20.349
Provisions for credit risks and guarantees	-	-	1.979	1.979	1.057	3.036
Provisions for risks and expenses	-	-	1.974	1.974	194	2.168
Total liabilities	**515.630**	**547.980**	**89.641**	**1.153.251**	**1.057**	**1.154.308**
Total equity and reserves	7.974	11.759	264.460	284.192	(2.390)	**281.802**
Of which net profit for current year	7.974	11.759	4.952	24.685	(1.306)	*23.379*
Total liabilities, equity and reserves	**523.604**	**559.738**	**354.101**	**1.437.443**	**(1.333)**	**1.436.110**

Statement of financial position by segments

31.12.2021	Enterprises and the 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
Assets						
Cash and cash balances	-	-	170.265	170.265	(43)	**170.222**
Financial assets at fair value through other comprehensive income	-	-	241.987	241.987	-	241.987
Financial assets at amortised cost	**537.774**	**494.020**	**195.880**	**1.227.674**	**(1.992)**	**1.225.683**
Obligatory reserve with the CB	-	-	131.104	131.104	(1)	131.103
Loans and receivables with banks	-	-	64.776	64.776	(35)	64.741
Loans and receivables with customers	537.774	494.020		1.031.794	(1.956)	1.029.838
Tangible and intangible assets	-	-	33.016	33.016	654	33.670
Deferred tax assets	-	-	593	593	(24)	569
Other assets	-	-	5.597	5.597	(654)	4.943
Total assets	**537.774**	**494.020**	**647.339**	**1.679.133**	**(2.058)**	**1.677.075**
Liabilities						
Financial liabilities at amortised cost	**599.131**	**638.793**	**154.989**	**1.392.913**	**1.777**	**1.394.690**
Deposits and borrowings from banks	-	-	154.989	154.989	-	154.989
Deposits and borrowings from customers	599.131	638.793	-	1.237.924	-	1.237.924
Lease liabilities	-	-	-	-	1.777	1.777
Tax liabilities	-	-	931	931	-	931
Other liabilities	-	-	21.311	21.311	(1.971)	19.342
Provisions for credit risks and guarantees	-	-	3.402	3.402	280	3.682
Provisions for risks and expenses	-	-	1.655	1.655	194	1.848
Total liabilities	**599.131**	**638.793**	**182.287**	**1.420.211**	**281**	**1.420.492**
Total equity and reserves	**8.178**	**9.264**	**241.480**	**258.922**	**(2.339)**	**256.583**
Of which net profit for the current year	*8.178*	*9.264*	*4.705*	*22.147*	*3.195*	*25.342*
Total liabilities, equity and reserves	**607.309**	**648.057**	**423.767**	**1.679.133**	**(2.058)**	**1.677.075**

The income and results of the segments shown in the previous tables (for the years ending on 31.12.2022 and 31.12.2021) represent income generated from products sold and services provided to clients from these segments.

Segment profit represents the profit of each segment, including the allocation of all costs and revenues. This represents the criteria by which it is reported to managers responsible for making key decisions, with the aim of allocating adequate resources to the segments, as well as analysing their results. The Bank's income from main services are detailed in notes 4.1. and 4.2. to the financial statements.

7. Risk Management

The Bank's management of risks assumed in operating activities is conducted through a system of strategies, policies, programs, work procedures and defined limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of Group. At the Group Stage there is in place a comprehensive risk management system based on defined risk appetite, risk strategies and operating policies and procedures and set risk limits.

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

In accordance with the Group's policies, the Bank has implemented a standard approach to credit risk according to the Basel III Accord, through an IT platform, which is aligned with the requirements of these standards.

Risk management is within the competence of the Bank Board member in charge of risk management and is organised into the following organisational units:

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

There are three departments within Credit Risk Operations: Credit Risk Underwriting, Monitoring and Management of Special Credit for Legal Entities and Monitoring and Management of Special Credit for 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 Strategic, Credit and Integrated and Other Risk.

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

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

7.1. Credit risk

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

General principles and rules of credit risk management have been defined by the policies and the Bank applies them in its business operations in accordance with the requirements of the regulator, Group standards and best practices.

Credit Risk Measurement

The following factors are taken into account in credit risk measurement: risk of loss resulting from insolvency of the borrower and risk of loss resulting from a change in the customer risk rating. Factors that are also taken into account are overall credit risk exposure including the balance sheet and off-balance-sheet items of the Bank and the quality and value of collaterals.
Credit risk is measured at the Stage of individual borrower/transaction and at the Stage of the total portfolio.
With the support of the Group, the Bank is developing and establishing both a system of credit risk measurement on the portfolio basis applying the Basel III basic parameters of credit risk for calculation of expected loss from the loan portfolio, and the calculation of the risk assets and internal capital requirements to cover potential losses due to the credit risk on the basis of calculation of loan value at risk (VaR). Loan VaR as the measure of economic/internal capital, loan VaR is also the basic input for defining crediting strategies, analysis of credit limits and risk concentration.
The established system of rep
orting analyses the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and on time. Reports contain the information about changes in the size and quality of the loan portfolio at the customer segment Stage and for the Bank.

Risk Control Policiesa

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

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

Additionally, through regular monthly Report for the Financial and Credit Risks Committee, the Risk Management reports to the Financial and Credit Risks Committee on defined limits on the Bank Stage. Risk Committee and Supervisory Board are regularly informed about the credit risk concentration.
Financial and Credit Risks Committee, Management Board and the Supervisory Board of the Bank are regularly informed of all significant changes in the value and quality of the portfolio.

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

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

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

	Note	31.12.2022 BAM '000	31.12.2021 BAM '000
Balance sheet assets			
Cash and cash balances	5.1.	267.869	170.222
Financial assets at fair value through profit or loss		1	-
Financial assets at fair value through other comprehensive income	5.2.	85.467	241.987
Financial assets at amortized cost		**1.041.470**	**1.225.683**
Obligatory reserve with the Central Bank	5.3.	107.367	131.104
Loans and receivables with banks	5.4.	105.576	64.741
Loans and receivables with customers	5.5.	828.527	1.029.838
Other assets	5.8.	6.064	4.944
Total balance sheet items exposed to credit risk		**1.400.871**	**1.642.836**
Off-balance sheet items	5.17.		
Guarantees and other warrantees		110.823	122.885
Approved overdraft, framework loans and guarantees		86.858	116.175
Total off-balance-sheet exposure to credit risk		**197.681**	**239.060**
Maximum exposure to credit risk		**1.598.552**	**1.881.896**

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

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

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

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. Haircuts 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.

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

31.12.2022	**Exposure in performing status**			**Exposure in non-performing status**			**Total**		
Financial instruments	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**
Financial instruments that are decreased by ECL									
Cash and cash balances	268.152	(283)	267.869			**0**	**268.152**	**(283)**	**267.869**
Financial assets at amortised cost	**1.051.001**	**(21.028)**	**1.029.973**	**37.398**	**(25.901)**	**11.497**	**1.088.399**	**(46.929)**	**1.041.470**
Obligatory reserve with the Central Bank	107.500	(133)	107.367			0	107.500	(133)	107.367
Loans and receivables with banks	105.682	(106)	105.576			0	105.682	(106)	105.576
Loans and receivables With customers	837819	(20789)	817.030	37398	(25.901)	11.497	875.217	(46.690)	828.527
Other assets	6137	(73)	6.064	381	(381)	0	6.518	(454)	6.064
Financial instruments that are not decreased by ECL									
Financial assets through other comprehensive income	85.467	(110)	**85.467**				85.467	(110)	**85.467**
Total	**1.410.757**	**(21.494)**	**1.389.373**	**37.779**	**(26.282)**	**11.497**	**1.448.536**	**(47.776)**	**1.400.870**

31.12.2021	**Exposure in performing status**			**Exposure in non-performing status**			**Total**		
Financial instruments	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**	**Gross BAM '000**	**ECL BAM '000**	**Net BAM '000**
Financial instruments that are decreased by ECL									
Cash and cash balances	170.411	(189)	170.222	**-**	-	-	170.411	(189)	**170.222**
Financial assets at amortised cost	**1.250.912**	**(26.961)**	**1.223.951**	**18.526**	**(16.794)**	**1.732**	**1.269.438**	**(43.755)**	**1.225.683**
Obligatory reserve with the Central Bank	131.312	(208)	131.104	**-**	**-**	**-**	131.312	(208)	**131.104**
Loans and receivables with banks	64.901	(160)	64.741	**-**	**-**	**-**	64.901	(160)	**64.741**
Loans and receivables With customers	**1.054.699**	**(26.593)**	1.028.106	**18.526**	(16.794)	1.732	1.073.225	-43.387	**1.029.838**
Other assets	4.998	(122)	4.876	465	(397)	68	5.463	(519)	**4.943**
Financial instruments that are not decreased by ECL									
Financial assets through other comprehensive income	241.987	(377)	241.987	**-**	**-**	**-**	241.987	(377)	**241.987**
Total	**1.668.308**	**(27.649)**	**1.641.036**	**18.991**	**(17.191)**	**1.800**	**1.687.299**	**(44.840)**	**1.642.836**

Received collateral and other instruments of credit security

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

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

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

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

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

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

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

		Allocated value of obtained collateral instruments					
31.12.2022	**Gross exposure**	**Deposits**	**Received guarantees**	**Mortgages**	**Other**	**Total collateral**	**Net exposure**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM ,000**	**BAM '000**
Balance sheet assets							
Cash and cash balances	199.473	-	-	-	-	-	199.473
Financial assets at fair value through profit and loss account	1	-	-	-	-	-	1
Financial assets at fair value through other comprehensive income	85.467	-	-	-	-	-	85.467
Financial assets at amortised cost	**1.041.470**	**2.942**	**104.222**	**173.748**	**30.114**	**311.025**	**730.445**
Obligatory reserve with the CB	107.367	-	-	-	-	-	107.367
Loans and receivables with banks	105.576	-	-	-	-	-	105.576
Loans and receivables with customers	828.527	2.942	104.222	173.748	30.114	311.025	517.502
Other assets	6.064	-	-	-	-	-	6.064
Total balance sheet assets exposed to credit risk	**1.332.475**	**2.942**	**104.222**	**173.748**	**30.114**	**311.025**	**1.021.450**
Off-balance sheet assets							
Guarantees and other warranteess	110.823	2.039	3.238	22.670	4.550	32.497	78.326
Overdrafts, framework loans and guarantees	86.858	28	-	9.203	500	9.731	77.127
Total off-balance sheet assets exposed to credit risk	**197.681**	**2.067**	**3.238**	**31.873**	**5.050**	**42.227**	**155.454**
Total balance and off-balance sheet exposure	**1.530.156**	**5.009**	**107.460**	**205.620**	**35.164**	**353.253**	**1.176.904**

31.12.2021	Gross exposure BAM '000	Allocated value of obtained collateral instruments Deposits BAM '000	Received guarantees BAM '000	Mortgages BAM '000	Other BAM '000	Total collateral BAM ,000	Net exposure BAM '000
Balance sheet assets							
Cash and cash balances	67.727	-	-	-	-	-	67.727
Financial assets at fair value through other comprehensive income	241.987	-	-	-	-	-	241.987
Financial assets at amortised cost	1.225.683	18.761	113.956	219.701	20.393	372.812	852.871
Obligatory reserve with the CB	131.104	-	-	-	-	-	131.104
Loans and receivables with banks	64.741	-	-	-	-	-	64.741
Loans and receivables with customers	1.029.838	18.761	113.956	219.701	20.393	372.812	657.026
Other assets	4.944	-	-	-	-	-	4.944
Total balance sheet assets exposed to credit risk	**1.540.341**	**18.761**	**113.956**	**219.701**	**20.393**	**372.812**	**1.167.529**
Off-balance sheet assets							
Guarantees and other warranteess	122.885	2.215	1.313	18.167	5.881	27.576	95.309
Overdrafts, framework loans and guarantees	116.175	469	8.639	13.378	874	23.360	92.815
Total off-balance sheet assets exposed to credit risk	**239.060**	**2.684**	**9.952**	**31.545**	**6.755**	**50.936**	**188.124**
Total off-balance sheet assets exposed to credit risk	**1.779.401**	**21.445**	**123.909**	**251.246**	**27.148**	**423.748**	**1.355.653**

Loss allowance for expected credit losses (ECL)

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

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

Financial assets consisting of securities are classified in Stage 1 credit risk, in accordance with BARS regulations, which define that all placements to central governments are assigned to Level 1, while in accordance with the group approach, in reports to the Group, the Bank classified them in Stage 2, since they do not have an investment grade („non-investment 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 the default status if the client is late with the payment of a material amount of more than 90 consecutive calendar days by the counter or when they are unlikely to pay one of their obligations in full (UTP event).
The Bank and Group have implemented a day past due counter that takes into account the threshold of materiality. Substantial material liability is assumed when the receivables of the bank from corporate clients are more than KM 1,000 and 1% of the debtor's exposure, and from natural persons exceeds 1% of the debtor's exposure and 200 KM.
The recovery period is defined as the indicator of the borrower's ability and willingness to meet the contractual terms of recovery.
This period also aims to prevent the repetition of a default by a debtor shortly after the payment / agreement / entry into force of the deferment.
The period of recovery (reaging) implies that no new event of default may occur during that period and the obligor doesn't have any due obligations.

PD assessment process

Probability of default (PD) is an estimate of the probability of default, i.e. the client's transition to the default status. It gives an estimate of the likelihood that a client will not be able to settle their obligations over a certain period of time.
The probability of default (PD) reflects the 12-month probability of default based on the long-term average of the one-year default rate which is next adjusted to be point in time, as described in more details below.
There are two approaches to determining the PD for the purposes of calculating impairment.
For the low risk portfolio (Sovereign, Banks), Group Ratios are applied to PDs based on the Group rating model, and for the rest of the portfolio, the Bank's internal data is used, i.e. PDs created based on data on historical defaut rate of individual groups of exposures on the basis of days overdue and product types.

EAD

EAD (Exposure at Default) represents the measure of exposure at the time of the default event. The EAD lifetime was obtained taking into account the expected changes in future periods, based on the repayment plan. .

LGD

LGD (Loss Given Default) represents the percentage of estimated loss, and thus the expected return rate, at the date of the occurrence of a default event.
To assess LGD, the Bank segmented their corporate and retail portfolio into homogeneous portfolios based on key features that are relevant for estimating future cash flows. The data used is based on historically collected loss data and includes a wider set of transaction characteristics (e.g. product type).
LGD is calculated on the basis of cure rate and discounted collateral values after applying haircuts, and efficency factors (calculated on the basis of historical collateral charge information).
Adjustments to PD and LGD apply according to IFRS 9 requirements::

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

Incorporation of forward-looking information

Since IFRS9 requires to use PDs which are Point in Time and Forward Looking, the TTC lifetime PD curves are adjusted leveraging on delta default rate (Forward Looking component) provided by Group ICAAP & Stress testing function (Satellite models), to be applied on top of the most recent default rate ("DR") (PIT component). The Group has decided to leverage on the Stress Test Models for including macro-economic effects into the expected credit losses. The decision to leverage on Satellite models is aimed at ensuring a proper alignment between the various processes that within the Bank foresee the usage of macro-economic forecasts (e.g. portfolio strategy, budgeting, stress testing)..

Satellite models are based on internal estimates of macro-economic indicators' forecasts and developed according to well-known econometric models.
The key drivers for credit risk are: GDP growth, unemployment rates, inflation, average salary and real estate price index based on which is created list of variables used for satellite model.
IFRS 9 standard requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
The selected approach implied the use of two different macro-economic scenarios and probability weights for each one, more specifically one baseline and one downside scenarios are considered. UniCredit Research department produces semiannually macroeconomic forecasts under baseline and alternative downside scenarios. Each scenario envisages three years of forecasts including all the relevant macro-economic factors considered in the satellite models (as presented in the Table below). A probability of occurrence, judgmentally defined by UniCredit Research department, is assigned to each scenario, ensuring that the downside scenarios probability is not biased to extreme scenarios, otherwise the range and weighting of scenarios would be not representative. An "average" scenario is defined as the weighted average of delta DRs provided under each of the scenarios previously mentioned.
Consideration of multiple scenarios is relevant in case a non-linear relationship between key components of ECL and the relevant economic parameter exists.
Fulfillments of the above explained requirements of the standard would require calculating the ECL under multiple scenarios and deriving a weighted average ECL based on the probability of each scenario to happen. Alternatively, banks are allowed to derive an overlay factor to account for the non-linearity of the ECL risk components and relevant economic parameters. Running more scenarios under the Loan loss provisions production process would not fit the Loan loss provisions production timeline and has been considered to be an undue cost and effort for the Bank. It was therefore decided to account for multiple macroeconomic scenarios by estimating a yearly overlay factor to be applied to the ECL calculated under the baseline scenario.
A simple and straightforward approach to derive the overlay factor consists in determining the ratio between the probability weighted ECL and the ECL under the baseline scenario as shown below:

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

ECL weighted is calculated based on scenarios probabilities (for 2022 60% Baseline and 40% Adverse) as follows:.

ECL weighted =60%*ECL Baseline +40% ECL Adverse

The overlay factor must be recalibrated semiannually as soon as the new forecasts and weights under multiple scenarios are available. The overlay factors on Group Wide portfolios (sovereign, banks) are estimated centrally and shared with the Bank on time for the local application in the monthly Loan loss provisioning process.

Finally, it is underlined that the overlay factor does not represent an estimated parameter, but a multiplicative factor to be applied on top of the Baseline ECL to produce a final ECL that is a probability-weighted amount determined by evaluating a range of possible outcomes. The final ECL is calculated as:

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

The table below provides the list of macroeconomic trend expected in following used in the baseline and adverse scenario over the three years period.

					Baseline scenario (weight 60%)				Negative scenario (weight 40%)			
Macroeconomic scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2022**	**2023**	**2024**	**2025**
Real GDP, yoy % change	3,7	2,8	-3,1	7,5	3,8	1,9	3,0	3,5	3,8	-3,3	3,6	3,2
Inflation (CPI) yoy, eop	1,6	0,3	-1,6	6,4	13,4	5,0	3,1	2,0	13,4	6,4	3,2	2,3
Inflation (CPI) yoy, average	1,4	0,6	-1,0	2,0	13,5	8,2	3,1	2,5	13,5	10,8	3,8	3,0
Monthly Wage, nominal EUR	696,7	726,7	754,6	788,5	820,5	836,7	862,2	892,8	820,5	804,1	870,4	889,1
Unemployment rate, %	36,0	33,3	33,8	32,5	30,5	30,0	28,0	25,5	30,5	33,0	29,5	28,5
House Price Index, yoy % change	9,6	-7,5	1,8	7,4	10,0	6,0	5,0	5,0	10,0	-14,8	5,0	5,0

Sensitivity of ECL to future economic conditions

Presented values are related to ECL for total EAD per portfolio segments for Group consolidation purposes (based on internal models) and not adjusted for minimum coverage rates defined for Local reporting purposes by Decision on credit risk management and determination of expected credit losses.

The ECL sensitivity was estimated as the ratio of:
- the difference between the ECL estimated under the alternative scenario (Adverse) and the one under the baseline;
- the GDP deviations (on 3 years cumulative basis) between adverse and baseline scenarios (in % points).

The Implied assumptions are:
- GDP forecast (over 3 years) is assumed to be the most relevant economic factor as indicator of scenario severity.

Analysis of the sensitivity of ECL to the changes of GDP based on the presented scenarios showed that for a 1% drop in GDP, the affected ECL portfolio increased by 1.4%.

						IFRS9 22q4	
Cumulated GDP 3Y growth in %		ECL Amount (BAM /mln)		ECL Difference vs Baseline	% ECL Difference vs Baseline	ECL Sensitivity vs 3-year cum GDP (in BAM/mln)	% ECL Sensitivity vs 3-year cum GDP
Baseline Scenario	Negative Scenario	Bseline Scenario	Negative Scenario	Negativni Scenario	Negativni Scenario	For 1 GDP point drop (3-year cumulated basis)	
8,6	3,4	37	40	3	7%	1	1.4%

Geopolitical overlay resulting from Russia-Ukraine crisis

During 2022, the uncertainties on the economic activities arising from Covid-19 pandemics progressively faded away as demonstrated by the lifting of the restrictive measures put in place by the governments to counteract the pandemic. As well, also the supply chain risk has started to decrease in relevance, given the evolving new geo-political context. Indeed, the start of the Russian-Ukraine conflict acted as a headwind to the economic growth.

Indeed, the spill-over effects of Russian and Ukraine crises continued leading to revise the outlook for the euro area economy, also pushing up inflationary pressures and interest rates.

In order to factor-in into the risks underlying the sharp rise in energy costs, inflation and interest rates for both Corporate and private individuals, the geopolitical overlay were adopted during 2022.

In this regard the adoption of this overlay is a complementary measure to the IFRS9 models that, by their structure, have been already properly and directly proving to recognize the effect of geo-political crises. In this context while IFRS 9 models and in particular satellite models are able to capture the effect of macro-economic scenario at portfolio level, the geopolitical overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions.

Indeed as of 31 December 2022 geopolitical overlay amount to BAM 4.658 thousands and is broken-down according to the following components:

- Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russia - Ukraine crisis, specifically impacting the energy supply and related price soaring
- • Retail clients, for: (i) floating rate mortgages (not having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment on their exposures, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying - as macro-economic conditions - the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate.

Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose ECLs are then calculated according to the average coverage rate applied to Unlikely to Pay.

The Geo-political overlay is a multiplicative overlay to be applied on top to the ECL based on the following formula:

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

Grouping of financial assets measured on a collective and individual approach

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

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

Loans assessed on individual basis

Individually significant loans are assessed on an individual basis in order to determine the existence of objective evidence of impairment. Factors that can influence the ability and readiness of each individual debtor to fulfil their obligations toward the Bank are numerous and are divided into strong and weak UTP („unlikely to pay") conditions, and some of them are given below:

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

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

Loans assessed on portfolio basis

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

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 capital ratio, liquidity, ROI (return on investments), 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 market and competition balance..

Manual adjustments for clients with significantly increased credit risk

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

The proposed amount of ECL is determined by Monitoring and Management of Special Credits, 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 according to the mentioned categories is given below:

	31.12.2022			31.12.2021		
	Gross loans BAM '000	Impairment BAM '000	%	Gross loans BAM '000	Impairment BAM '000	%
Stage 1						
Loans to legal entities	355.006	3.488	1.0%	519.311	3.362	0.6%
Loans to private individuals	436.755	9.577	2.2%	448.440	8.565	1.9%
Total Stage I 1	**791.762**	**13.066**	**1.7%**	**967.751**	**11.927**	**1.2%**
Stage 2						
Loans to legal entities	16.240	2.820	17.4%	48.651	9.638	19.8%
Loans to private individuals	29.805	4.955	16.6%	38.297	5.028	13.1%
Total Stage I 2	**46.045**	**7.775**	**16.9%**	**86.948**	**14.666**	**16.9%**
Stage 3						
Loans to legal entities	21.351	11.259	52.7%	1.486	1.459	98.2%
Loans to private individuals	16.059	14.591	90.9%	17.040	15.335	90.0%
Total Stage 3	**37.410**	**25.850**	**69.1%**	**18.526**	**16.794**	**90.7%**
Total loans	**875.217**	**46.690**	**5.3%**	**1.073.225**	**43.387**	**4.0%**

The coverage of the nonperforming portfolio loans by impairment (ECL) is 69.3% (2021: 90.7%).

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

	31.12. 2022 Undue BAM '000	31.12. 2022 Due BAM '000	31.12. 2022 Total BAM '000	31.12. 2021 Undue BAM '000	31.12. 2021 Due BAM '000	31.12. 2021 Total BAM '000
Legal entities						
Stage 1	354.644	362	355.006	519.020	291	519.311
(Loss allowance)	(3.487)	(1)	(3.488)	(3.334)	(1)	(3.335)
Stage 2	15.524	462	15.987	48.106	545	48.651
(Loss allowance)	(2.601)	(92)	(2.693)	(9.520)	(117)	(9.638)
Stage 3	17.371	4.234	21.605	486	999	1.486
(Loss allowance)	(8.682)	(2.704)	(11.386)	(486)	(999)	(1.486)
Gross exposure legal entities	**387.540**	**5.058**	**392.598**	**567.612**	**1.835**	**569.448**
(Loss allowance)	**(14.770)**	**(2.797)**	**(17.567)**	**(13.341)**	**(1.118)**	**(14.459)**
Net exposure legal entities	**372.770**	**2.261**	**375.031**	**554.271**	**718**	**554.989**
Private individuals						
Stage 1	436.260	495	436.755	448.038	402	448.440
(Loss allowance)	(9.572)	(6)	(9.577)	(8.548)	(4)	(8.553)
Stage 2	29.655	150	29.805	38.120	177	38.297
(Loss allowance)	(4.925)	(30)	(4.955)	(5.005)	(34)	(5.040)
Stage 3	13.475	2.584	16.059	12.214	4.825	17.039
(Loss allowance)	(12.121)	(2.470)	(14.591)	(10.606)	(4.729)	(15.335)
Gross exposure private individuals	**479.390**	**3.229**	**482.619**	**498.372**	**5.405**	**503.777**
(Loss allowance)	**(26.618)**	**(2.506)**	**(29.124)**	**(24.160)**	**(4.768)**	**(28.928)**
Net exposure private individuals	**452.772**	**723**	**453.495**	**474.212**	**637**	**474.849**
Total gross loans	**866.930**	**8.287**	**875.217**	**1.065.984**	**7.240**	**1.073.224**
(total loss allowance)	**(41.388)**	**(5.303)**	**(46.690)**	**(37.501)**	**(5.885)**	**(43.386)**
Total net loans	**825.542**	**2.984**	**828.527**	**1.028.484**	**1.355**	**1.029.838**

Stage 1 and 2: undue performing loans

The quality of the portfolio of loans to clients that have not matured can be assessed based on internal standard monitoring. Client loans 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 private individuals				Loans to legal entities			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entrepre-neurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31.12.2022								
Stage 1 Standard monitoring	289.729	124.041	22.490	**436.260**	181.279	161.378	11.987	**354.644**
Stage 2 Standard monitoring	20.479	7.622	1.554	**29.655**	-	13.893	1.631	**15.524**
31.12.2021								
Stage 1 Standard monitoring	302.814	123.222	22.002	**448.038**	266.260	238.130	14.631	**519.020**
Stage 2 Standard monitoring	23.841	12.547	1.732	**38.120**	8.779	36.890	2.436	**48.106**

Stage 1 and 2: due performing loans

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

	Consumer loans	Housing loans	Credit card loans and approved account overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entrepreneurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31.12.2022								
Matured – Stage 1								
up to 30 dpd	54	3	370	**427**	-	215	1	**216**
from 30 to 60 dpd	1	-	1	**2**	-	-	-	-
from 60 to 90 dpd	-	-	1	**1**	-	-	-	-
above 90 dpd	3	-	62	**65**	-	22	124	**146**
Total	**59**	**3**	**434**	**495**	**-**	**236**	**126**	**362**
Pledge value				**-**				**-**
Matured – Stage 2								
up to 30 dpd	57	-	71	**128**	-	459	3	**461**
from 30 to 60 dpd	11	-	4	**15**	-	1	-	**1**
from 60 to 90 dpd	0	-	3	**3**	-	-	-	-
over 90 dpd	1	-	2	**3**	-	-	-	-
Total	**70**	-	**80**	**150**	-	**460**	**3**	**462**
Pledge value			**-**				**-**	
31.12.2021								
Matured – Stage 1								
up to 30 dpd	48	-	293	**341**	-	174	-	**174**
from 30 to 60 dpd	1	-	1	**2**	-	-	-	-
from 60 to 90 dpd	-	-	-	**-**	-	-	-	-
over 90 dpd	3	1	55	**59**	-	19	98	**117**
Total	**52**	**1**	**349**	**402**	-	**193**	**98**	**291**
Pledge value	**-**			**-**		**151**		**151**
Matured – Stage 2								
up to 30 dpd	68	3	49	**121**		504	40	**544**
from 30 to 60 dpd	48	-	4	**52**		-	-	**-**
from 60 to 90 dpd	-	-	2	**2**		-	-	**-**
over 90 dpd	2	-	1	**3**		-	1	**1**
Total	**118**	**3**	**56**	**177**	**-**	**504**	**41**	**545**
Pledge value				**-**		**387**	**23**	**411**

Stage 3: non-performing loans

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

	Loans to private individuals				Loans to legal entities			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entrepre-neurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31.12.2022								
Stage 3	12.730	2.394	934	**16.058**	-	20.018	1.333	**21.351**
Pledge value	11	1.940	-	**1.950**	-	14.386	-	**14.386**
31.12.2021								
Stage 3	13.417	2.679	944	**17.040**	-	1.004	482	**1.486**
Pledge value	11	1.852	-	**1.863**	-	-	-	**-**

The data presented in the above table are expressed in gross amounts.
As of December 31, 2022, the property acquired in the process of forced collection of loans amounts to BAM 38 (December 31, 2022: BAM 366 thousand).

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 (exposure to all restructured placements, regardless of whether they are under the jurisdiction of Business segments or Monitoring and management of special credits) totalled BAM 3,210 thousand (December 31, 2021: BAM 3,867 thousand).

The reduction of the total exposure of restructured placements is the result of exposure collection and accounting write-off.

	31.12.2022	31.12.2021
	BAM '000	BAM '000
Restructured loans	3.210	3.867
Loan portfolio gross	875.217	1.073.225
Share of restructured loans in the gross loan portfolio	0.4%	0.4%

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
31.12. 2022						
Private individuals	-	-	716	73	880	823
Legal entities	-	-	471	147	1.143	1.143
Total	**-**	**-**	**1.187**	**220**	**2.023**	**1.966**
31.12.2021						
Private individuals	-	-	841	57	1.178	1.079
Legal entities	-	-	645	198	1.203	1.203
Total	**-**	**-**	**1.486**	**255**	**2.381**	**2.282**

Geographic concentration of credit risk

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

Concentration of credit risk by industry

Breakdown of the Bank's loan portfolio as at December 31, 2022 and December 31, 2021 per industry is provided in the table below:

	31.12.2022 BAM '000	31.12.2021 BAM '000
Legal entities and entrepreneurs		
Agriculture, forestry and fishing	5.702	7.783
Mining and quarrying	1.457	1.826
manufacturing	84.521	106.863
Electricity and gas production and supplying	28.864	8.374
Water supply and remediation activities	485	1.563
Construction	13.440	29.953
Wholesale and retail trade	41.058	103.493
Transporting and storage	35.312	28.096
Accommodation and food service activities	262	6.310
Information and communication	2.681	44.238
Financial and insurance activities	5.347	14.171
Real estate activities	190	364
Professional, scientific and technical activities	4.288	3.659
Administrative and support service activities	2	1
Public administration and defence; compulsory social security	145.495	181.329
Education	76	50
Human health and social work activities	23.395	31.358
Arts, entertainment and recreation	8	13
Other services activities	15	4
Total loans to legal entities and entrepreneurs	**392.598**	**569.448**
Total loans to private individuals	482.619	503.777
Total gross loans	**875.217**	**1.073.225**
Loan impairment	(46.690)	(43.387)
Total net loans	**828.527**	**1.029.838**

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 of the economy.

Large exposures to credit risk

Large exposures to credit risk	31.12.2022 BAM '000	31.12.2021 BAM '000
Number of clients with exposure over 10% of eligible capital	**4**	**6**
Balance and off-balance credit exposure - gross	190.960	294.496
Loss allowance and provision for off-balance credit exposure (ECL)	(1.573)	(1.350)
Balance and off-balance credit exposure - net	189.387	293.146

Exposure to public sector (central institutions)	31.12.2022 BAM '000	31.12.2021 BAM '000
Balance and off-balance credit exposure - gross	204.748	390,151
Loss allowance and provision for off-balance credit exposure (ECL)	(581)	(504)
Balance and off-balance credit exposure - net	204.167	389,647

7.2. Liquidity Risk

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

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

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

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

The most important activities are aimed at carrying out normal market transactions within the prescribed risk exposure limits in accordance with the defined financing plan, as well as decisions of the competent authorities and operational functions.
These activities are mainly focused on managing short-term and long-term liquidity, managing the execution of the financing plan, regular monitoring and analysis of the results of the testing of the liquidity risk stress resistance as well as the consistent application of the principle of determining internal prices.

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

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

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

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

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

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

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

Year-end liquidity coverage ratio was as follows::

	31.12.2022	31.12.2021
Liquidity coverage ratio (LCR) u %	345%	145%

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

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

ADJUSTED NSFR	31.12.2021 (in mil. KM)	
	>3G	>5G
Items that provide stable sources of funding	377	368
Items that require stable sources of funding	479	283
NET STL	616	616
Items that provide stable sources of funding + NET STL	994	985
Warning level	122%	122%
Value	**207%**	**347%**

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

In 2022, instead of the adjusted NSFR, the Structural Liquidity Ratio (SLR) with time baskets over one and over three years was introduced. The structural liquidity ratio is an indicator from an economic perspective, unlike the NSFR, which represents a regulatory perspective. It is calculated as the ratio of medium-long-term liabilities and assets.

SLR (Structural liquidity ratio)	31.12.2022 (in mil. BAM) >1G	31.12.2022 (in mil. BAM) >3G
Cumulative liabilities	740	656
Cumulative assets	824	523
Warning level	65%	90%
Value	**90%**	**125%**

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

EUR FX GAP >1G	31.12.2021 (in mil. BAM)
Liabilities in baskets >1G	76
NET STL	226
Receivables in baskets >1G	313
Warning level	(117)
Value	**(5)**

OTHER FX GAP >1G	31.12.2021 (in mil. BAM)
Liabilities in baskets >1G	
NET STL	18
Receivables in baskets >1G	-
Warning level	(20)
Value	**19**

Items that enable stable sources of financing and net short-term liabilities in significant currencies (NET STL), other than the domestic currency (EUR and other currencies), are sufficient to cover items that require stable sources of financing in time gaps over one year.

During 2022, a new indicator Foreign Exchange (FX) structural liquidity gap was implemented, which replaced the Structural FX Gap. The foreign exchange (FX) structural liquidity gap relies on the economic aspect, based on behavioural 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 behaviourally adjusted maturity profile of balance sheet positions, instead of the contractual maturity. Financial positions treated in this way are short-term assets and liabilities, reserve requirements, securities and derivatives.

EUR FX SLG >1G	**31.12.2022 (u mil. BAM)**
Cumulative liabilities	149
Cumulative assets	257
Warning level	(332)
Value	**(108)**

OTHER FX SLG >1G	**31.12.2022 (u mil. BAM)**
Cumulative liabilities	0,48
Cumulative assets	0,01
Warning level	(39)
Value	**0,47**

The following tables show the liquidity structure as of 31.12.2022 and 31.12.2021, which represents an overview of assets and liabilities by appropriate time baskets based on the period remaining until the agreed maturity.

The liquidity structure shown does not take into account the stability of demand deposits, so all demand deposits are shown in the basket with maturities of up to 30 days.

31.12.2022	Up to 1 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 balances	267.869	-	-	-	-	**267.869**
Financial assets at fair value through profit or loss	-	1	-	-	-	**1**
Financial assets at fair value through other comprehensive income	85.183	-	284	-	-	85.467
Financial assets at amortised cost	**229.400**	**68.029**	**164.853**	**388.629**	**190.558**	**1.041.470**
Obligatory reserve with the CB	107.367	-	-	-	-	**107.367**
Loans and receivables with banks	105.576	-	-	-	-	**105.576**
Loans and receivables with customers	16.457	68.029	164.853	388.629	190.558	**828.527**
Other assets	4.106	397	1.482	35	44	**6.064**
Total receivables	**586.558**	**68.427**	**166.619**	**388.664**	**190.602**	**1.400.871**
Financiall liabilities at fair value through profit or loss	249	-	-	-	-	249
Financial liabilities at amortised cost	**776.454**	**55.446**	**86.146**	**188.718**	**20.535**	**1.127.300**
Deposits and borrowings from banks	39.604	859	7.188	14.068	-	**61.718**
Deposits and borrowings from customers	736.773	54.479	78.523	173.314	20.520	**1.063.610**
Lease liabilities	77	108	435	1.336	15	**1.972**
Current tax liabilities	444	-	-	-	-	**444**
Other liabilities	7.693	5.621	3.892	3.143	0	20.349
Financial guarantees and LCs	5.557	-	105.579	-	-	111.136
Loan commitments	1.871	-	84.674	-	-	86.545
Total liabilities	**792.268**	**61.067**	**280.291**	**191.861**	**20.535**	**1.346.023**

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000
Cash and cash balances	170.222	-	-	-	-	170.222
Financial assets at fair value through other comprehensive income	241.743		244			241.987
Financial assets at amortised cost	**202.755**	**87.738**	**210.390**	**494.054**	**230.746**	**1.225.683**
Obligatory reserve with the CB	131.104	-	-	-	-	131.104
Loans and receivables with banks	48.741	-	-	16.000	-	64.741
Loans and receivables with customers	22.910	87.738	210.390	478.054	230.746	1.029.838
Other assets	3.757	229	898	32	28	4.944
Total receivables	**618.477**	**87.967**	**211.532**	**494.086**	**230.774**	**1.642.836**
Financial liabilities at amortised cost	**931.072**	**91.006**	**145.069**	**195.595**	**31.948**	**1.394.690**
Deposits and borrowings from banks	68.993	47.792	8.296	29.908	-	154.989
Deposits and borrowings from customers	862.017	43.057	136.354	164.612	31.884	1.237.924
Lease liabilities	62	157	419	1.075	64	1.777
Current tax liabilities	385	-	-	-	-	385
Other liabilities	7.399	4.044	4.519	3.378	-	19.340
Financial guarantees and LCs	6.144	-	116.741	-	-	122.885
Loan commitments	2.270	-	113.905	-	-	116.175
Total liabilities	**947.270**	**95.050**	**380.234**	**198.973**	**31.948**	**1.653.475**

7.3. Market Risks

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

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

Factors, which are also of importance for assessment of the market risk impact on the Banks' portfolio, are stress-oriented warning levels and limits and the results are included in regular FCRC reports (reports presented to the Financial and Credit Risk Committee).
The Bank performs activities on market risk limit review closely cooperating with UniCredit Group. These activities are performed at least annually, and more frequently if necessary in accordance with business changes as a result of changes in legislation, development of business strategy goals as well as targeted risk profile.

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

Overview of the Bank's aggregate VaR position:

Var FVtOCI	**2022 BAM '000**	**2021 BAM '000**
Average for the period	830	1.136
Maximum for the period	1.125	3.113
Minimum for the period	458	469

Var FVtPL	**2022 BAM '000**	**2021 BAM '000**
Average for the period	2	1
Maximum for the period	9	6
Minimum for the period	1	-

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

Currency Risk

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

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

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

The Bank directs its business activities so as to minimize a mismatch between items of assets and liabilities in foreign currencies or with a contracted currency clause, maintaining daily operations within the range of the set limits.
All sensitivities arising from items in or linked to foreign currencies are also covered by the general daily VaR limit, which among other risks, limits the maximum permitted loss of open positions in the foreign currencies.

Currency risk ratios:	2022	2021
As of 31 December	1.59%	2.08%
maximum for the period - month of December	32.19%	29.60%
minimum for the period - month of December	0.17%	2.08%

The foreign exchange position is calculated as the ratio of the sum of the value of all long and all short individual foreign exchange positions of banks and their core capital (Tier1) to the reporting data (maximum allowed up to 40% of the bank's core capital).

With regards to the presence of the Currency Board (regime of the Central Bank of Bosnia and Herzegovina) according to which the rate of the national currency to the euro is fixed, it can be considered that the Bank is not exposed to the currency risk related to EUR/BAM exchange rate.
The Bank protects itself from exposure to the currency risk per foreign currencies other than EUR by managing foreign currency position, within the Markets' strategy, in such a manner that the items opened through operations with customers are closed by opposite transactions, so that the open position of the Bank is reduced to the minimum.

The analysis of assets and liabilities stated in foreign currency amounts, as at December 31, 2022 and December 31, 2021 is presented in the following table.

31.12.2022	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 balances	15.979	-	7.588	14.869	38.436	229.433	267.869
Financial assets at fair value through profit or loss	-	-	-	-	-	1	1
Financial assets at fair value through other comprehensive income	30.065	55.161			85.226	241	85.467
Financial assets at amortised cost	**114.447**	**246.876**	**-**	**-**	**361.323**	**680.147**	1.041.470
Obligatory reserve with the CB	-	-	-	-	-	107.367	107.367
Loans and receivables with banks	105.576	-	-	-	105.576	-	105.576
Loans and receivables with customers	8.871	246.876	-	-	255.747	572.780	828.527
Tangible assets	-	-	-	-	-	22.755	22.755
Intangible assets	-	-	-	-	-	11.184	11.184
Current tax assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	1.301	1.301
Other assets	275		2	4	281	5.783	6.064
Total assets	**160.766**	**302.037**	**7.590**	**14.873**	**485.266**	**950.845**	**1.436.111**
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	249	249
Financial liabilities at amortised cost	**334.880**	**117.731**	**16.555**	**14.454**	**483.620**	**643.680**	1.127.300
Deposits and borrowings from banks	61.717	-	-	-	**61.717**	1	61.718
Deposits and borrowings from customers	273.163	117.731	16.555	14.454	**421.903**	641.707	1.063.610
Lease liabilities	-	-	-	-	-	1.972	1.972
Current tax liabilities	-	-	-	-	-	444	444
Deferred tax liability	-	-	-	-	-	762	762
Other liabilities	2.872	-	197	278	**3.347**	17.002	20.349
Provisions for risks and expenses	501	5	-	-	**506**	4.698	5.204
Total liabilities	338.253	117.736	16.752	14.732	487.473	666.835	1.154.308
Equity and reserves	**42**	**68**	**-**	**-**	**110**	**281.692**	281.802
Total liabilities, equity and reserves	**338.295**	**117.804**	**16.752**	**14.732**	**487.583**	**948.527**	**1.436.110**
Net foreign currency position	**(177.529)**	**184.233**	**(9.162)**	**141**	**(2.317)**	**2.318**	**1**

31.12.2021	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 balances	45.279	-	11.162	15.494	**71.935**	98.287	170.222
Financial assets at fair value through profit or loss	-	-	-	-	**-**	**-**	-
Financial assets at fair value through other comprehensive income	110.523	110.568	**-**	**-**	**221.091**	20.896	241.987
Financial assets at amortised cost	**61.518**	**349.203**	**-**	**-**	**410.721**	**814.962**	**1.225.684**
Obligatory reserve with the CB	-	-	-	-	-	131.104	131.104
Loans and receivables with banks	48.847	-	-	-	**48.847**	15.894	64.741
Loans and receivables with customers	12.671	349.203	-	-	**361.874**	667.964	1.029.838
Tangible assets	-	-	-	-	-	21.871	21.871
Intangible assets	-	-	-	-	-	11.799	11.799
Current tax assets	-	-	-	-	-		
Deferred tax assets	-	-	-	-	-	569	569
Other assets	310		2	1	**313**	4.631	4.944
Total assets	**217.630**	**459.771**	**11.164**	**15.495**	**704.060**	**973.015**	**1.677.075**
Liabilities							
Financial liabilities at amortised cost	**448.419**	**156.474**	**11.049**	**14.952**	**630.894**	**763.796**	**1.394.690**
Deposits and borrowings from banks	138.297	-	-	-	**138.297**	16.692	**154.989**
Deposits and borrowings from customers	310.122	156.474	11.049	14.952	**492.597**	745.327	**1.237.924**
Lease liabilities	-	-	-	-	-	1.777	**1.777**
Current tax liabilities	-	-	-	-	-	385	**385**
Deferred tax liability	-	-	-	-	-	546	**546**
Other liabilities	3.383		116	197	**3.696**	15.644	**19.340**
Provisions for risks and expenses	188	17	-	-	**205**	5.326	**5.531**
Total liabilities	**451.990**	**156.491**	**11.165**	**15.149**	**634.795**	**785.697**	**1.420.492**
Equity and reserves	**-**	**335**	-	-	**335**	**256.248**	**256.583**
Total liabilities, equity and reserves	**451.990**	**156.826**	**11.165**	**15.149**	**635.130**	**1.041.945**	**1.677.075**
Net foreign currency position	**(234.360)**	**302.945**	**(1)**	**346**	**68.930**	**(68.930)**	**-**

Interest Rate Risk

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

The main sources of interest rate risk are as follows:

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

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

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

The methodology used for risk assessment of interest rate changes is based on the gap analysis of time (maturity) differences. Differences between interest-bearing assets and liabilities in different time "buckets" show how two sides of the balance sheet may react differently to the change of interest rates:

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

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

Overview of effect of reference interest rate curve shift by 0.01% (1 bp), over the net present value of the portfolio (BP01):

	(in BAM)		BP01 banking book 31.12.2022				
	03M	3M1Y	1Y3Y	3Y10Y	>10Y	Sum	EUR
TOTAL BP01	5 819	4 630	8 395	40 862	13 997	52 805	30 429
Limit	9 779	48 896	48 896	68 454	19 558	97 792	78 233
Limit utilisation	**60%**	**9%**	**17%**	**60%**	**72%**	**54%**	**39%**

	(in BAM)		BP01 banking book 31.12.2021				
	03M	3M1Y	1Y3Y	3Y10Y	>10Y	Sum	EUR
TOTAL BP01	(907)	(15 910)	(41 984)	20 276	(11 275)	(49 800)	15 464
Limit	9 779	29 337	68 454	107 571	29 337	166 246	78 233
Limit utilisation	**9%**	**54%**	**61%**	**19%**	**38%**	**30%**	**20%**

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

The review of the Bank's exposure to interest rate risk according to the local regulatory requirement through the interest gap as of 31.12.2022, and 31.12.2021 is shown in the following tables.

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

31.12.2022	Up to 1 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 balances	231.413	-	-	-	-	36.456	**267.869**	32.187
Financial assets at fair value through profit or loss	-	-	-	-	-	1	**1**	-
Financial assets at fair value through other comprehensive income	-	-	-	83.367	4.895	(2.795)	**85.467**	88.262
Financial assets at amortised cost	**253.648**	**190.086**	**334.311**	**163.693**	**92.595**	**7.136**	**1.041.470**	**508.356**
Obligatory reserve with the CB	-	-	107.367	-	-	-	**107.367**	-
Loans and receivables with banks	105.500	-		-	-	76	**105.576**	105.500
Loans and receivables with customers	148.148	190.086	226.944	163.693	92.595	7.060	**828.527**	402.856
Tangible assets	-	-	-	-	-	22.755	**22.755**	-
Intangible assets	-	-	-	-	-	11.184	**11.184**	-
Current tax assets - pre-paid income tax	-	-	-	-	-	-	**-**	-
Deferred tax assets	-	-	-	-	-	1.301	**1.301**	-
Other assets	-	-	-	-	-	6.064	**6.064**	-
Total assets	**485.062**	**190.086**	**334.311**	**247.060**	**97.490**	**82.102**	**1.436.110**	**628.804**
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	249	**249**	
Financial liabilities at amortised cost	**46.733**	**68.567**	**821.729**	**152.700**	**32.724**	**4.847**	**1.127.300**	**1.100.421**
Deposits and borrowings from banks	-	55.367	5.994	-	-	357	**61.718**	39.330
Deposits and borrowings from customers	46.733	13.200	815.735	152.700	32.724	2.518	**1.063.610**	1.061.092
Lease liabilities	-	-	-	-	-	1.972	**1.972**	-
Current tax liabilities	-	-	-	-	-	444	**444**	-
Deferred tax liabilities	-	-	-	-	-	762	**762**	-
Other liabilities	-	-	-	-	-	20.349	**20.349**	-
Provisions for risks and expenses	-	-	-	-	-	5.205	**5.205**	-
Total liabilities	**46.733**	**68.567**	**821.729**	**152.700**	**32.724**	**31.856**	**1.154.308**	**1.100.421**
Equity and reserves	**-**	**-**	**-**	**-**	**-**	**281.802**	**281.802**	**-**
Total liabilities, equity and reserves	**46.733**	**68.567**	**821.729**	**152.700**	**32.724**	**313.657**	**1.436.110**	**1.100.421**
Interest rate mismatch	**438.329**	**121.519**	**(487.418)**	**94.361**	**64.766**	**(231.556)**	**-**	**(471.617)**

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

31.12.2021	Up to 1 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 balances	132 471	-	-	-	-	37 750	**170 222**	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	**-**	-
Financial assets at fair value through other comprehensive income	-	33 399	5 990	186 796	13 818	1 984	**241 987**	26 231
Financial assets at amortised cost	**69 383**	**372 982**	**407 473**	**155 623**	**89 119**	**131 103**	**1 225 683**	**554 400**
Obligatory reserve with the CB	-	-	-	-	-	131 103	**131 103**	-
Loans and receivables with banks	48 741	16 000	-	-	-	-	**64 741**	113 771
Loans and receivables with customers	20 642	356 982	407 473	155 623	89 119		**1 029 838**	440 629
Tangible assets	-	-	-	-	-	21 871	**21 871**	-
Intangible assets	-	-	-	-	-	11 799	**11 799**	-
Current tax assets - pre-paid income tax	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	569	**569**	-
Other assets	-	-	-	-	-	4 944	**4 944**	-
Total assets	**201 854**	**406 381**	**413 463**	**342 419**	**102 936**	**210 021**	**1 677 075**	**580 631**
Liabilities								
Financial liabilities at amortised cost	**83 436**	**92 544**	**975 326**	**181 270**	**59 000**	**3 113**	**1 394 688**	**1 369 795**
Deposits and borrowings from banks	68 894	47 742	20 538	16 535		1 279	**154 987**	131 929
Deposits and borrowings from customers	14 542	44 802	954 788	164 735	59 000	57	**1 237 924**	1 237 867
Lease liabilities	-	-	-	-	-	1 777	**1 777**	-
Current tax liabilities	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	931	**931**	-
Other liabilities	-	-	-	-	-	19 342	**19 342**	-
Provisions for risks and expenses	-	-	-	-	-	5 531	**5 531**	-
Total liabilities	**83 436**	**92 544**	**975 326**	**181 270**	**59 000**	**28 917**	**1 420 492**	**1 369 795**
Equity and reserves	-	-	-	-	-	256 583	**256 583**	
Total liabilities, equity and reserves	**83 436**	**92 544**	**975 326**	**181 270**	**59 000**	**285 500**	**1 677 075**	**1 369 795**
Interest rate mismatch	**118 419**	**313 837**	**(561 863)**	**161 149**	**43 936**	**(75 479)**	**-**	**(789 164)**

The following table shows the estimated future cash flow for interest-bearing and non-interest-bearing liabilities of the Bank as of 31.12.2022 and 31.12.2021:

31.12.2022	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Liabilities						
Transaction accounts and deposits from banks	22.602	39.117	-	-	-	61.718
Transaction accounts and deposits from customers	49.251	13.200	815.735	152.700	32.724	1.063.610
Lease liabilities	1.972	-	-	-	-	1.972
Other liabilities	20.349	-	-	-	-	20.349
Total liabilities	**94.174**	**52.316**	**815.735**	**152.700**	**32.724**	**1.147.649**
31.12.2021 .						
Transaction accounts and deposits from banks	70.172	47.742	20.538	16.535		154.987
Transaction accounts and deposits from customers	14.599	44.802	954.788	164.735	59.000	1.237.924
Lease liabilities	1.777	-	-	-	-	1.777
Other liabilities	19.342	-	-	-	-	19.342
Total liabilities	**105.890**	**92.544**	**975.326**	**181.270**	**59.000**	**1.414.030**

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:

	31.12.2022	31.12.2021
	%	%
Assets		
Funds in excess of the obligatory reserve held with the Central Bank	-0.21	-0.51
Loans and receivables due from banks	-0.03	-0.16
Loans and receivables due from customers	4.63	4.51
Financial assets at fair value through other comprehensive income	3.70	3.45
Liabilities		
Deposits due to banks	-1.04	-0.80
Deposits due to customers	-0.30	-0.49

Risk of Changes in Interest Rate Margin

Within market-risk-measuring techniques, the Bank measures the impact of interest rate margin changes in debt securities with fixed yield. The risk of change in debt securities price due to issuer credit risk change (margin perceived by the market) is measured and limited by CPV limit - basis point credit margin value limit (*Credit Spread Point Value*). This limit is similar to Basis Point Value (BP01) and limits the risk of change in the net present value of debt securities portfolio if the impact of interest margin change shifts by 0.01% (1 basis point). BP01 limits the overall sensitivity of the Bank's items to changes in interest rates and CPV additionally limits investments in debt securities with regard to the volume and duration.

Interest Rate Risk in the Banking Book

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

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

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

- economic value and
- earnings.

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

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

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

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

Interest rate risk in the Banking Book indicators	2022	2021
Economic value sensitivity (EV sensitivity) in %	(5.14%)	(5.29%)
Net interest income sensitivity (NII sensitivity) in %	(2.83%)	(0.63%)
Total BP01 in EUR	**52.805**	**(49.800)**

7.4. Operational Risk

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

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

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

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

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

In 2021, a Committee for management of non-financial risks and controls of UniCredit Bank a.d. Banja Luka was formed. The Committee's responsibilities are as follows:

- promotion of annual activities of managerial self-assessment of processes and evaluation of its results, to ensure a systemic approach to evaluation of operational risks and internal controls supervision system;
- supervision of non-financial risks in the Bank, developing threats, as well as the strengths of the internal control system, monitoring key events and incidents, weaknesses and deficiencies;
- definition and prioritising necessary corrective activities, aimed at mitigating spotted weaknesses and deficiencies;
- adoption of resolutions on reputational risks for transactions related to sensitive industries and other cases proposed by the business side (other relevant industries or clients);
- monitoring activities aimed at mitigating risks, effectiveness and implementation plans;
- discussion on relevant risks / findings prepared by the Internal Audit function;
- doption of resolutions on crisis, proclamation of a crisis situation as a part of business continuity management;
- approval of risk assumption in terms of delays / avoidance / change in corrective measures, which assumes delayed or incomplete mitigation of risks.

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

7.5. Reputation Risk

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

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

7.6. Capital Management

UniCredit Group's strategy and policy of providing financial services and capital allocation are aimed at increasing investments in the environment, society and governance (ESG - Environmental, Social, and Governance). Accordingly, the Bank in its operations, both in investment activities and in daily work processes, increasingly focuses on the application of the ESG framework, i.e. on improving health and safety, reducing pollution, climate change and sustainability issues.

The Bank's objectives in capital management are:

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

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

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

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

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

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

- bank-specific countercyclical buffer;
- buffer for a systemically important bank (prescribed in the range from 0% to 2%; it will be prescribed for each bank individually after BARS has ranked the banks according to the systemic importance); and
- buffer for systemic risk;
- In 2021, BARS introduced an additional capital requirement for banks, set as per SREP control, which presents an additional capital buffer for banks; for the Bank it amounts 0.75%.

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

	31.12.2022 BAM '000	31.12.2021 BAM '000
REGULATORY CAPITAL	**209.015**	**208.341**
CORE CAPITAL	**209.015**	**208.341**
COMMON EQUITY TIER 1 CAPITAL	**209.015**	**208.341**
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	5.329	5.899
Other reserves	52.928	52.707
(–)Other intangible assets	(11.184)	(11.799)
(–)Deferred tax assets that are dependent on future profitability and do not arise from temporary differences minus related tax liabilities	(90)	(127)
(–)Deferred tax assets that are dependent on future profitability and do arise from temporary differences minus related tax liabilities	(1.211)	(442)
SUPPLEMENTARY CAPITAL		
Common Equity Tier 1 Capital ratio (CET1)	**27.6%**	**22.8%**
Core capital ratio (T1)	**27.6%**	**22.8%**
Regulatory capital ratio	**27.6%**	**22.8%**

Realised capital ratios as at December 31, 2022 are significantly above the prescribed minimums.

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

The leverage coverage ratio is calculated as the ratio of share capital and total risk exposure of the bank on the reporting date, expressed as a percentage, and as at December 31, 2022, it is significantly above the prescribed minimum and amounts 14.1%.
On monthly basis Bank updates Business plans through Forecast (balance sheet, P&L, capital, segment results, AQ, Operating costs etc) and through this follow all key and regulatory indicators and ensure their alignement with prescribed and planned levels.

The financial leverage ratio is shown in the table below:

	31.12.2022 BAM '000	31.12.2021 BAM '000
Financial Derivatives: Present Replacement Cost	**1**	**0**
Off-balance sheet items with a 10% conversion factor	**874**	**1.230**
Off-balance sheet items with a 20% conversion factor	-	28.100
Off-balance sheet items with a 50% conversion factor	29.049	47.438
Off-balance sheet items with a 100% conversion factor	24.700	-
Other assets	**1.440.649**	**1.682.001**
()The amount of the deductible item	**(12.484)**	**(12.368)**
Financial leverage ratio exposure	**1.482.789**	**1.746.402**
Capital	-	-
Core capital	**209.015**	**208.341**
Financial leverage		
Financial leverage ratio	**14.1%**	**11.9%**

8. Operations on behalf 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:

	31.12.2022 BAM '000	31.12.2021 BAM '000
Consignment placement		
Liabilities based on principal	26	26
Liabilities based on interest	56	50
TOTAL	**82**	**76**

9. Analysis of changes in financing during the year

Reconciliation of movements of liabilities to cash flows arising from financing activities

2022	Borrowings	Lease liabilities
Balance at 01 January	**78.204**	**1.777**
Payment of lease liability	-	(818)
New lease liability	-	1.013
Receipts from interest-bearing borrowings	12.578	-
Repayment of interest-bearing borrowings	(18.576)	-
Total changes from financing cash flows	**(5.998)**	**195**
Liability-related		
Interest expense	645	32
Interest paid	(760)	(32)
Total liability-related other changes	**(115)**	-
Other changes	191	**-**
Balance as at 31 December	**72.282**	**1.972**

2021	Borrowings	Lease liabilities
Balance as at 01 January	**89.984**	**2.406**
Payment of lease liability	-	(867)
New lease liability	-	238
Receipts from interest-bearing borrowings	8.435	-
Repayment of interest-bearing borrowings	(19.552)	-
Total changes from financing cash flows	**(11.117)**	**(629)**
Liability-related		
Interest expense	825	39
Interest paid	(851)	(39)
Total liability-related other changes	**(26)**	-
Other changes	(637)	**-**
Balance as at 31 December	**78.204**	**1.777**

10. Related Party Disclosure

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 S.p.A. 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 2022
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 2022

Positions included in the Statement of Profit or Loss

	31.12.2022 BAM '000	31.12.2021 BAM '000
Interest income		
UniCredit S.p.A. Milan, Italy	168	11
UniCredit Bank d.d. Mostar; BiH	38	210
Total interest income	**206**	**221**
Fee and commission income		
UniCredit S.p.A. Milan, Italy	1	1
UniCredit Bank Austria AG Vienna, Austria	4	2
UniCredit Bank AG Munich, Germany	-	5
UniCredit Bank Moscow AO, Russia	-	56
Total fee and commission income	**5**	**64**
Interest expenses		
UniCredit S.p.A. Milan, Italy	(646)	(624)
UniCredit Bank AG Munich, Germany	(2)	(5)
UniCredit Bank Austria AG Vienna, Austria	(9)	(35)
Zagrebačka banka d.d. Zagreb, Croatia	(2)	(2)
UniCredit Bank d.d. Mostar, BiH	(272)	(401)
Total interest expenses	**(931)**	**(1067)**
Fee and commission expenses		
UniCredit S.p.A. Milan, Italy	(64)	(58)
UniCredit Bank AG Munich, Germany	(5)	(7)
UniCredit Bank Austria AG Vienna, Austria	(8)	(21)
Zagrebačka banka d.d. Zagreb, Croatia	(204)	(280)
UniCredit Services S.C.p.A Milan, Italy	-	(4)
Total fee and commission expenses	**(281)**	**(370)**
Operating expenses of business		
UniCredit S.p.A. Milan, Italy	(193)	(231)
UniCredit Services GmbH Austria	(1.500)	(1.355)
Zagrebačka banka d.d. Zagreb, Croatia	(77)	(64)
UniCredit Bank d.d. Mostar, BiH	(332)	(337)
Total operating expenses of business	**(2.102)**	**(1.987)**
Net expenses	**(3.103)**	**(3.139)**

Positions included in the Statement of Financial Position

	31.12.2022 BAM '000	31.12.2021 BAM '000
Assets		
FX nostro accounts		
UniCredit S.p.A. Milan, Italy	4.352	17.160
UniCredit Bank Austria AG Vienna, Austria	2.480	7.529
UniCredit Bank AG Munich, Germany	1.695	2.729
UniCredit Bank Serbia a.d. Belgrade, Serbia	83	3.381
Zagrebačka banka d.d. Zagreb, Croatia	266	425
UniCredit Bank d.d. Mostar, BiH	-	2
UniCredit Bank d.d. Ljubljana, Slovenia	-	7
Total FX nostro accounts	**8.876**	**31.233**
Term given deposits		
UniCredit S.p.A. Milan, Italy	39.117	
UniCredit Bank d.d. Mostar, BiH	-	16.000
Total term given deposits	**39.117**	**16.000**
Other receivables		
UniCredit S.p.A. Milan, Italy	595	310
UniCredit Bank AG Munich, Germany	28	28
UniCredit Banka Slovenija d.d. Ljubljana	189	-
UniCredit Services GmbH Austria	3	101
UniCredit Bank Serbia a.d. Belgrade, Serbia	75	61
UniCredit Bank d.d. Mostar, BiH	-	6
Total other receivables	**890**	**506**
Total assets	**48.883**	**47.739**
Liabilities		
Demand deposits		
UniCredit Bank Austria AG Vienna, Austria	**1**	**14**
Term received deposits		
UniCredit Bank d.d. Mostar, BiH	-	16.678
UniCredit S.p.A. Milan, Italy	39.285	116.372
Total term received deposits	**39.285**	**133.050**
Other liabilities		
UniCredit Bank d.d. Mostar, BiH	190	12
UniCredit S.p.A Milan, Italy	75	74
UniCredit Services GmbH Austria	356	88
Zagrebačka banka d.d. Zagreb, Croatia	350	169
UniCredit Bank Serbia a.d. Belgrade, Serbia	131	28
UniCredit Bank Czech Republic and Slovakia	298	165
UniCredit Bulbank AD Sofia, Bulgaria	-	7
Total other liabilities	**1.400**	**543**
Total liabilities	**40.686**	**133.607**
Net assets / liabilities	**8.008**	**(85.868)**

Transactions with key management personnel

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

	31.12.2022 BAM '000	31.12.2021 BAM '000
Supervisory Board	79	74
Management Board		
Short-term compensation		
Gross salaries paid during the current year for the current year	1.522	1.334
Bonuses paid during the current year for the previous year gross	313	149
Long-term compensation		
Insurance policies paid during the current year gross	29	40
Payments during the current year based on previous years gross	191	215
Total Management Board	**2.056**	**1.738**
Other key management		
Short-term compensation		
Gross salaries paid during the current year for the current year	790	643
Bonuses paid during the current year for the previous year gross	139	64
Long-term compensation		
Insurance policies paid during the current year gross	15	10
Payments during the current year based on previous years gross	-	-
Total other key management	**944**	**717**

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

The Bank's management consists of 6 members. The amount within 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.

The key management includes 9 members, which is 3 more than at the end of 2021.

The amount of salaries and bonuses paid to members of the Management Board and key management includes BAM 495 thousand (2021: BAM 399 thousand) of contributions for pension and disability insurance, which was paid into mandatory pension funds in the Republika Srpska at prescribed rates.

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

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

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:

	2022 BAM '000	2021 BAM '000
Supervisory Board		
Loans as of 31 December	-	-
Interest income for the year	-	-
Deposits as of 31 December	13	14
Interest expense for the year	-	-
Management Board		
Loans as of 31 December	75	3
Interest income for the year	*3*	-
Deposits as of 31 December	389	601
Interest expense for the year	*(3)*	*(1)*
Other key management		
Loans as of 31 December	322	120
Interest income for the year	*11*	*6*
Deposits as of 31 December	357	591
Interest expense for the year	*(1)*	*(1)*
Total key management		
Total loans as of 31 December	**397**	**123**
Total interest income for the year	***14***	***6***
Total deposits as of 31 December	**759**	**1.206**
Total interest expense for the year	***(4)***	***(2)***

11. Fair Value of Financial Assets and Liabilities

Fair value represents the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. It can also be defined as the value at which it is possible to dispose of assets/liabilities, or the appraised value of the neutralisation of the market risk arising from the assets/liabilities in the appropriate time-frame.
Assumptions used in assessing and measuring the fair values of financial instruments are based on application of centralised calculation developed at the Group level, which uses IFRS 13 as a unique source of guidelines to measure the fair value.
Financial instruments are considered as quoted on an active market if the quoted prices are easily and regularly available and if the prices represent actual and regular market transactions under common market terms.

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

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

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

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

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 at hierarchy level 2 and hierarchy level 3.
Debt securities are classified by the Bank at hierarchy level 2, and fair value adjustments are made in accordance with the Group's centralized calculation.
Equity securities are classified by the Bank in level 3 hierarchy level.

The bank calculates the fair value of the bonds in its portfolio on a quarterly basis 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).

IPV prices are calculated based on a model (MarktoModel). In the IV quarter of 2021, the Group changed the curve, which is used to calculate IPV prices, in such a way that the new curve also takes into account the local securities issued on the London Stock Exchange. Due to the application of the new curve, the negative amount of FVA has significantly increased: the effect of securities valuation on December 31, 2021 was 6.3 million BAM, and on December 31, 2022 it was 5.6 million BAM. The reduction of the negative effect at the end of 2022 compared to the end of the previous year is the result of the reduced volume of debt securities due to sales and maturity during 2022, in which there were no new investments.

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.:

Fair value levels of Bank's assets and liabilities in accordance with IFRS 13 are shown in the table below:

	31.12.2022 Fair value levels			31.12.2021 Fair value levels		
	Level 1 BAM '000	**Level 2 BAM '000**	**Level 3 BAM '000**	**Level 1 BAM '000**	**Level 2 BAM '000**	**Level 3 BAM '000**
Loans and receivables with banks	-	-	105.541	-	-	64.764
Loans and receivables with customers	-	200.815	601.889	-	256.427	808.118
Total loans		**200.815**	**707.430**		**256.427**	**872.882**
Deposits and borrowings from banks	-	-	61.501	-	135.282	21.834
Deposits and borrowings from customers	-	-	1.038.949	-	-	1.251.339
Total deposits	-	-	**1.100.450**	-	**135.282**	**1.273.173**

	31.12.2022				31.12.2021			
	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	105.541	105.576	(36)	(0.03%)	64.764	64.741	23	0.03%
Loans and receivables with customers	802.704	828.527	(25.823)	(3.12%)	1.064.545	1.029.838	34.707	3.37%
Total loans	**908.244**	**934.103**	**(25.858)**	**(2.77%)**	**1.129.309**	**1.094.579**	**34.730**	**3.17%**
Deposits and borrowings from banks	61.501	61.718	(217)	(0.35%)	157.116	154.989	2.127	1.37%
Deposits and borrowings from customers	1.038.949	1.063.610	(24.660)	(2.32%)	1.251.339	1.237.924	13.415	1.08%
Total deposit	**1.100.450**	**1.125.328**	**(24.878)**	**(2.21%)**	**1.408.455**	**1.392.913**	**15.542**	**1.12%**

12. Pledged Property

As of December 31, 2022, the Bank has registered one pledge in favour of the pledge creditor of the Government of the Republic of Srpska, based on the loan "IFAD 449 BA PROJECT_IFAD 772BA". Obligations under this loan as of December 31, 2022 amount to BAM 170 thousand (December 31, 2021: BAM 206 thousand).

Apart from the above pledge, the Bank has no other pledges and mortgages on real estate and equipment as of December 31, 2022.

13. Subsequent events

After the balance sheet date, and before the issuance of this report, in the legal matter of the plaintiff "Bitminer Factory" doo Gradiška against the Bank, the Higher Commercial Court in Banja Luka issued a verdict, which fully accepted the appeals of UniCredit Bank ad Banja Luka, modified the first-instance verdict and rejected as groundless claim of the plaintiff. More details on the court case are presented in the point 5.15. Provisions for other risks and costs.

ABBREVIATIONS

BARS	Banking Agency of Republika Srpska
ALCO	Asset Liability Committee
Banka	UniCredit Bank a.d. Banja Luka
BPV	Basis Point Value
CET 1	Common Equity Tier 1 Capital ratio
CPV	Credit Spread Point Value
EAD	Exposure At Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EIR	effective interest rate
EU	European Union
EV	economic value
FCRC	Financial and Credit Risk Committee
FLI	Forward Looking Information
FV	fair value
Group	UniCredit Group
Sec.	securities
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information & communication technology expenses
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
PDV	value added tax
POCI	Purchased or Originated Credit Impaired
PSC	Performance Status Code
RS	Republika Srpska
RWA	Risk Weighted Asset
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
VaR	Value at Risk
WL	Watch List