2023
Annual Report

Unlocking **transformation,** together.

Empowering Communities to Progress.

UniCredit Bank Banja Luka

UniCredit Bank a.d. Banja Luka

Annual report and
Financial Statements
For the year that ended as at
31 December 2023 and the
Independent Auditor's Report

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

Table of Contents

8

Management report

Report of the President of the Board	8
About UniCredit Group	12
Macroeconomic enviroment in 2023	16
Banking sector	17
Business description	18
Management and Corporate governance	26

33

Finacial statements

Responsibility for the Financial Statements	33
Independent Auditors' Report	34
Statement of Profit or Loss and Other Comprehensive Income	39
Statement of Financial Position	41
Statement of Changes in Equity	42
Statement of Cash Flow	43
Notes to the Financial Statements	44

“The strength of our bank lies in the **strength of our employees,** their expertise, and commitment to meet the needs and expectations of our clients.”

Gordan Pehar
President of the Management Board

Address by the President of the Bank Management Board

Dear clients, shareholders and partners, dear colleagues,

behind us at UniCredit Bank Banja Luka is a very challenging calendar and business year, but, despite all the challenges, in 2023 we continued the trend of good and healthy business results, and once again confirmed the position of a systemically important bank in the Republic of Srpska. We are the first bank in terms of capital in the Republic of Srpska, and the fifth at the level of Bosnia and Herzegovina.

The year behind us was marked by macroeconomic instability and inflation, but also by the optimism, will and strength of our team to continue to work together in synergy, putting our clients and the community in which we operate at the first place. Also, the year 2023 was particularly significant for our Bank because we proved once again that we are winners and that everything we have built over the years makes our Bank resilient and strong to overcome all difficulties, focusing on the future and the opportunities that are ahead of us.

Our strategy is based on our fundamentals, which are: care for the client, healthy growth of assets, efficiency in business, and solid lines of defense, in terms of the amount of capital, liquidity and a conservative approach to risk management, and of course, the most important, care for our employees. Our growth in efficiency is based on investment in digitalization and process improvements, as well on the daily improvements of small things and responsible cost management. Finishing one business period, we look optimistically at the future one, not waiting for change to happen, but proactively working to raise the overall efficiency of the Bank.

Listening to the needs of our clients, at the beginning of 2023, business goals were set aiming continuous support to the local communities in which we operate. In addition to the good expertise we have in doing business with individuals and legal entities, we have recognized the potential of the micro segment at the market that can be unlocked, as an important segment of every economy, relying on the knowledge and know-how we have within the UniCredit Group. Therefore, during this year we were focused on simplifying the process, especially the loan process - for the segments of small and medium-sized enterprises, and we will maintain the same focus in the coming period, in addition to redesigning existing products and services, following trends and real needs of the clients. We are proud of the fact that in 2023 we introduced the mobile banking application for legal entities, m-bank BIZ, which makes the clients' contact with the Bank simple and efficient.

When we talk about macroeconomic indicators, this year was marked by high inflation rate and an increase in the reference interest rate, that also had an impact on the local market, primarily on loans of businesses and private individuals. Being aware of this, during 2023, we provided stronger support for our clients, in the first place in terms of the safe environment for saving money in the Bank with higher returns, through a special offer with stimulating interest rates on term deposits for private individuals. In this way, we further strengthened the Bank's deposit base, increasing its liquidity. Also, taking in consideration the current uncertainty and rising living costs, we empowered even more our clients – private individuals, by providing them with safer and more certain financial planning through a promotional offer of housing and cash loans with lower, fixed interest rates.

Through partnerships with institutions, such as the Guarantee Fund of Republic of Srpska, the European Bank for Reconstruction and Development and the European Investment Bank, UniCredit Bank Banja Luka continued to strengthen all segments of the local economy by providing the funds needed for business recovery and development through various loans.

When we talk about the Bank's achievements, we are talking about the achievements of its team. I am proud to point out that the strength of our bank lies in the strength of our employees, their expertise and commitment to meet the needs and expectations of our clients and to facilitate each other's daily work activities. As a result of the efforts of our employees, the year 2023 was also successful in terms of key financial indicators.

During the year, bank has additionally strengthened its balance sheet, working on risk diversification keeping the strong liquidity and capital of the Bank. 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 2023, the Bank achieved a profit of BAM 22.78 million and, with assets of BAM 1.28 billion and capital of BAM 247.3 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 31.5%), as well-as balanced balance sheet and an adequate level of liquidity at all times. The total number of active clients in the financial year 2023 was 119,2 thousand, while the share of active users of mobile banking in total number of active clients increased by 2 pp y/y to 35.1%.

This is also a year of awards for all that we have achieved. We were recognized as leaders in the categories of corporate social responsibility and digital solutions, the market leader and the best provider of transactional business services, as well as the best provider of trade finance services according to the results of the "Euromoney Trade Finance" research. We are especially proud of the award Gold BAM, given by the magazine "Banks and Business" in Bosnia and Herzegovina, for the best mobile application in banking, with which we have been awarded for the fourth time in a row. UniCredit was also recognizes as the global "Bank of the Year" for 2023 by the prestigious magazine "The Banker", which impacts the strength of our UniCredit brand in the local market.

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 client 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 2023, 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 continues its cooperation with secondary schools and this year as well have donated equipment for the school cabinets, while the Bank's volunteers helped students expand their knowledge of finance and banking through a series of lectures. The roots of financial literacy were raised among the youngest, through socializing and playing with preschool children and the joint, now already traditional, celebration of International Savings Day in all branches. Our employees also provided support to children and their healthy growth, and have collected and donated more than 150 New Year's presents to the youngest in need.

In cooperation with our partners, in 2023 we traditionally 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. This year, as part of the initiative, for the first time, we organized a “Walk of Support for Healing” in which participated bank employees and members of the Association of Women Suffering from Breast Cancer “Iskra”.

In 2023, 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” in 2022, which aims to restore the forest fund globally, and within which we have, together with our clients, and employees planted 7,500 plants around the world. A new campaign within the “Priceless Planet” initiative began at the end of 2023 with the launch of the new Google Pay service, which will enable all users to plant a tree with each transaction they do, using the Google Pay mobile wallet. Also, in 2023, we implemented the initiative to arrange a city park, and we will continue to implement local initiatives in the future, additionally taking care of the community in which we operate.

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 more than 9,700 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 Management Board

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 clients 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.

Where we operate

15m
customers worldwide

4
coverage regions

13
leading banks

A. Central Europe includes Austria, Czech Republic, Hungary, Slovakia and Slovenia.
B. Eastern Europe includes Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Russia and Serbia.

Our core values and purpose

Our purpose **is to empower communities** so they can **progress.** By delivering the very best for all our stakeholders, we can unlock the potential that exists across Europe – both for our clients and our people, and for their wider communities.

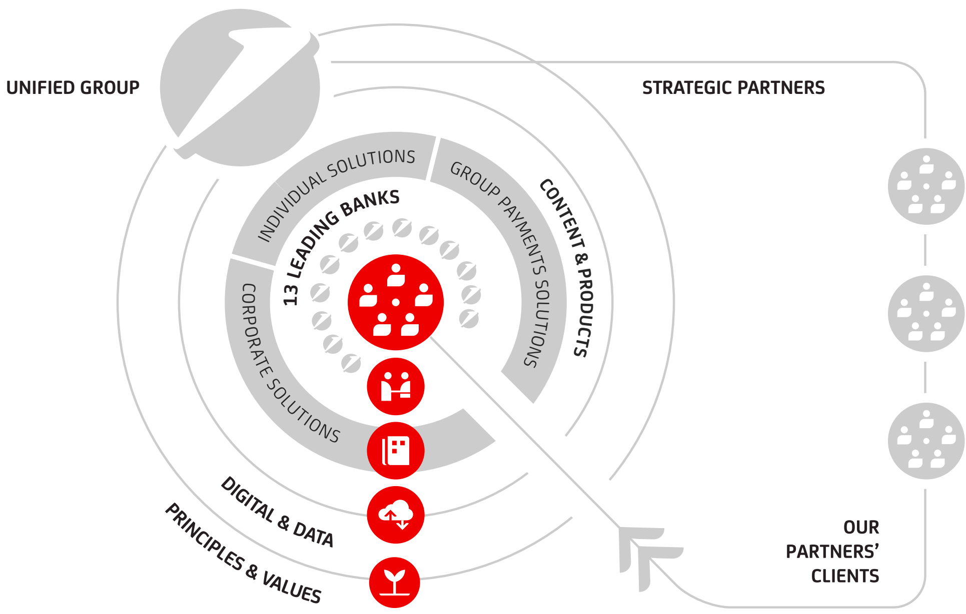
Clients are at the centre of everything we do, so moving into a new era of growth means keeping the focus on them, those for whom we exist. We provide support to our clients in their daily activities by understanding the expectations they have of UniCredit, using the resources of the entire Group to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

We operate as one bank and use the advantages of our presence throughout Europe and the strength of our team to offer only the best to all our stakeholders.

In the long run, we want to become a truly **digital data-driven bank,** with digital transformation as a key enabler for our customers and employees.

Commitment to ESG principles enables us to provide excellence to all our stakeholders and help create a sustainable future, and this is the ambition that guides us in all our activities and decisions we make.

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



“UniCredit Unlocked” strategic plan

UniCredit’s ambition is to be the bank for the future of Europe. This year also, we continued with strong transformation in order to achieve this ambition, building a better bank that can act as a benchmark for our industry.

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

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

Let’s win. In the right way. Together.

For our clients: delivery of **best-in-class products and services.**

For our investors: **creating long-term shareholder value.**

For our employees: **unification behind one ambition and common principles.**

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, keeping up with the following strategic imperatives and financial ambition.

Growth
in our regions and development of our client network:

- Quality growth from both existing and new clients;
- Development of best-in-class products and services: either internally or with external partners.

Changing
the business model and the way our people work:

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

Achieving
economies of scale from our joint strength:

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

Transformation of our technology
through digitization and the use of unique integrated information platforms (“Digital & Data”):

- Optimization of the infrastructure in order to build an organization that is completely digital;
- A data-driven organization ready for the future.

Build sustainability
into everything we do:

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

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

Macroeconomic overview

Previous year was quite challenging for the global economy, as inflation, rising interest rates and geopolitical shocks caused great uncertainty. After a strong expansion in 2021, real gross domestic product of the Eurozone contracted towards the end of 2022 and barely grew in the first three quarters of 2023. Still high inflation and tightening monetary policy took a bigger toll than previously expected. Economic activity is expected to gradually recover as consumption recovers on the back of a consistently strong labor market, sustained wage growth and continued declines in inflation.

The slowdown in the economic activity of Bosnia and Herzegovina, which started already in 2022, continued throughout 2023. The reason for the slowdown in 2022 was poor industrial activity and rising inflation, which burdened the purchasing power of households, while the further slowdown in 2023 is the result of the deterioration of the external environment and the external demand of the main trading partners. In the period January-December 2023, exports amounted to 16 billion 700 million KM, which is 7.1 % lower than in the same period in 2022, while imports amounted to 27 billion 768 million KM, which is 3% lower than in the same period of last year. less than in the same period of the previous year. Industrial production decreased year-on-year, and the net export position worsened as import growth was higher than export growth. In 2023, the economy grew by a modest 1.1% in the first quarter on an annual basis, while the second and third quarters continued with weak growth of 1.0% and 1.2% on an annual basis.

Economic activity in Bosnia and Herzegovina could slowly begin to recover in the coming years, with further gradual weakening of inflation. It is expected that the real growth of the gross national product will be higher from 2024, due to the recovery of domestic and foreign demand. A moderate growth of real income, in conditions of continued decline in inflation, would increase personal consumption, while stronger dynamics of foreign demand starting next year would strengthen commodity exports. Estimated values of real gross domestic product and other macroeconomic variables are exposed to an extremely high degree of uncertainty. Weak reform momentum weighs on growth prospects, even as global food price inflation has become more subdued. The short-term outlook is clouded by the ongoing slowdown in key export markets, with year-over-year declines in industrial production.

The weakening of inflationary pressures at the end of 2022 continued throughout 2023. In December 2023, the average inflation rate is 6.1%. Average inflation reached its peak in January 2023, when it reached a level of 14.1%, followed by a slowdown in line with the drop in international food and energy prices. Price levels are in a constant downward trend, but expectations show that inflation in the short term will still be significantly higher than the average for the period for which consumer price data is officially collected in Bosnia and Herzegovina. A large part of the inflationary pressures is a consequence of the rise in domestic prices, which are not affected by the rise in food and energy prices on foreign markets.

The average monthly paid net salary for the period January - November 2023 compared to the same period of the previous year is nominally higher by 12.9%. For the same period, the real index was higher by 6%. The registered unemployment rate is still in a downward trend, with a ratio of 29% for eleven months in 2023.

The rapid formation of government at the state and entity level after the 2022 elections consolidated the political structure of BiH. Bosnia and Herzegovina was granted candidate status for the European Union, which gave an additional reason for improving the country's credit rating. The international rating agency Standard and Poor's (S&P) increased the credit rating of BiH from 'B' to 'B+', with a stable outlook as early as August 2023. According to S&P analysts, a new increase in the credit rating may occur in the next year if achieve a sustainable transition to reaching consensus-based political decisions, which, in the medium term, could accelerate reforms and economic growth.

Although BiH is known for its frequent political deadlocks, it seems that the authorities are focused on the implementation of the reform program. BiH has shown the political will to implement the reform program. Sufficient progress by the date of the recent progress report in November 2023 was not achieved, delaying the European Commission's decision to issue an unconditional recommendation to open membership negotiations and causing the European Commission to recommend that accession negotiations be opened only after Bosnia and Herzegovina achieves the required degree of compliance with membership criteria. The European Commission will report to the European Council on Bosnia and Herzegovina's progress in this respect no later than March 2024. Given that 2024 is an election year when the General Elections will be held in Bosnia and Herzegovina, it is possible to expect more frequent political deadlocks, which could lead postponing structural reforms and faster improvement of the business environment.

Macroeconomic expectations

In 2024, it is expected that the growth of the economy will be stimulated by the recovery of personal consumption, as inflation decreases, and by public investments. Inflation rates should achieve an additional reduction to the level of 3%-4%. The risks for BiH's perspective are mainly related to the unpredictable nature of BiH's domestic politics, which could affect the implementation of the reform program, the perception and sentiment of investors, and the outlook related to BiH's credit rating. Risks for BiH's growth are mainly related to the performance of the country's main trading partners and energy prices (BiH imports most of its energy products, except for electricity, of which BiH is a net exporter).

Banking sector

Central banks around the world have been raising interest rates throughout 2022 and 2023 to try to moderate rising inflation while keeping the economy's growth rate in balance. Tighter financing conditions reduce demand, which helps reduce inflation. Core inflation in the Eurozone has been successfully reduced, but price pressures are still high, primarily due to strong growth in unit labor costs. Higher interest rates exposed vulnerabilities in some banks around the world, while it was clear that some banks would be weakened by an extended period of tight monetary policy.

On the other hand, the banking sector of Bosnia and Herzegovina remained strong, stable and adequately capitalized in 2023, with the lowest ratio of non-performing loans in the total in the decade (4 percent, Q3 2023). There was no direct spillover of financial stress from advanced economies due to limited reliance on international financing.

The number of banks on the market of Bosnia and Herzegovina did not change during 2023 and amounts to a total of 21. There are a total of 8 banks operating in Republic of Srpska and 13 in Federation of Bosnia and Herzegovina. The number of employees in the banking sector increased by +2.6% (3Q 2023 compared to 2022YE).

The latest available financial indicators of the banking sector of Bosnia and Herzegovina for 3Q 2023 show that the banking sector is stable and profitable. The total realized profit before tax in the nine months of 2023 was BAM 607 million, which is a growth of 44% compared to the same period of the previous year. Total revenues of the sector recorded a double-digit annual growth, primarily driven by a significant increase in net interest income (+34% y/y). Operating costs of the sector increased by 12% y/y, while net provisions recorded a decrease of -28% y/y.

In December 2023, loan volumes recorded a growth of +6.7% compared to the end of 2022. At the same time, deposit volumes recorded an increase of +6.4% compared to the end of 2022, driven by a faster growth of household deposits of +10.5%, while deposits of legal entities increased by +2.7%. Entity banking agencies jointly agreed to establish a kind of reference interest rate, in the form of the average price of deposits (money that individuals, companies and other legal entities deposit, i.e. give to the bank for safekeeping in the form of a bank account). Domestic banks were offered the choice of using these rates (12-month deposit price) as reference values in loan contracts with a variable interest rate with the aim of better managing interest-induced credit risk. Reference values of the average financing cost of banks operating on the territory of Bosnia and Herzegovina were calculated for the previous five years. The Central Bank of Bosnia and Herzegovina will regularly publish reference rates of the weighted average cost of bank financing on a quarterly basis, whereby this information will be available no later than 45 days after the end of each quarter.

As measures to mitigate the risk of interest rate changes on the international market, banking agencies of two entities have adopted temporary measures to slow down the growth of domestic credit rates and mitigate the impact of rising world interest rates. The measures, adopted in October 2022 and remaining in place throughout 2023, call for increased monitoring of borrowers' ability to service debt in a rising interest rate environment and increased provisioning for loans subject to rate increases of more than 200 bps, allowing banks to restructure those loans without initiating default proceedings. Furthermore, the Banking Agency of the Federation of Bosnia and Herzegovina limited the increase of active interest rates to 200 basis points for those loans for which an increase of more than 200 basis points would cause the debtor to default on his obligations. In the RS, a temporary regulation adopted in August 2022 and extended until December 2023 allows banks to only partially recognize revaluation losses on certain government securities. In addition, in April 2023, both banking agencies set an upper limit for banks' exposure to foreign countries equal to the amount of the guarantee capital, until the end of 2024.

Banking sector expectations

With regard to macroeconomic projections, for the year 2024 it is expected that the banking sector will operate in conditions of a rather uncertain situation in the global environment. Given the expected moderately accelerated GDP growth, it is expected that loan growth rates will be slightly higher than in 2023. This is the result of the expected recovery of personal consumption and the investment cycle.

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.

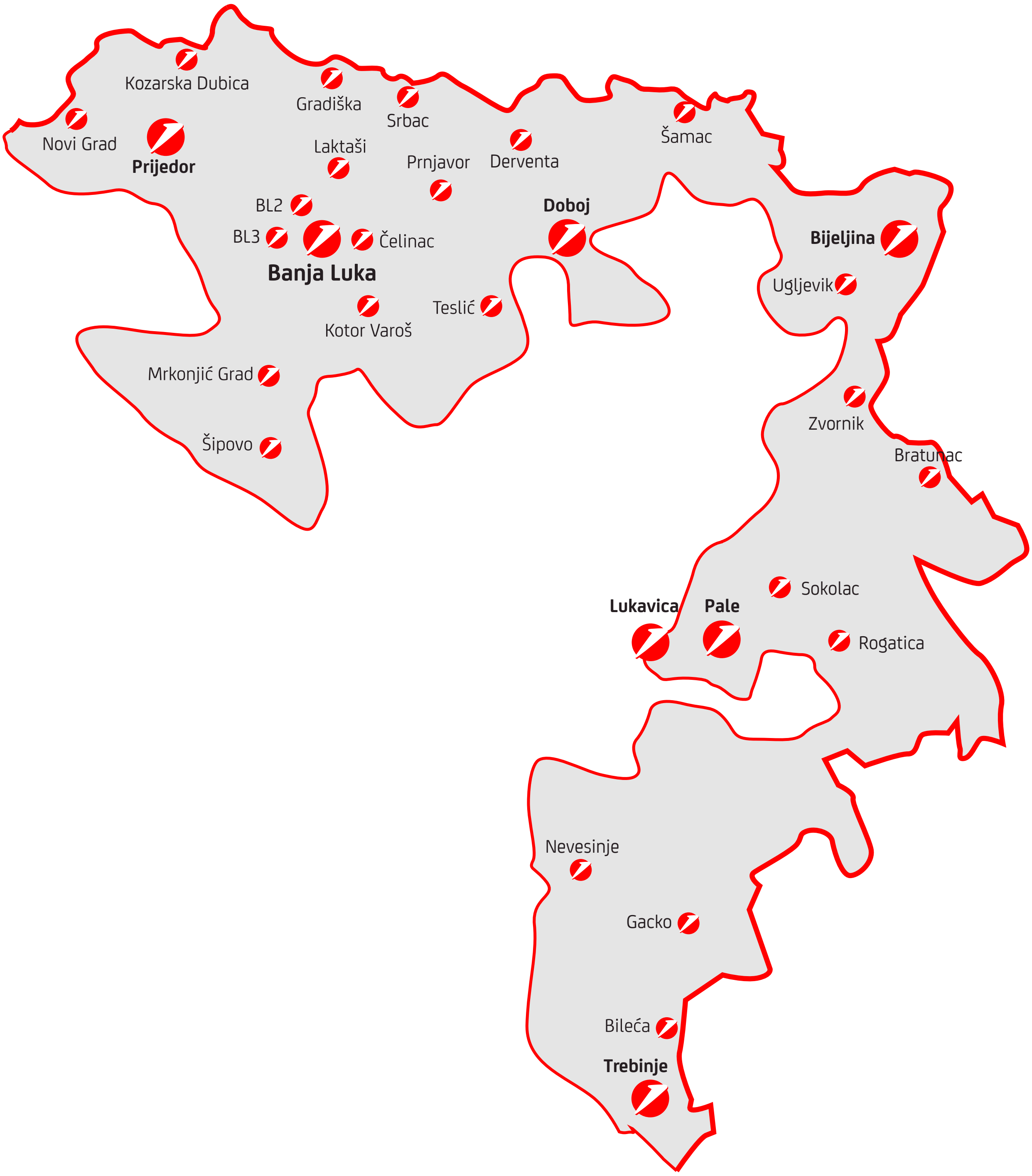
The Bank provides a full range of financial services to legal entities and private individuals in the Republika Srpska, one of the two entities in Bosnia and Herzegovina. The set of banking services provided by the Bank includes all types of operations with private individuals, small and medium sized 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 clients with a wide range of products and services, through two business areas – Private and Business Banking. It manages a network of business units and direct distribution channels such as ATMs, mobile and electronic banking.

During 2023, the Bank's business network was divided into four geographically and economically connected regions (Banja Luka-Prijedor, Doboj-Gradiška, Sarajevo-Bijeljina and Trebinje-Foča), with a total of 30 organizational units at the end of 2023.

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

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

Business Activities in 2023

The volume of Retail loans at the end of 2023 was BAM 436.6 million (-12.3% compared to December 2022). The market share in loans to private individuals is 14.5% in Republika Srpska (-224bp compared to the end of 2022) at the end of September 2023.

Retail deposits amount to BAM 574.3 million at the end of 2023 (+4.8% compared to December 2022). The market share in deposits of private individuals is 11.7% (-32bp compared to the end of 2022) in the Republika Srpska as of the end of September 2023.

The development of the Bank's products continued in 2023, in the area of improving the quality of services, as well as through simplification and acceleration of processes. The focus in 2023 was on increasing the degree of digitization (mobile and internet banking, ATM, cards), implementation of SME mobile banking for legal entities; Google Pay - a new digital service for contactless mobile payments; 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.

Companies and public sector Segment

Organization

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

Through business 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 2023

The key focus of Companies and public sector segment in 2023 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 2023, amounted to BAM 286.5 million (-24.1% compared to the end of 2022), while deposits from corporate clients amounted to BAM 406.0 million (-21.3% compared to the end of 2022). As of September 2023, the market share in corporate loans on the Republika Srpska market was 10.1% (-341bp compared to the end of 2022), and in the part of deposits, the market share was 13.6% (-188bp compared to at the end of 2022).

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 Companies and public sector segment, 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 2023, the Bank achieved positive business results.

Financial Indicators Performance Overview, in BAM tsd	2023	2022	+/-
Profit and Loss			
Total operating income	67,985	67,157	1.2%
Total operating expenses	(38,397)	(38,171)	0.6%
Profit before tax	25,142	25,664	-2.0%
Net profit for the year	22,775	23,379	-2.6%
Balance sheet			
Net loans and receivables from clients	677,246	828,527	-18.3%
Deposits and borrowings from clients	980,309	1,063,610	-7.8%
Equity and reserves	247,264	281,802	-12.3%
Total assets	1,275,916	1,436,111	-11.2%
Capital adequacy			
Total risk weighted assets (RWA)	667,785	756,206	-11.7%
Own funds (regulatory capital)	210,159	209,015	0.5%
Capital adequacy ratio (CAR)	31.5%	27.6%	3.8pp
Business indicators			
C/I ratio, total operating expenses/ total operating income	56.5%	56.8%	-0.4pp
ROAE Return on average equity	9.2%	8.3%	0.9pp
ROAA Return on average net assets	1.8%	1.6%	0.2pp
L/D ratio, Ratio of loans and deposits of clients	69.1%	77.9%	-8.8pp
Number of employees	386	422	-36
Number of branches	30	32	-2

Profit and Loss

The realized net profit in 2023 amounts to BAM 22.8 million and is 2.6% less than the profit realized in the previous year, mostly due to higher allowances for credit risks and higher operating costs, while operating income is higher by 1.2% y/y.

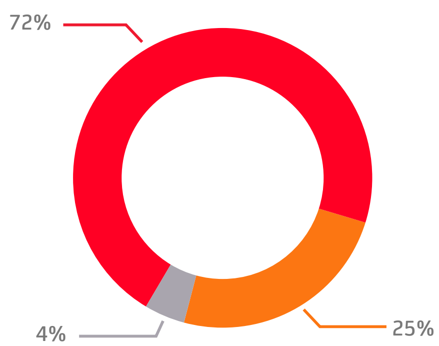
The total operating income in 2023 amounts to BAM 67.9 million, which is 1.2% more compared to the previous year as a result of higher income from interest and higher income from fees and commissions.

Total operating costs in 2023 amount to BAM 38.4 million and record a growth of 0.6% compared to the previous year, mainly as a result of the growth of other administrative costs.

Bearing in mind that Operating income had a higher growth rate than Operating expenses, the key efficiency parameter C/I ratio (cost-to-income ratio) is 56,5 and has improved by 0.4 pp compared to the previous year.

Chart: Operating income and operating expenses structure

Operating income



- Net interest income (72%)
- Net fee and commission (25%)
- Other items (4%)

Operating expenses

- Staff expenses (49%)
- Depreciation expenses (13%)
- Other administrative expenses (38%)

Net interest income was realized in the amount of BAM 48.8 million, which is 3.9% more compared to the same period of the previous year, and makes up 72% of the Bank's total operating income. The growth of net interest income compared to the previous year is the result of a 4.2% increase in interest income.

Net income from fees and commissions amounts to BAM 16.8 million, which is 0.4% more compared to the same period of the previous year, and makes up 25% of the total operating income. The increase in fees is mainly the result of higher fees for account management, fees for card business and on the basis of buying and selling currency.

Other income items include net gains from trading and exchange rate differences in the amount of BAM 2.4 million, income from dividends and equity participation in the amount of BAM 4 thousand, and together they make up 4% of the Bank's total operating income and are lower by 30.8% y/y.

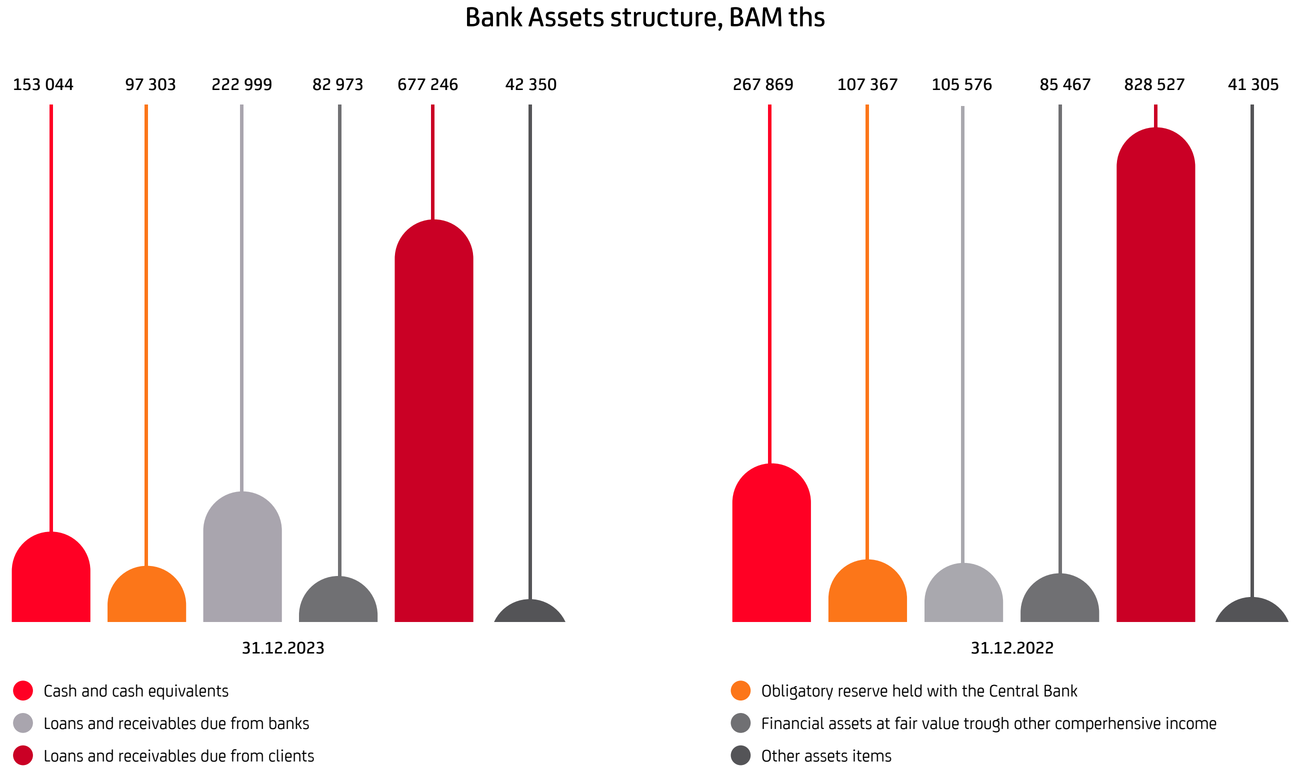
Total operating costs amount to BAM 38.4 million, which is 0.6% more than in the same period of the previous year. Employee costs amount to BAM 18.7 million and record a decrease of 0.7% compared to the previous year, and make up 49% of total operating costs. Other administrative costs with BAM 14.7 million participate with 38% in total operating costs, while depreciation costs of tangible and intangible assets amount to BAM 5.0 million and make up 13% of total operating costs.
The recorded increase in total operating costs compared to the previous year is mostly the result of the increase in other administrative costs (ICT costs).

Balance Sheet

Assets

At the end of 2023, the Bank's total assets amount to BAM 1.3 billion and are 11.2% lower compared to the same period last year due to a reduction in loans and receivables from clients.

Chart: Bank Assets structure



In the structure of the Bank's assets, the most significant share of 53.1% is held by loans and receivables from clients, which amount to BAM 677.2 million and record a decrease of 18.3% compared to the end of the previous year. Loans and receivables from banks amount to BAM 222.9 million, and together with the mandatory reserve at the Central Bank of BiH in the amount of BAM 97.3 million, cash and cash equivalents in the amount of BAM 153.0 million make up a third of the Bank's total assets.

Financial assets at fair value through other total results account for 6.5% of the Bank's total assets. It amounts to BAM 82.9 million, which is 2.9% less compared to the previous year due to the repayment of the existing portfolio.

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

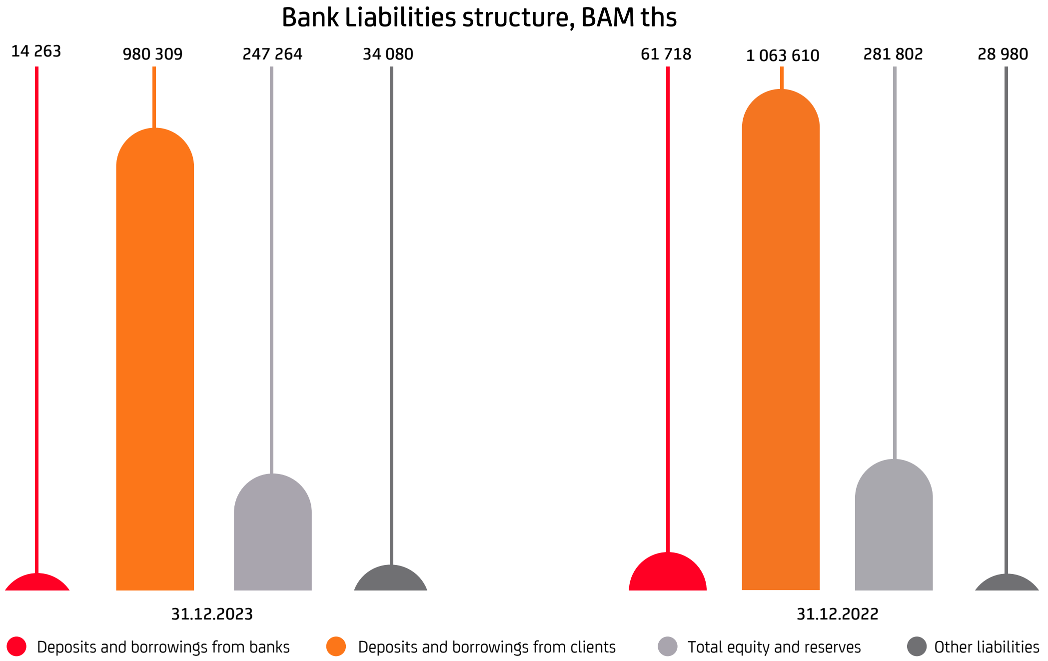
In the structure of loans and receivables from clients, loans to legal entities make up 40%, and loans to private individuals 60% of the share. Net loans to legal entities as of December 31, 2023 amount to BAM 272.4 million, while net loans to individuals amount to BAM 404.8 million.

Gross loans to legal entities decreased by 25.2%, while gross loans to individuals decreased by 11.2% compared to the end of the previous year.

Liabilities

In the structure of the Bank's liabilities, deposits and loans from clients have the most significant share (77%). Total deposits and loans from clients amount to BAM 980.3 million and are 7.8% lower than at the end of the previous year.

Chart: Bank Liabilities structure

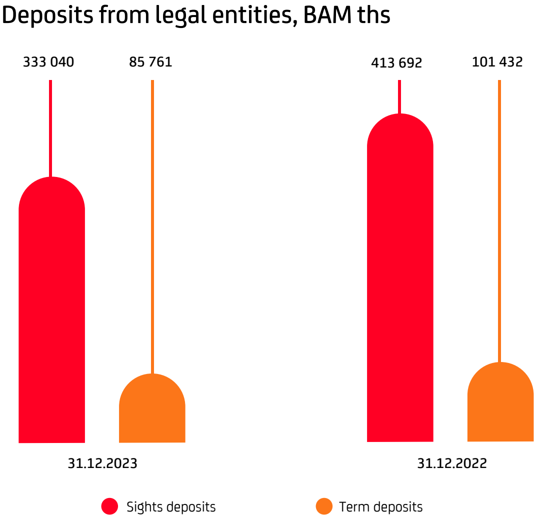


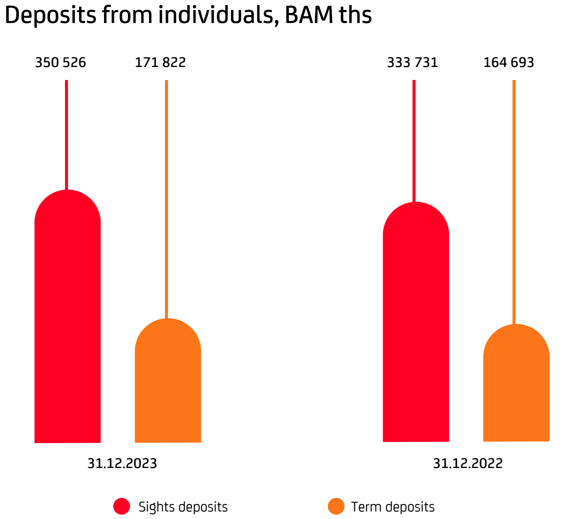
In the structure of deposits and loans from clients, deposits and loans from legal entities make up 46.7%, while deposits from private individuals make up 53.3%.

Deposits of legal entities, which also include deposits of entrepreneurs, amounted to BAM 418.8 million at the end of 2023, which is 18.7% less compared to the end of the previous year. Demand deposits of legal entities make up 79.5%, while term deposits make up 20.5% of total deposits of legal entities.

Deposits of private individuals amounted to BAM 522.3 million, which is 4.8% more compared to the previous year. Demand deposits of private individuals make up 67.1%, while term deposits make up 32.9% of total deposits of private individuals.

Chart: Structure of legal entities and private individuals' deposits





The L/D ratio as the ratio of loans and deposits of clients is 69.1% and is lower by 8.8 pp compared to the same period last year as a result of a greater decrease in the client's loan portfolio compared to the decrease in deposits from clients.

Capital and Reserves

The Bank's capital and reserves at the end of 2023 amount to BAM 247.3 million, which is 12.3% or BAM 34.5 million lower compared to the end of the previous year. The net reduction of capital in the stated amount is mostly the result of the payment of dividends to the bank's shareholders in the amount of BAM 56.8 million. The bank achieved a positive net profit in 2023 in the amount of BAM 22.8 million.

Capital adequacy as of December 31, 2023 is 31.5% (significantly above the regulatory minimum of 12%) and is higher by 3.8 pp compared to the same period last year.

Management and Corporate governance

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, 2023, the Bank had a total of 54 shareholders, of which UniCredit S.p.A., Milan, holds the largest share with 99.629% of the Bank's total capital.

Share capital of the Bank as of December 31, 2023 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 99.68% is composed of the foreign capital, and 0.32% 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 2023 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 2023 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, and Acting Member of the Management Board of the Bank, responsible for Risk Management from 01.03 to 30.04.2023
3.	Dragana Janjić	Member of the Management Board of the Bank responsible for Risk Management up to 28 February 2023
	Miloš Belić	Acting Member of the Management Board of the Bank responsible for Risk Management from 01.05 -30.05.2023, and Member of the Management Board of the Bank responsible for Risk Management from 31.05.2023.
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.	Diana Bevanda	Member of the Management Board of the Bank responsible for P&C

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 2023 were:

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

Employees

As of December 31, 2023, the Bank has a total of 386 employees.

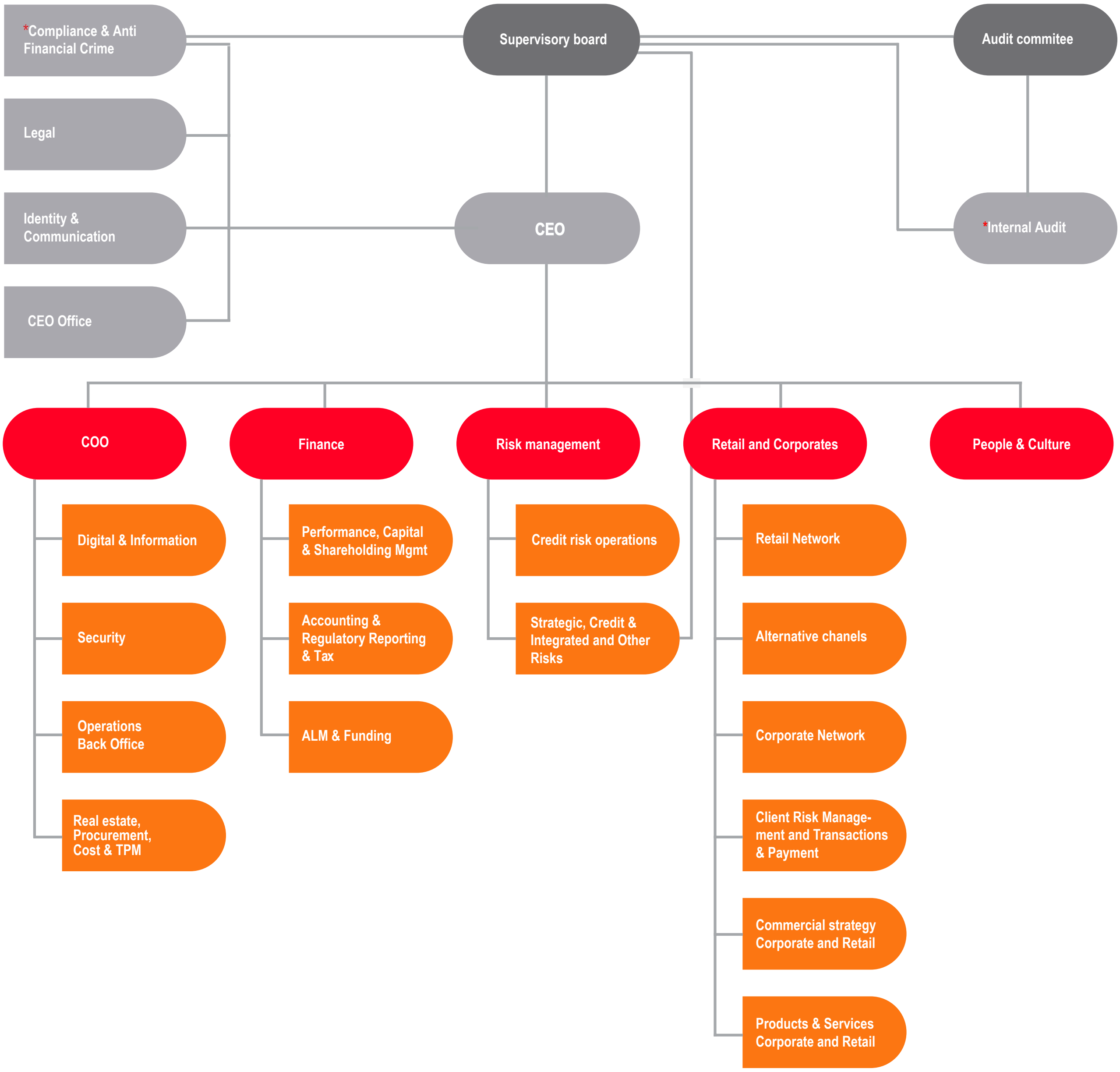
We are committed to our role in society and strive to act as an engine of social progress to help and empower the local community and provide our employees with the best place to work.

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 2023 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 2023 we had over 38 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 2023



*According to the local banking regulations Control functions: Internal Audit, Compliance & AFC and Strategic, Credit and Integrated and Other Risks reportdirectly to the Supervisory Board.

Business Network of UniCredit Bank a.d. Banja Luka as of 31.12.2023

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 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

We believe in **Europe's potential.**

Uniting behind a vision of a
better bank and a better future.
A transformation for our clients,
our people, and our communities.
Demonstrating what it means
to be the bank for Europe's future.

For everyone, everywhere.

Responsibility for the Financial Statements

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

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

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

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

Signed on behalf of the Management Board

UniCredit Bank a.d. Banja Luka
1

Bank Board President
Gordan Pehar

Bank Board member
Jasminka Bajić

Bank Board member
Željko Kisić

Bank Board member
Roland Viskupič

Bank Board member
Diana Bevanda

Bank Board member
Miloš Belić

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

16 February 2024

Independent Auditors' report

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

Opinion

We have audited the financial statements of UniCredit Bank a.d. Banja Luka ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Republic of Srpska.

Basis for Opinion

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

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

Key Audit Matters

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

Impairment of loans and receivables from clients

As at 31 December 2023, gross loans and receivables from clients: BAM 723.1 million, related impairment allowance: BAM 45.9 million and, for the year then ended, impairment loss recognised in the statement of profit or loss: BAM 2.6 million (31 December 2022: gross loans and receivables: 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).

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 clients, and Note 7.1 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and receivables from clients (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 2023 reflected tightening conditions, with rising interest rates to combat inflation and economies experiencing slower economic growth putting pressure on borrowers, the outlook for 2024 remains uncertain. 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.	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 client's business, market conditions and debt service; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3;. – With the assistance of our own valuation specialist, for individually significant exposures classified in Stage 3, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to loan files and market rates. • For loan exposures in totality: – Assessing the adequacy of the recognized ECL against the various minimum provisioning requirements prescribed by the ABRS; – Challenging the overall reasonableness of the impairment allowances, including both the share of the gross non performing exposures in total gross exposure and the non-performing loans provision coverage. – Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

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.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

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

16 February 2024

Svetozara Markovića 5
78000 Banja Luka
Bosnia and Hercegovina

Statement of Comprehensive Income

Statement of profit or loss

	Note	31.12.2023 000 BAM	31.12.2022 000 BAM
Interest income calculated using the effective interest rate method		54,758	52,560
Interest expense		(6,001)	(5,637)
Net interest income	4.1.	**48,757**	**46,923**
Fees and commission income		21,504	21,106
Fees and commission expenses		(4,679)	(4,346)
Net fee and commission income	4.2.	**16,824**	**16,760**
Dividend and equity investment income		4	4
Gains and losses on financial assets and liabilities held for trading and foreign exchange differencies		2,400	3,470
Net trading income	4.3.	**2,404**	**3,474**
Total operating income		**67,985**	**67,157**
Staff expenses	4.4.	(18,710)	(18,846)
Depreciation on tangible assets	4.5.	(1,855)	(2,372)
Depreciation on intangible assets	4.5.	(3,143)	(2,722)
Other administrative expenses	4.6.	(14,689)	(14,231)
Total operating expenses		**(38,397)**	**(38,171)**
Operating result before impairment and provision		**29,588**	**28,986**
Net impairment losses on financial instruments	4.7.	**(7,276)**	**(4,987)**
Financial assets at amortised cost		(7,294)	(5,254)
Financial assets at fair value through other comprehensive income		18	267
Provisions for risks and expenses	4.8.	**81**	**(426)**
Other operating income	4.9.	**3,467**	**2,741**
Other operating expenses	4.9.	**(719)**	**(650)**
Result before tax		**25,142**	**25,664**
Income tax	4.10.	**(2,366)**	**(2,286)**
Result after tax		**22,775**	**23,379**

Statement of Comprehensive Income (CONTINUED)

	Note	31.12.2023	31.12.2022
		000 BAM	000 BAM
Result after tax		**22,775**	**23,379**
Other comprehensive income		**(503)**	**1,840**
Items that may not be re-classified to profit or loss:			
Revaluation of tangible assets		119	1,198
Net gain of the period recognised directly in capital		261	72
Items that may be re-classified to profit or loss:			
Net changes in impairment of financial assets at fair value through other comprehensive income – debt instruments		(18)	(267)
Net change in fair value of financial assets at fair value through other comprehensive income – debt instruments		(865)	837
Total comprehensive income for the year		**22,272**	**25,219**

Basic/diuted Earnings per share

	Note	31.12.2023	31.12.2022
		000 BAM	000 BAM
Result after tax attributable to ordinary shareholders		**22,775**	**23,379**
Other comprehensive income attributable to ordinary shareholders		**(503)**	**1,840**
Number of regular shares		138,650	138,650
Basic/diluted Earnings per share	4.11.	**164.26**	**168.62**

These financial statements were approved by the Bank's Management on 16 February 2024.

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

President of the Management Board
Gordan Pehar

Member of the Management Board
Gordan Pehar

Statement of Financial Position

	Note	31.12.2023 000 BAM	31.12.2022 000 BAM
Assets			
Cash and cash balances	**5.1.**	**153,044**	**267,869**
Financial assets at fair value through profit or loss		**-**	**1**
Financial assets at fair value through other comprehensive income	**5.2.**	**82,973**	**85,467**
Financial assets at amortised cost		**997,548**	**1,041,470**
Obligatory reserve held with the Central Bank	5.3.	97,303	107,367
Loans and receivables with banks	5.4.	222,999	105,576
Loans and receivables from clients	5.5.	677,246	828,527
Tangible assets	**5.6.**	**21,987**	**22,755**
Intangible assets	**5.7.**	**9,413**	**11,184**
Current tax assets		**216**	**-**
Deferred tax assets		**1,115**	**1,301**
Other assets	**5.8.**	**9,619**	**6,064**
Total assets		**1,275,916**	**1,436,110**
Liabilities			
Financial liabilities at fair value through profit and loss		**-**	**249**
Financial liabilities at amortised cost		**996,338**	**1,127,300**
Deposits and borrowings from banks	5.9.	14,263	61,718
Deposits and borrowings from clients	5.10.	980,309	1,063,610
Lease liabilities	5.11.	1,766	1,972
Tax liabilities		**777**	**1,206**
Current tax liabilities		-	444
Deferred tax liabilities	5.12.	777	762
Other liabilities	**5.13.**	**24,523**	**20,349**
Provisions for credit risks and guarantees	**5.14.**	**5,209**	**3,036**
Provisions for risks and charges	**5.15.**	**1,805**	**2,168**
Total liabilities		**1,028,652**	**1,154,308**
Capital and reserves			
Share capital	5.16.	97,055	97,055
Share premium		373	373
Legal reserves		9,706	9,706
Capital reserves		43,294	43,222
Revaluation reserves		(2,673)	(1,909)
Retained earnings		76,735	109,976
Net profit for the year		22,775	23,379
Total capital and reserves		**247,264**	**281,802**
Total liabilities, equity and reserves		**1,275,916**	**1,436,110**

*please refer to Note 2.5

Statement of Changes in Equity

	Note	Share capital BAM '000	Share premium BAM '000	Legal reserves BAM '000	Capital reserves BAM '000	Regulatory reserves for credit losses BAM '000	Revaluation reserves BAM '000	Retained earnings BAM '000	Net profit for the year BAM '000	Total BAM '000
Balance as at 01.01.2022		**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 change in fair value of financial assets at fair value through other comprehensive income – debt instruments		-	-	-	-	-	837	-	-	837
Net changes in impairment of financial assets at fair value through other comprehensive income – debt instruments		-	-	-	-	-	(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**
Profit allocation		-	-	-	-	-	-	23,379	(23,379)	-
Dividend payment	4.11.	-	-	-	-	-	-	(56,810)	-	(56,810)
Transfer to reserves		-	-	-	72	-	-	(72)	-	-
Net profit for the year		-	-	-	-	-	-	-	22,775	22,775
Other comprehensive income										**-**
Net change in fair value of financial assets at fair value through other comprehensive income – debt instruments		-	-	-	-	-	(865)	-	-	(865)
Net changes in impairment of financial assets at fair value through other comprehensive income – debt instruments		-	-	-	-	-	(18)	-	-	(18)
Net gain for the period recognised directly in equity		-	-	-	-	-	-	261	-	261
Effects of tangible assets revaluation		-	-	-	-	-	119	-	-	119
Total other comprehensive income		-	-	-	-	-	**(764)**	**261**	**-**	**(503)**
Balance as at 31.12.2023		**97,055**	**373**	**9,706**	**43,294**	**-**	**(2,673)**	**76,735**	**22,775**	**247,264**

Statement of Cash Flows

	Note	31.12.2023 BAM '000	31.12.2022 BAM '000
Cash flows from operating activities			
Interest income and similar income		54,347	50,465
Interest expenses and similar expenses		(6,001)	(5,637)
Fee and commission income		21,460	21,105
Fee and commission expenses		(4,679)	(4,346)
Dividend and equity investment income		4	4
Gains and losses on financial assets and liabilities held for trading		2,400	3,470
Administrative operating expenses		(33,366)	(33,076)
Other inflows		2,715	2,092
a) Net cash from operating activities before changes in financial assets and liabilities at amortized cost		**36,880**	**34,077**
Changes in financial assets at amortized cost			
Obligatory reserve held with the Central Bank		10,063	23,812
Loans and receivables with banks		(117,423)	(40,719)
Loans and receivables with clients		147,931	195,916
Other assets		(3,587)	(1,156)
b) Net changes in financial assets at amortized cost		**36,984**	**177,853**
Changes in financial liabilities at amortised cost			
Deposits and borrowings from banks		(39,497)	(92,743)
Deposits and borrowings from clients		(72,400)	(166,214)
Other liabilities		2,588	(570)
c) Net changes in financial liabilities at amortized cost		**(109,309)**	**(259,527)**
Net cash flow from operating activities before tax (a+b+c)		**(35,445)**	**(47,597)**
Income tax		(2,787)	(2,266)
1. Net cash flow from operating activities		**(38,232)**	**(49,863)**
Cash flow from investment activities			
Acquisition of property and equipment		(978)	(1,832)
Proceeds from sale of property and equipment		176	153
Acquisition of intangible assets		(1,497)	(1,747)
Proceeds from financial assets at fair value through other comprehensive income		1,531	156,740
2. Net cash flow from investment activities		**(769)**	**153,314**
Cash flow from financing activities			
Dividend payment		(56,752)	-
Payment of lease liabilities		(206)	194
Proceeds from borrowings		390	12,578
Repayment of borrowings		(19,256)	(18,576)
3. Net cash flow from financing activities		**(75,824)**	**(5,804)**
4. Net (decrease) / increase in cash (1+2+3)		**(114,824)**	**97,647**
5. Cash and cash equivalents at the beginning of year		**267,869**	**170,222**
6. Cash and cash equivalents at the end of year (4+5)		**153,044**	**267,869**

Notes to the Financial Statements

1. The Reporting Entity

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

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

The majority owner of the Bank, with over 99% of the capital, is UniCredit Spa, headquartered in Italy, the holding company of the UniCredit Group (hereinafter: UniCredit). UniCredit is organized in 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, 2023, the Bank consisted of the head office in Banja Luka and 30 branches (December 31, 2022: 32 branches).
As of December 31, 2023, the Bank had 386 employees (December 31, 2022: 422 employees).

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

2. Basis of the preparation and presentation of financial statements

2.1. Reporting Framework

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

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

2.2. Compliance with IAS and IFRS

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

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

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

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

On December 31, 2023, in accordance with the provisions of the Decision, the Bank recognized higher allowances and provisions for credit losses in the amount of BAM 5,024 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, 2022: BAM 1,747 thousand) (see note 3.17).

For the other assets, on December 31, 2023, in accordance with the provisions of the Decision, the Bank recognized higher allowances and provisions for credit losses in the amount of BAM 1,563 thousand compared to the amount obtained by calculation according to the Bank's internal model (see note 5.8).

2. Basis of the preparation and presentation of financial statements (continued)

2.2. Compliance with IAS and IFRS (continued)

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

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

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

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

2.3. 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. Basis of accounting

Annual financial reports include:

- Report on the overall result (income statement),
- Report on the financial position (Balance Sheet),
- Report on changes in capital,
- Statement of cash flows (prepared using the direct method) i
- Notes to the financial statements.

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

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

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

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

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

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

2.5. Changes in the Presentation of Financial Statements

For the purpose of better presentation of compliance with the applicable accounting standards, in 2023, in relation to the published reports for 2022, the Bank reclassified BAM 214 thousand from personnel expenses to other administrative expenses.

2. Basis of the preparation and presentation of financial statements (continued)

2.6. Functional Currency and Presentation Currency

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

The Central Bank of Bosnia and Herzegovina (hereinafter: "Central Bank") implements exchange rate policy based on the principle of the Currency Board (" Currency Board "), according to which BAM is fixedly linked to EUR in the ratio BAM 1 = EUR 0.51129, which was used for 2023 and 2022.

2.7. Subsidiaries, Joint Ventures and Associates

On the reporting date, the bank does not have:
- subsidiaries, i.e. entities over which it has direct or indirect control,
- joint ventures with other entities, which in accordance with IFRS 11 include joint control, joint operations and joint ventures, nor
- 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:

Date of application	New standards or changes
January 1, 2023	IFRS 17 Insurance contracts (New standard that replaces IFRS 4)
	Initial application of IFRS 17 and IFRS 9 - Comparative information (Amendments to IFRS 17)
January 1, 2023	Amendments to IAS 1 Presentation of financial statements
January 1, 2023	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
May 23, 2023	Amendments to IAS 12 Income taxes.

The new standard IFRS 17 Insurance Contracts replaced IFRS 4 Insurance Contracts. It applies to annual reporting periods beginning on or after January 1, 2023. Application of this standard in Republic of Srpska has been prolonged until 2027. It is not expected that this new standard and its amendments will lead to any significant changes in the Bank.
An insurance contract is a contract under which one party (the issuer) accepts a significant insurance risk from the other party (the policyholder) by agreeing to indemnify the insured in the event of a specific uncertain future event (of the insured event) negatively affects the insured.

The Bank assessed the relevant criteria as to whether the issued contracts constitute an insurance contract and the impact of IFRS 17 Insurance Contracts on the Bank in the following areas of business:

- Financial guarantees
- Performance guarantees
- Credit cards and other payment methods and
- Insurance contracts.

Financial guarantee contracts are outside the scope of IFRS 17, unless the issuer has previously expressly stated that it considers such contracts to be insurance contracts and uses accounting guidelines that apply to insurance contracts. The bank decided to treat financial guarantees in accordance with IFRS 7, IFRS 9 and IAS 32.

Performance guarantees issued by the Bank cannot be considered insurance contracts within the framework of IFRS 17, because the basic characteristic of the definition of an insurance contract is not met, given that in these transactions there is only regular credit risk, the existence of which is conditioned by the occurrence of an event, not a risk insurance.

2. Basis of the preparation and presentation of financial statements (continued)

2.8. Impact and Application of New and Revised IAS and IFRS (continued)

Credit cards and other payment methods. Some credit card contracts meet the definition of an insurance contract because the Bank makes payments to the cardholder in circumstances that meet the definition of insurance risk. For example if the cardholder uses the card to purchase goods or services which turn out to be faulty or not delivered, or if the cardholder is 'tricked' into making an invalid payment. The Bank's contract prices do not reflect the insurance risk assessment of an individual client, and IFRS 17 does not apply to the contract in its entirety.

Insurance contracts: The Bank always performs insurance operations as an agent, not as a principal (as defined in IFRS 15), and therefore there is no transfer of insurance risk.

Amendments to IAS 1 provide guidance for applying materiality judgments to disclosures of accounting policies. In particular, the amendments to IAS 1 replace the requirement to disclose "significant" accounting policies with the requirement to disclose "material" accounting policies. Also, guidelines and illustrative examples have been added to help apply the concept of materiality when making judgments about disclosures of accounting policies. The Bank's management estimates that these changes do not have a significant impact on the financial statements.

Amendments to IAS 8 introduce a new definition of accounting estimates, whereby they are defined as monetary amounts in financial statements subject to measurement uncertainty. Also, the amendments clarify changes in accounting estimates and their distinction in relation to changes in accounting policies and correction of errors. The Bank's management estimates that these changes do not have a significant impact on the financial statements.

Amendments to IAS 12, the initial recognition exception does not apply to transactions that, upon initial recognition, lead to equal amounts of taxable and deductible temporary differences. The exception applies only if the recognition of assets and lease liabilities (or liabilities and assets for dismantling) leads to taxable and deductible temporary differences that are not equal. The Bank's Management estimates that these changes do not have a significant impact on the financial statements.

The amendments also provide for additional disclosure requirements regarding an entity's exposure to second pillar income taxes (Pillar 2). The rules of the second pillar model are generally applied to multinational groups whose revenue in their consolidated financial statements exceeds 750 million euros in at least two of the four previous fiscal years.

2.9. New Standards not yet effective

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

Date of application	New standards or changes
January 1, 2024	Amendments to IFRS 16 Leases
January 1, 2024	Amendments to IAS 1 Presentation of financial statements
January 1, 2024	Amendments to IAS 7 and IFRS 7
January 1, 2025	Amendments to IAS 21

Amendments to IFRS 16 Leases require the seller-lessee to designate lease payments or revised lease payments so that the seller-lessee does not recognize a gain or loss related to the right-of-use retained by the seller-lessee after the commencement date. Amendments do not affect the profit or loss recognized by the seller-lessee in connection with the partial or complete termination of the lease.

The amendments to IAS 1 clarify the requirements for the classification of liabilities into current and long-term. These changes are not expected to result in significant changes within the Bank, as the Bank's assets and liabilities are presented in descending order of liquidity.

2. Basis of the preparation and presentation of financial statements (continued)

2.9. New Standards not yet effective (continued)

Amendments to IAS 7 and IFRS 7 describe the characteristics of arrangements for which the entity is required to provide information. The appendices state that arrangements that are solely credit enhancements to the entity or instruments used by the entity to directly settle amounts owed to a supplier are not supplier financing agreements. Entities will be required to disclose information in the notes that enable users of the financial statements to assess how the supplier's financial arrangements affect the entity's liabilities and cash flows and to understand the effect of the supplier's financial arrangements on the entity's exposure to liquidity risk and how the entity could be affected if it arrangements would no longer be available. New disclosure requirements were added.

Amendments to IAS 21 introduce requirements for assessing when a currency is convertible into another currency and when it is not. The amendments require the entity to evaluate the current exchange rate when it concludes that the currency is not convertible into another currency. Added new disclosure requirements.

It is not expected that these changes will lead to significant changes in the operations and financial statements of 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 anticipated future events that appear probable from the current perspective. Given that such estimates and assumptions are subject to uncertainty, they may lead to results that will require adjustments to the book value of the subject assets and liabilities in future periods.
Estimates and assumptions and other key sources of uncertainty assessment at the reporting date, which have a significant risk of causing a material adjustment of the book value of assets and liabilities in future periods are listed below.

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

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

Fair value of financial instruments
The Bank uses estimation in selecting the appropriate valuation technique for financial instruments that are not quoted on the active market. Valuation techniques commonly used in the market are applied. Financial instruments, except loans and receivables, are valued on the basis of the regulatory Instructions for the classification and valuation of financial assets, whereby, depending on the level of fair value of the instrument, the appropriate valuation method is also used - at the market price, at the price obtained on the basis of the model or by discounting cash flows. The fair value determined in this way is additionally harmonized with the value calculated by the Group - application of the principle of independent price verification (IPV - 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 what is the probability that the fulfilment of this obligation will require an outflow of economically useful resources. In addition, it is necessary to estimate the amount and maturity of future cash flows.
These provisions include provisions for: court cases, severance pay for retirement, jubilee awards and other liabilities and expenses.

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

Tax legislation are often not clear enough to apply and in many cases not adapted to the developed tax systems. In order to reduce the risk of unclear legislation, the Bank uses the possibilities of obtaining tax opinions from competent Tax Authority.

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

2. Basis of the preparation and presentation of financial statements (continued)

2.10. Use of estimates and assumptions and key sources of uncertainty estimation (continued)

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

Legal proceedings
The Bank assesses the outcome of all legal disputes. On December 31, 2023, the Bank made provisions in the amount of BAM 1,447 thousand (December 31, 2022: BAM 1,372 thousand), which the Management Board estimates are sufficient to settle obligations. The nature of legal disputes for which provisions are recognized is disclosed in Note 5.15 of these financial statements.

3. Significant Accounting Policies

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

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

3.2. Fee and Commission Income and Expenses

Income and expenses based on fees and commissions (except those that form an integral part of the effective interest rate for financial assets or financial liabilities) are treated in accordance with IFRS 15 Income from contracts with 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, income is recognized when the Bank fulfils the assumed obligation and delivers the promised service to the customer. Income is measured by the fair value of the compensation received or to be claimed, taking into account the terms of payment defined by the contract, but not taxes and other duties.

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

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

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

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

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

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

3.3. Conversion of Foreign Currencies

The conversion of foreign currencies is done in accordance with the provisions of IAS 21, whereby all monetary assets and liabilities are converted at the exchange rate valid on the reporting date. Exchange rate differences that arise during this conversion are recognized in the statement of profit or loss, except in the case of exchange rate differences on non-monetary financial assets at fair value through other comprehensive income, which are recognized in equity. Open forward transactions are recalculated at forward exchange rates on the date of re-reporting.

Transactions that are not expressed in convertible marks are initially recorded by conversion at the current exchange rate on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are recalculated on the balance sheet date using the exchange rate valid on that date.

Non-monetary items in foreign currency stated at fair value are recalculated using the exchange rate valid on the fair value measurement date. Non-monetary items in foreign currency stated at historical cost are not recalculated at the balance sheet date. Gains and losses resulting from recalculation are included in the statement of profit or loss for the period.

The Bank evaluates its assets and liabilities according to the middle exchange rate of the Central Bank of Bosnia and Herzegovina that applies on the reporting date.

The official exchange rate, applied for the recalculation of balance sheet positions on December 31, 2023 and December 31, 2022, for the following major currencies, was:

	31.12.2023	**31.12.2022**
USD	1.769982	1.833705
CHF	2.112127	1.986219
EUR	1.955830	1.955830

3. Significant Accounting Policies (continued)

3.4. Net Income from Financial Instruments

Net income from financial instruments includes the following items:

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

3.5. Staff Benefits

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

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

3.6. Long-term Provisions for Employees

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

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

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

3.7. Cash and cash balances

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

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

3.8. Financial Instruments

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

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

3. Significant Accounting Policies (continued)

3.9. Classification and Measurement

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

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

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

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

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

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

3.9.1. Financial Assets at Fair Value through Profit or Loss

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

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

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

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

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

3.9.2. Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

3. Significant Accounting Policies (continued)

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

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

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

3.9.3. Financial Assets at Amortized Cost

Financial assets are classified at amortized cost if:

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

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

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

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

3.9.4. Financial Liabilities Measured at Amortized Cost

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

3.9.5. Financial Liabilities Held for Trading

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

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

3. Significant Accounting Policies (continued)

3.10. Qualitative information on Fair Value

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

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

3.10.1. Principles of fair value measurement

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

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

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

3.10.2. Fair Value Assessment Models

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

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

3.10.3. Debt Securities

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

3.11. Financial Instruments netting

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

3. Significant Accounting Policies (continued)

3.12. Impairment (ECL – Expected Credit Loss)

3.12.1. General

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

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

Specifically:

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

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

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

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

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

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

The bank is obliged to determine and record expected credit losses in the amount of 5% of the exposure for exposures assigned to **level 2**.

The bank is obliged to allocate exposures to the **level 3** determines and records in bookkeeping the expected credit losses at least in the amounts defined in Table 1 or Table 2.

Table 1 / **Table 2**

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

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

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

3. Significant Accounting Policies (continued)

3.12. Impairment (ECL – Expected Credit Loss) (continued)

3.12.1. General (continued)

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

3.12. Impairment (ECL – Expected Credit Loss) (continued)

3.12.1. General (continued)

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

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

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

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

The basic adjustments of credit parameters are in the part:

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

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

3.12.2. Parameters and risk definitions used for impairment calculation

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

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

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

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

3.12.3. Definition of Default

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

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

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

3. Significant Accounting Policies (continued)

3.12. Impairment (ECL – Expected Credit Loss) (continued)

3.12.3. Definition of Default (continued)

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

3.12.4. Significant increase in credit risk

The Bank monitors all financial assets, which are subject to the request for impairment, in order to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank measures the loss based on the expected credit loss for the lifetime, instead of the 12-month expected credit loss.

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

For more details see Note 7 Risk Management.

3.13. POCI Purchased or Originated Credit Impaired Assets

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

POCI assets include:

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

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

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

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

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

3. Significant Accounting Policies (continued)

3.14. Write-offs

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

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

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

3.15. De-recognition of financial assets

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

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

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

	ECL according to BARS decision 31.12.2023 BAM '000	ECL according to IFRS 9 31.12.2023 BAM '000	DIFFERENCE 31.12.2023 BAM '000
Impairment			
1. Cash and cash balances	**629**	**620**	**9**
2. Financial assets at amortised cost	**46,642**	**43,836**	**2,806**
Obligatory reserve held with the Central Bank	568	568	**0**
Loans and receivables with banks	223	206	**17**
Loans and receivables with clients	45,851	43,063	**2,788**
3. Other assets	**2,124**	**564**	**1,560**
4. Provisions for credit risk on commitments and financial guarantees issued	**5,209**	**4,116**	**1,093**
TOTAL (1+2+3+4)	**54,604**	**49,136**	**5,467**
5. Other financial assets at fair value through other comprehensive income	**92**	**536**	**(443)**
TOTAL (1+2+3+4+5)	**54,696**	**49,672**	**5,024**

	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 clients	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**

3.18. Financial guarantees and loan commitments

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

3. Significant Accounting Policies (continued)

3.19. Tangible assets

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

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

Tangible assets used for own business purposes

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

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

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

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

The revaluation model requires tangible assets to be carried on the balance sheet at value, which does not differ significantly from fair value. The revaluation is carried out by independent external appraisers through "office" or "on-site appraisal", based on the relevance of the property.

Positive changes in fair value are recognized in the statement of other comprehensive income, item "tangible assets" and accumulated in the item "valuation reserves", unless these changes compensated for previous negative changes recorded in the income statement, in the item "other operating income and expenses".
Negative changes in fair value are recorded in the item "other operating income and expenses", unless they offset previous positive changes recorded in the statement of other comprehensive income, item "tangible assets" and cumulated in the item "valuation reserves".

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

Depreciation rates used for tangible assets are set out below:

	in 2023	in 2022
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%

3. Significant Accounting Policies (continued)

3.19. Tangible assets (continued)

Depreciation is calculated monthly and recognized in the item “depreciation costs of tangible assets”.
Items with an indefinite useful life are not depreciated.

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

On each reporting date, an asset review is carried out in order to identify possible reductions in its value. 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, impairment is recognized. If the asset generates an inflow that largely depends 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 recognizable 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 the framework of 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

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

Tangible Assets Acquired by Collateral Foreclosure

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

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

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

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

Right-of-use Assets

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

3. Significant Accounting Policies (continued)

3.19. Tangible assets (continued)

Right-of-use Assets (continued)

According to IFRS 16, a lease is defined as a contract that conveys the right to use an asset for a defined period of time in exchange for consideration. The right of use of an asset is 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.

The value of this property as of 31 December 2023 is BAM 1,684 thousand (as of 31 December 2022: BAM 1,918 thousand).

As of December 31, 2023, the Bank held 17 lease contract, accounted for in accordance with IFRS 16, with the following durations:

	Expires in					
	2024	2025	2026	2027	2028	Total
Number of lease contracts	3	2	2	3	7	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:

	2023	2022
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. Significant Accounting Policies (continued)

3.22. Equity

Share capital includes regular (ordinary) shares and is expressed in BAM at nominal value.
Profit reserves were formed by distributing net profit in previous years and include legal reserves and capital reserves.
According to the Law on Business Companies, when distributing profits according to the annual calculation, joint-stock companies in the Republika Srpska are obliged to allocate at least 5% of profit to profit reserves, until the amount of reserves reaches the level of 10% of the company's share capital.
Issue premium represents the accumulated positive difference between the nominal value and the amount received for the issued shares.
Valuation reserves include changes in the fair value of real estate, reserves for credit risks and gains/losses from changes in the fair value of financial assets at fair value through other comprehensive income, net of deferred tax.
Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.
Retained earnings or accumulated profit include retained earnings that cannot be paid out in accordance with the Decisions of the Bank's Shareholders' Meeting and undistributed profit, which may be subject to payment in the form of dividends in the following period.
Earnings per share are calculated by dividing the profit or loss of the current period by the average weighted number of ordinary shares in circulation during the year.

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

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

3.24. Segment Reporting

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

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

3.25. Income Tax

Income tax is based on the taxable profit for the year and consists of current and deferred tax.

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

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

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

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

3. Significant Accounting Policies (continued)

3.25. Income Tax (continued)

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

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

3.26. Litigations

The Bank conducts an individual assessment of all court disputes and makes provisions in accordance with the assessment. The assessment is carried out by a special three-member commission, three of whose members are employed in Legal. Provision proposals are verified after assessment by the Head of Legal, the Head of Compliance, the Head of Human People and Culture (if there are labour disputes), the Head of Accounting and Regulatory Reporting and the Head of Payment Systems and Account Administration, and the decision on the formation of provisions is made by the Bank's Management.

4. Notes to the Statement of the Comprehensive Income

4.1. Net Interest Income

Breakdown by type of financial asset

	31.12.2023 BAM '000	31.12.2022 BAM '000
Interest income calculated using the effective interest rate method		
1. Financial assets at fair value through other comprehensive income	2,764	5,041
2. Financial assets at amortised cost		
a) Obligatory reserve with the Central Bank	306	-
b) Loans and receivables with banks	7,458	668
c) Loans and receivables with clients	44,230	46,851
Total interest income	**54,758**	**52,560**
Interest expense		
Financial assets at amortised cost		
a) Deposits and borrowings from banks	(1,668)	(2,255)
b) Deposits and borrowings from clients	(4,333)	(3,382)
Total interest expenses	**(6,001)**	**(5,637)**
Net interest income	**48,757**	**46,923**

Breakdown by sectors

	31.12.2023 BAM '000	31.12.2022 BAM '000
Interest income calculated using the effective interest rate method		
Private individuals	28,383	28,939
Companies and entrepreneurs	8,517	10,490
Banks	7,764	668
Public sector	10,093	12,463
Total interest income	**54,758**	**52,560**
Interest expenses		
Private individuals	(2,628)	(1,687)
Companies and entrepreneurs	(1,273)	(1,176)
Banks	(1,668)	(2,255)
Public sector	(268)	(149)
Other organizations	(164)	(370)
Total interest expenses	**(6,001)**	**(5,637)**
Net interest income	**48,757**	**46,923**

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

4.2. Fee and Commission Income

	31.12.2023 BAM '000	31.12.2022 BAM '000
Fee and commission income		
Packages and account maintenance	5,658	5,003
Payment operations transactions	7,474	7,761
Card fees	4,424	3,869
Loan fees	885	1,055
Forex dealing fees	1,394	1,332
Other fees and commissions	249	398
Total fee in accordance with IFRS 15	**20,084**	**19,418**
Financial guarantee contract and loan commitments	1,420	1,688
Total fee and commission income	**21,504**	**21,106**
Fee and commission expense		
Payment transactions fees	(1,010)	(978)
Card fees	(3,428)	(3,004)
Loan fees	(23)	(32)
Cash collection fees	(4)	(41)
Other fees and commissions	(214)	(291)
Total fee and commission expense	**(4,679)**	**(4,346)**
Net fee and commission income	**16,824**	**16,760**

4.3. Net trading income

	31.12.2023 BAM '000	31.12.2022 BAM '000
Dividend income	4	4
Provision on trading exchange	(3)	12
Foreign exchange income	2,403	3,458
Net trading income	**2,404**	**3,474**

4.4. Staff expenses

	31.12.2023 BAM '000	31.12.2022 BAM '000
Regular income gross salary	(13,941)	(14,939)
Variable payments - bonuses	(1,743)	(1,283)
Other employee expenses	(2,469)	(2,148)
Expenses for severance pay	(294)	(268)
Other expenses (work contracts)	(262)	(208)
Total staff expenses	**(18,710)**	**(18,846)**

Staff expenses include pension and disability insurance contributions paid in 2023 in the amount of BAM 3,354 thousand (2022: BAM 3,558 thousand).

	31.12.2023	31.12.2022
Number of employees on reporting date	386	422
Average number of employees during the year based on working hours	398	430

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

4.5. Depreciation

	31.12.2023 BAM '000	31.12.2022 BAM '000
Depreciation of intangible assets	(3,143)	(2,722)
Equipment depreciation costs	(881)	(1,055)
Depreciation of long-term leases	(556)	(636)
Depreciation of own business premises	(350)	(533)
Depreciation of investment in leasehold improvements	(68)	(148)
Total depreciation	**(4,998)**	**(5,094)**

4.6. Other administrative expenses

	31.12.2023 BAM '000	31.12.2022 BAM '000
ICT	(5,251)	(4,588)
Sundry operating expenses	(3,095)	(3,253)
Real estate expenses	(1,199)	(1,214)
Consulting & professional services	(1,883)	(2,356)
Security and cash management	(1,250)	(1,216)
Back office expenses	(674)	(521)
Advertising & marketing expenses	(483)	(392)
Other staff expenses	(418)	(302)
Indirect taxes and contributions	(230)	(217)
Loans approval and monitoring	(207)	(172)
Total other administrative expenses	**(14,689)**	**(14,231)**

4.7. Net impairment losses / recoveries on financial instruments

	31.12.2023 BAM '000	31.12.2022 BAM '000
Cash and cash equivalents	(346)	(94)
Obligatory reserve held with the Central Bank	(435)	75
Loans and receivables with banks	(117)	55
Loans and receivables with clients	(2,552)	(5,986)
Financial assets at fair value through other comprehensive income	18	267
Provision costs for loans commitment and guarantees	(2,173)	646
Other assets	(1,671)	50
Net impairment (losses) on financial instruments	**(7,276)**	**(4,987)**

4.8. Provisions for risk and expenses

	31.12.2023 BAM '000	31.12.2022 BAM '000
Provision costs/income for other liabilities	288	(438)
Long-term provisions for employees	1	4
Provision cost for litigations	(208)	8
Total	**81**	**(426)**

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

4.9. Other operating income and expense

	31.12.2023 BAM '000	31.12.2022 BAM '000
Other operating income		
Collection of accounts receivable previously written off	2,324	1,339
Profits from the sale of equipment, which is carried at amortized cost	-	63
Profits from the sale of repossessed collaterals	990	1,056
Profits from the sale of debt securities	-	221
Other income	154	63
Total other operating income	**3,467**	**2,741**
Other operating expenses		
Losses from the sale of debt securities	(39)	(320)
Expenses based on changes in the value of commercial properties that are carried at fair value	-	(16)
Other expenses	(680)	(313)
Total other operating expenses	**(719)**	**(650)**
Net other operating income	**2,748**	**2,092**

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

	31.12.2023 BAM '000	31.12.2022 BAM '000
Income tax for the year		
Current income tax	2,109	2,325
Deferred income tax	257	(39)
Total income tax	**2,366**	**2,286**

Reconciliation of the income tax

	31.12.2023 BAM '000	31.12.2022 BAM '000
Profit before tax	**25,142**	**25,664**
Current income tax calculated at a rate of 10%	2,514	2,566
Adjustment of the tax base		
Tax reduction for excluded income	(2,457)	(2,218)
Tax increase for unrecognized expenses	2,051	1,977
Effects of changes in deferred taxes on temporary differences	257	(39)
Income tax	**2,366**	**2,286**
Average effective income tax rate	**9.41%**	**8.91%**

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

4.11. Earnings per share

	31.12.2023 BAM '000	31.12.2022 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	**22,775**	**23,379**
Earnings per share in BAM	**164.26**	**169.62**

In 2023, the Bank paid dividends in the amount of BAM 56,752 thousand from the net profit realized in 2020, 2021 and 2022). In 2022, there was no dividend payment.

5. Notes to the Statement of Financial Position

5.1. Cash and cash balances

	31.12.2023 BAM '000	31.12.2022 BAM '000
Cash in the local and foreign currency	32,632	36,492
Funds held with the Central Bank	105,794	199,473
Transaction accounts with the Banks	15,247	32,187
Impairment	(629)	(283)
Total cash and cash equivalents	**153,044**	**267,869**

5.2. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income by type

	31.12.2023 BAM '000	31.12.2022 BAM '000
Equity securities		
Domestic organizations - quoted	245	241
Foreign organizations - unquoted	46	43
Total equity securities	**291**	**284**
Debt securities		
Republika Srpska securities - quoted	82,683	85,183
Total financial assets at fair value through other comprehensive income	**82,973**	**85,467**

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

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

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

	Level 1	Level 2	Level 3	Total
	BAM '000	BAM '000	BAM '000	BAM '000
31.12.2023				
Equity securities	-	-	291	291
Republika Srpska securities-quoted	-	82,683	-	**82,683**
Total		**82,683**	**291**	**82,973**
31.12.2022				
Equity securities	-	-	284	284
Republika Srpska securities-quoted	-	85,183	-	85,183
Total	**-**	**85,183**	**284**	**85,467**

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".
The securities are classified in exposure, assigned 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	31.12.2023 Credit risk level					31.12.2022
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Internal valuation Stage						
Performing loans	**82,683**	**-**	**-**	**-**	**82,683**	**85,183**
Low risk	82,683	-	-	-	82,683	85,183
Medium risk	-	-	-	-	-	-
Non-performing loans						**-**
Default status	-	-	-	-	-	-
Total	**82,683**	**-**	**-**	**-**	**82,683**	**85,183**

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

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

Gross exposure movements

Gross exposure	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2023	**85,183**	**-**	**-**	**-**	**85,183**
New funding	-	-	-	-	-
	-	-	-	-	-
Changes in fair value	(970)	-	-	-	(970)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(531)	-	-	-	(531)
Amounts written-off	-	-	-	-	-
Other changes (sales)	(1,000)	-	-	-	(1,000)
Balance as of 31.12.2023	**82,683**	**-**	**-**	**-**	**82,683**

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 01.01.2023	**110**	**-**	**-**	**-**	**110**
Assets not longer recognized	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment	(18)	-	-	-	(18)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**92**	**-**	**-**	**-**	**92**

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

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

Gross exposure movements

Gross exposure	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	-	-	-	-	-
Assets not longer recognized	-	-	-	-	-
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

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	**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**

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

5.3. Obligatory reserve with the Central Bank

	31.12.2023 BAM '000	31.12.2022 BAM '000
Obligatory reserve with the Central Bank in domestic currency	97,871	107,500
Impairment allowance	(568)	(133)
Total	**97,303**	**107,367**

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.

In order to harmonize with the policy of the European Central Bank (ECB) and to mitigate the impact of the increase in the ECB benchmark interest rate on bank operations in Bosnia and Herzegovina, the Central Bank (CBBH) has increased its remuneration on the mandatory reserve requirements. Starting from 1.1.2023, commercial banks were remunerated at the rate of 25 basis points (0.25%) on the mandatory reserve holdings with the base in local currency (KM), and at the rate of 10 basis points (0.10%) on the mandatory reserve holdings with the base in foreign currencies, including local currency with currency indexation (FX clause).

Starting from 1.7.2023, commercial banks were remunerated at the rate of 50 basis points (0.50%) on the mandatory reserve holdings with the base in local currency (KM), and at the rate of 30 basis points (0.30%) on the mandatory reserve holdings with the base in foreign currencies, including local currency with currency indexation (FX clause).

Throughout 2023, the Central Bank (CBBH) did not remunerate banks on their holdings exceeding the mandatory reserve requirement.

Gross exposure

Gross exposure	31.12.2023 Credit risk level					31.12.2022
	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	GO BAM '000	Total BAM '000	Total BAM '000
Internal valuation stage						
Performing loans	**97,871**	**-**	**-**	**-**	**97,871**	**107,500**
Low risk	97,871	-	-	-	97,871	107,500
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**97,871**	**-**	**-**	**-**	97,871	**107,500**

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 01.01.2023	**107,500**	**-**	**-**	**-**	**107,500**
New funding	3,230,846	-	-	-	**3,230,846**
Assets no longer recognized	-	-	-	-	**-**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	-	-	-	-	**-**
Transfers to Stage 3	-	-	-	-	**-**
Repaid assets	(3,240,475)	-	-	-	**(3,240,475)**
Amounts written-off	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Balance as of 31.12.2023	**97,871**	**-**	**-**	**-**	**97,871**

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

5.3. Obligatory reserve with the Central Bank (continued)

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. 01.2023	**133**	**-**	**-**	**-**	**133**
Assets not longer recognized	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment change	435	-	-	-	435
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**568**	**-**	**-**	**-**	**568**

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 change	-	-	-	-	**-**
Balance as of 31.12.2022	**107,500**	**-**	**-**	**-**	**107,500**

Loss allowance 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	**208**	**-**	**-**	**-**	**208**
Assets not longer recognized	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment change	(75)	-	-	-	(75)
Amounts written-off	-	-	-	-	-
Other change	-	-	-	-	-
Balance as of 31.12.2022	**133**	**-**	**-**	**-**	**133**

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

5.4. Loans and receivables due from banks

	31.12.2023 BAM '000	31.12.2022 BAM '000
Loans to foreign banks	223,222	105,682
Impairment allowance	(223)	(106)
Total	**222,999**	**105,576**

Of the loans and receivables due from banks with a balance as of 31.12.2023 in the amount of BAM 223,222 thousand, the amount of BAM 31,397 thousand refers to loans and receivables due from related banks (31.12.2022: BAM 39,117 thousand).

Gross exposure

	31.12.2023					31.12.2022
	Credit risk level					
Gross exposure	**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	**223,222**	**-**	**-**	**-**	**223,222**	**105,682**
Low risk	223,222	-	-	-	223,222	105,682
Medium risk	-	-	-	-	-	-
Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**
Default status	-	-	-	-	-	-
Total	**223,222**	**-**	**-**	**-**	**223,222**	**105,682**

*The 12-month exposure-weighted PD for default risk varies as follows: 0.01%-1.85% for loans in credit risk stage 1.

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 01.01.2023	**105,682**	**-**	**-**	**-**	**105,682**
New funding	34,989,616	-	-	-	34,989,616
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(34,872,076)	-	-	-	(34,872,076)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**223,222**	**-**	**-**	**-**	**223,222**

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

5.4. Loans and receivables due from banks

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 01.01.2023	**106**	**-**	**-**	**-**	**106**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment changes	117	-	-	-	117
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**223**	**-**	**-**	**-**	**223**

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**

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

5.5 Loans and receivables from clients

Loans and receivables due from clients at amortised cost

	31.12.2023 BAM '000	31.12.2022 BAM '000
Legal entities		
in BAM	197,390	256,271
in foreign currencies	3,837	10,091
with a foreign currency clause	92,572	126,236
Total gross legal entities	**293,800**	**392,598**
Impairment allowance of loans	(21,352)	(17,567)
Net loans legal entities	**272,448**	**375,031**
Private individuals		
in BAM	326,241	347,023
in foreign currencies	-	-
with a foreign currency clause	103,057	135,596
Total gross private individuals	**429,298**	**482,619**
Impairment allowance of loans	(24,499)	(29,124)
Net loans private individuals	**404,798**	**453,495**
Total gross loans	**723,097**	**875,217**
Total net loans	**677,246**	**828,527**

Gross exposure

			31.12.2023			31.12.2022
			Credit risk level			
Gross exposure – legal entities	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Internal valuation model*						
Performing	**246,036**	**27,658**	**-**	**-**	**273,694**	**371,247**
Low risk	246,036	-	-	-	246,036	355,006
Medium risk	-	27,658	-	-	27,658	16,240
Non-performing loans	**-**	**-**	**20,106**	**-**	**20,106**	**21,351**
Default status	-	-	20,106	-	20,106	21,351
Total legal entities	**246,036**	**27,658**	**20,106**	**-**	**293,800**	**392,598**
Gross exposure – private individuals						
Internal valuation model*						
Performing	**385,237**	**29,318**	**-**	**-**	**414,555**	**466,560**
Low risk	385,237	-	-	-	385,237	436,755
Medium risk	-	29,318	-	-	29,318	29,805
Non-performing loans	**-**	**-**	**14,743**	**-**	**14,743**	**16,059**
Default status	-	-	14,743	-	14,743	16,059
Total private individuals	**385,237**	**29,318**	**14,743**	**-**	**429,298**	**482,619**
Total loans to clients	**631,273**	**56,976**	**34,849**	**-**	**723,098**	**875,217**

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

5.5. Loans and receivables from clients (continued)

*The 12-month exposure-weighted PD for default risk varies as follows: 0.1%-4.05% for loans in credit risk level 1, and 0.29%-39.35% for loans in credit risk level 2, depending on the type of product and the number of days of the client's delay

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

Gross exposure by internal rating level

31.12.2023	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	**246,036**	**27,658**	**-**	**-**	**273,694**	**1.10%**	**1.20%**	**-**	**-**	**1.10%**
Rating 1	-	-	-	-	-	-	-	-	-	-
Rating 2	-	-	-	-	-	-	-	-	-	-
Rating 3	3,764	-	-	-	3 ,764	0.10%	-	-	-	**0.10%**
Rating 4	34,689	1,589	-	-	36,278	0.30%	0.30%	-	-	**0.30%**
Rating 5	52,257	4,774	-	-	57,031	0.70%	0.60%	-	-	**0.70%**
Rating 6	154,748	21,022	-	-	175 ,770	1.70%	1.60%	-	-	**1.70%**
Rating 7	400	243	-	-	643	4.10%	4.20%	-	-	**4.10%**
Rating 8	178	30	-	-	208	-	7.40%	-	-	**7.40%**
Nonperforming	**-**	**-**	**20,106**	**-**	**20,106**	**-**	**-**	100.00%	-	100.00%
Rating 8	-	-	19,889	-	19,889	-	-	100.00%	-	100.00%
Rating 9	-	-	-	-	-	-	-	-	-	-
Rating 10	-	-	217	-	217	-	-	100.00%	-	100.00%
Total	**246,036**	**27,658**	**20,106**	**-**	**293,800**	**-**	**-**	**-**	**-**	**-**

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 01.01.2023	**355,006**	**16,240**	**21,351**	**-**	**392,598**
New funding	76,590	-	-	-	76,590
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	2,062	(2,062)	-	-	-
Transfers to Stage 2	(22,117)	22,117	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	(165,505)	(8,637)	(339)	-	(174,481)
Amounts written-off	-	-	(906)	-	(906)
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**246,036**	**27,658**	**20,106**	**-**	**293,800**

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

5.5. Loans and receivables from clients (continued)

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

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 01.01.2023	**3,488**	**2,820**	**11,259**	**-**	**17,567**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	41	(41)	-	-	-
Transfers to Stage 2	(3,396)	3,396	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment change	3,622	(1,769)	2,838	-	4,691
Amounts written-off	-	-	(906)	-	(906)
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**3,755**	**4,406**	**13,191**	**-**	**21,352**

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**

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

5.5. Loans and receivables from clients (continued)

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

Gross exposure by internal rating level

31.12.2023			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	**385,238**	**29,317**	**-**	**-**	**414,555**	**1.00%**	**4.4%**	**-**	**-**	**1.2%**
0 days late	302,600	14,954	-	-	317,554	0.60%	0.6%	-	-	0.6%
1-29 days late	82,638	11,959	-	-	94,597	2.50%	3.5%	-	-	2.6%
30-90 days late	-	2,404	-	-	2,404	-	33.6%	-	-	33.6%
Nonperforming	**-**	**-**	**14,743**	**-**	**14,743**	**-**	**-**	100%	**-**	**100%**
Default status	-	-	14,743	-	14,743	-	-	100%	-	100%
Total	**385,238**	**29,317**	**14,743**	**-**	**429,298**	**-**	**-**	**-**	**-**	**-**

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 01.01.2023	**436,755**	**29,805**	**16,059**	**-**	**482,619**
New funding	88,912	-	-	-	88,912
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	8,278	(8,270)	(8)	-	-
Transfer to Stage 2	(16,401)	17,402	(1,001)	-	-
Transfer to Stage 3	(2,826)	(1,909)	4,735	-	-
Repaid assets	(129,481)	(7,710)	(2,567)	-	(139,758)
Amounts written-off	-	-	(2,475)	-	(2,475)
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**385,237**	**29,318**	**14,743**	**-**	**429,298**

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 01.01.2023	**9,577**	**4,955**	**14,591**	**-**	**29,123**
Assets no longer recognised	-	-	-	-	-
Transfer to Stage 1	189	(189)	-	-	-
Transfer to Stage 2	(2,504)	2,585	(81)	-	-
Transfer to Stage 3	(2,575)	(1,773)	4,348	-	-
Impairment changes	1,118	(885)	(2,382)	-	(2,149)
Amounts written-off	-	-	(2,475)	-	(2,475)
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**5,805**	**4,693**	**14,001**	**-**	**24,499**

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

5.5. Loans and receivables from clients (continued)

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

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	-	-	-	-	-
Transfer to Stage 1	334	(334)	-	-	-
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**

5.6. Tangible assets

Tangible assets comprise:

	31.12.2023 BAM '000	31.12.2022 BAM '000
Property used for own business purposes		
Land and buildings	16,243	15,873
Equipment and other assets	2,582	2,425
Tangible assets in progress	**1,101**	**2,036**
Leasehold improvements	**377**	**503**
Rright of use assets	**1,684**	**1,918**
Total assets used for own business purposes	**21,987**	**22,755**
Total tangible assets	**21,987**	**22,755**

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

5.6. Tangible assets (continued)

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

	Land and buildings BAM '000	Equipment and other assets BAM '000	Fixed assets in progress BAM '000	Leasehold improvements BAM '000	Right of use assets BAM '000	acquired tangible assets BAM '001	Total operating material assets BAM '000
Purchase price							
Balance as of 01.01.2022	**28,592**	**18,342**	**1,613**	**2,988**	**3,621**	**366**	**55,522**
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)	-	(366)	(1,424)
Balance as of 31.12.2022	**29,794**	**19,027**	**2,036**	**2,656**	**4,481**	**-**	**57,994**
Balance as of 01.01.2023	**29,794**	**19,027**	**2,036**	**2,656**	**4,481**	**-**	**57,994**
Revaluation	391	-	-	-	-	-	391
New investments	-	-	739	-		-	739
Transfers	615	1,039	(1,674)	20	-	-	-
Sales, write-offs and other changes	(651)	(788)	-	(255)	(672)	-	(2,366)
Balance as of 31.12.2023	**30,149**	**19,278**	**1,101**	**2,421**	**3,809**	**-**	**56,758**
Impairment							
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**
Balance as of 01.01.2023	**13,921**	**16,602**	**-**	**2,153**	**2,563**	**-**	**35,239**
Depreciation	350	881	-	68	556	-	1,855
Sales, write-offs and other changes	(365)	(787)	-	(177)	(994)	-	(2,323)
Balance as of 31.12.2023	**13,906**	**16,696**	**-**	**2,044**	**2,125**	**-**	**34,771**
Net carrying value:							
Balance as of 31.12.2022	**15,873**	**2,425**	**2,036**	**503**	**1,918**	**-**	**22,755**
Balance as of 31.12.2023	**16,243**	**2,582**	**1,101**	**377**	**1,684**	**-**	**21,987**

The book value of the land, which is not amortized, within the construction facilities and land as of 31.12.2023 amounts to BAM 3, 379 thousand (31.12.2022: BAM 3,431 thousand).
Fixed assets in progress as of 31.12.2023 in the amount of BAM 1,101 thousand (31.12. 2022: BAM 2,036 thousand) refer to investments in the reconstruction of business premises in the amount of BAM 47 thousand; investments in hardware and ATMs BAM 734 thousand and other equipment in the amount of BAM 320 thousand, which have not yet been put into use.

The revaluation effects of the Bank's real estate as of 31.12.2023 amount to BAM 3,933 thousand gross (31.12.2022: BAM 3,801 thousand), and were recorded within capital revaluation reserves in the amount of BAM 3,540 thousand (31.12.2022: BAM 3,421 thousand) and deferred tax liability in the amount of BAM 393 thousand (31.12.2022: BAM 380 thousand).
The positive effect of the revaluation in 2023 are recorded in the amount of BAM 391 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.)

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

5.6. Tangible assets (continued)

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.

		31.12.2023		31.12.2022
	Quantity	BAM '000*	Quantity	BAM '000*
Land	1	-	1	-
Commercial and residential space	31	-	35	-
Machinery and equipment	2	-	2	-
Total	**34**	**-**	**38**	**-**

* recorded at a technical value of BAM 1.

5.7. Intangible assets

	Software	Other	Intangible assets in progress	Total intangible assets
	BAM '000	BAM '000	BAM '000	BAM '000
Purchase price				
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**
Balance as of 01.01.2023	**26,644**	**2,198**	**5,029**	**33,871**
New investments	-	-	1,373	**1,373**
Transfers	3,635	42	(3,677)	**-**
Sales, write-offs and other changes	-	-	-	**-**
Balance as of 31.12.2023	**30,279**	**2,240**	**2,725**	**35,244**
Impairment				
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**
Balance as of 01.01.2023	**21,043**	**1,644**	**-**	**22,687**
Depreciation	2,727	417	-	3,144
Sales, write-offs and other changes	-	-	-	-
Balance as of 31.12.2023	**23,770**	**2,061**	**-**	**25,831**
Net carrying value:				
Balance as of 31.12.2022	**5,601**	**554**	**5,029**	**11,184**
Balance as of 31.12.2023	**6,509**	**179**	**2,725**	**9,413**

Intangible asset investments in progress as of 31.12.2023 in the amount of BAM 2,725 thousand (31.12.2022: BAM 5,029 thousand) refer to software and other intangible assets, which have not yet been put into use.
As of 31.12.2023, the Bank had no internally generated intangible assets.

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

5.8. Other assets

	31.12.2023 BAM '000	31.12.2022 BAM '000
Receivables from sale of assets of Bank	17	35
Fee receivables	154	147
Receivables for employee salaries	1,471	993
Receivables from card operations	6,515	3,763
Receivables from operating activities	251	251
Receivables for paid VAT	2,084	-
Other receivables	1,250	1,328
Total other assets gross	**11,743**	**6,518**
Impairment of receivables for VAT paid	(1,563)	-
Impairment of other assets	(561)	(454)
Total other assets net	**9,619**	**6,064**

Receivables from card operations includes amount of BAM 2,536 ths which refer to cash coming from ATM after the cut off time (2022: BAM 1,275 ths), and is temporarily recognized in the temporary account under Other assets. The mentioned ATM transactions refer to:

- reduction of deposits from clients in the amount of BAM 1,261 thousand
- loans based on overdrafts on current accounts and credit cards in the amount of BAM 207 thousand
- receivables from other banks in the amount of BAM 1,069 thousand.

Gross exposure by credit risk levels

Gross exposure	31.12.2023 Credit risk level Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	31.12.2022 Total BAM '000
Internal valuation Stage						
Performing status	**9,211**	**8**	**-**	**-**	**9,219**	**6,137**
Low risk	9,211	-	-	-	9,211	6,107
Medium risk		8	-	-	8	30
High risk	-	-	-	-	-	-
Non-performing status	**-**	**-**	**2,523**	**-**	**2,523**	**381**
Default status	-	-	2,523	-	2,523	381
Total	**9,211**	**8**	**2,523**	**-**	**11,743**	**6,518**

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 01.01.2023	**6,107**	**30**	**381**	**-**	**6,518**
New funding	**3,104**	**-**	**2,142**	**-**	**5,246**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Repaid assets	-	-	-	-	-
Amounts written-off	-	-	-	-	-
Other changes	**-**	**(22)**		**-**	**(22)**
Balance as of 31.12.2023	**9,211**	**8**	**2,523**	**-**	**11,743**

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

5.8. Other assets (continued)

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 01.01.2023	**73**	**-**	**381**	**-**	**454**
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment changes	56	(2)	1,617	-	**1,671**
Amounts written-off	-	-	-	-	-
Other changes	54	2	(57)	-	(1)
Balance as of 31.12.2023	**183**	**1**	**1,941**	**-**	**2,124**

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 01.01.2022	**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**

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

5.9. Deposits and borrowings from banks

	31.12.2023 BAM '000	31.12.2022 BAM '000
Demand deposits		
in BAM	1	1
in foreign currencies	-	212
Total demand deposits	**1**	**213**
Term deposits		
in BAM	-	-
in foreign currencies	-	39,285
with a foreign currency clause	-	-
Total term deposits	**-**	**39,285**
Total deposits	**1**	**39,498**
Borrowings		
in foreign currencies	14,262	22,220
Total borrowings	**14,262**	**22,220**
Total deposits and borrowings from banks	**14,263**	**61,718**

Within the deposits and deposits from banks, there were no deposits and borrowings from related parties. (31.12.2022: BAM 39,286 thousand).

Overview of borrowings from banks

	31.12.2023 'BAM 000	31.12.2022 'BAM 000
EBRD - European Bank for Reconstruction and Development	9,850	14,033
EIB – European Investment Bank	4,337	8,105
MCI – Microcredit fund for the stabilization of the Balkans	75	82
Total	**14,262**	**22,220**

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

5.10. Deposits and borrowings from clients

	31.12.2023 BAM '000	31.12.2022 BAM '000
Legal entities and entrepreneurs		
Demand deposits		
in BAM	266,388	331,577
with a foreign currency clause	-	-
in foreign currencies	66,652	82,115
Total demand deposits- legal entities	**333,040**	**413,692**
Term deposits		**-**
in BAM	12,527	18,745
with a foreign currency clause	60,961	67,611
in foreign currencies	12,274	15,053
Total term deposits - legal entities	**85,761**	**101,408**
Total deposits - legal entities and entrepreneurs	**418,801**	**515,100**
Private individuals		
Demand deposits		
in BAM	242,857	221,686
with a foreign currency clause	46	33
in foreign currencies	107,623	112,012
Total demand deposits – private individuals	**350,526**	**333,731**
Term deposits		
in BAM	57,005	69,699
with a foreign currency clause	2	26
in foreign currencies	114,815	94,992
Total term deposits private individuals	**171,822**	**164,717**
Total deposits – private individuals	**522,347**	**498,448**
Total deposits from clients	**941,148**	**1,013,548**
Borrowings from clients		
in BAM		
with a foreign currency clause	39,161	50,062
in foreign currencies	-	-
Total borrowings from clients	**39,161**	**50,062**
Total deposits and borrowings from clients	**980,309**	**1,063,610**

Deposits from client as of 31 December 2023 have not been reduced for the cash withdrawn from ATMs in the amount of BAM 1,261 ths.

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

5.10. Deposits and borrowings from clients (continued)

Overview of borrowings from clients

	31.12.2023 'BAM 000	31.12.2022 'BAM 000
IRB RS – Housing Fund of the Republic of Srpska	20,451	23,347
IRB RS – Development and employmend fund of the Republic of Srpska	10,113	17,156
IRB RS – Eastern Republic of Srpska Development Fund of Republic of Srpska	8,465	9,389
MFRS – IFAD Project	132	170
Total	**39,161**	**50,062**

5.11. Long term lease liabilities

	31.12.2023 BAM '000	31.12.2022 BAM '000
Long-term lease to legal entities	596	951
Long- term lease to private individuals	1,171	1,021
Total	**1,766**	**1,972**

5.12. Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on temporary differences according to the balance sheet method using the legal tax rate of 10% (2022: 10%).

	Deferred tax assets BAM '000	Deferred tax liabilities BAM '000
Balance as of 01.01.2023	**1,301**	**762**
Effects of decrease of deferred tax assets	(283)	-
Effects of increase of deferred tax assets	97	-
Effects of increase of deferred tax liabilities	-	15
Balance as of 31.12.2023	**1,115**	**777**
Balance as of 01.01.2022	**569**	**546**
Effects of decrease of deferred tax assets	(37)	-
Effects of increase of deferred tax assets	769	-
Effects of increase of deferred tax liabilities	-	224
Effects of decrease of deferred tax liabilities	-	(8)
Balance as of 31.12.2022	**1,301**	**762**

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

5.13. Other liabilities

	31.12.2023 BAM '000	31.12.2022 BAM '000
Liabilities due to employees	5,029	4,306
Received advances for collection of acquired material assets	34	87
Liabilities to suppliers	4,962	3,517
Liabilities for the execution of payment transaction orders in the country	1,818	1,120
Liabilities based on non-nominated deposits	657	657
Accruals and deferred income	791	318
Liabilities for card operations	3,392	3,021
VAT liabilities	621	310
Liabilities based on termination of business relationship	4,052	4,255
Other liabilities	3,166	2,758
Total other liabilities	**24,523**	**20,349**

5.14. Provisions for credit risk on loan commitments and guarantees

	31.12.2023 BAM '000	31.12.2022 BAM '000
Provisions for loan commitments	1,189	1,252
Provisions for guarantees and other warranties	4,020	1,784
Total provisions for credit risks and guarantees	**5,209**	**3,036**

5.15. Provisions for other risks and expenses

	31.12.2023 BAM '000	31.12.2022 BAM '000
Long-term provisions for employees	357	358
Provisions for litigations	1,447	1,372
Provisions for other liabilities	-	438
Total provisions for liabilities and expenses	**1,804**	**2,168**

Changes in provisions for risks and costs

	Long-term provisions for employees 'BAM 000	Provisions for litigations 'BAM 000	Provisions for other liabilities 'BAM 000	Total 'BAM 000
Balance as of 01.01.2022	**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**
Net gain / (loss) recognized in the statement of profit or loss	(1)	208	(288)	**(81)**
Provisions used during the period and transfers	-	(133)	(150)	**(283)**
Balance as of 31.12.2023	**357**	**1,447**	**-**	**1,804**

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

5.15. Provisions for other risks and expenses (continued)

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“) is also included. Bitminer has filed a lawsuit before the District Commercial Court in Banja Luka with a claim for damages due to the termination of its current bank accounts by the Bank, stating that the termination of the account obstructed its initial offering (ICO) relating to a start-up renewable-energy-powered cryptocurrency mining project in Bosnia and Hercegovina.
On December 30, 2021, the first instance court accepted most of Bitminer‘s claims and ordered the Bank to pay damages in the amount of BAM 256.3 million (approx. EUR 131.2 million) (“Judgement”). The appeal was filed in January 2022.
On 18 April 2023, the High Commercial Court reversed the Judgment in its entirety, and issued a final, binding, and enforceable second instance judgement (the “Second-Instance Judgment”). The second instance court established that Bitminer’s claim is unfounded and that Bank is not liable for any damages. Bitminer duly filed a revision, an extraordinary legal remedy, to the Supreme Court of the Republic of Srpska. The revision proceedings do not suspend or otherwise affect the finality and enforceability of the Second-Instance Judgement

5.16. Share capital

	Regular shares BAM ‘000
Balance as of 01.01.2022	**97,055**
Changes	-
Balance as of 31.12.2022	**97,055**
Changes	-
Balance as of 31.12.2023	**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, 2023 consist of 1 majority shareholder and 53 minor shareholders: domestic and foreign legal entities and individuals with the share of:

	% share
UniCredit S.p.A. Italy	**99.629%**
Minority shareholders	0.371%
	100.00%

As of December 31, 2023, 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 2023 (03.10.2023) was BAM 1,810.00 (2022: BAM 1,800.00).

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

5.17. Loan commitments and financial guarantees

	31.12.2023 BAM '000	31.12.2022 BAM '000
Payment guarantees		
in BAM	11,698	9,622
in foreign currencies	14,741	16,104
Total payment guarantees	**26,440**	**25,726**
Performance guarantees		
in BAM	49,124	50,253
in foreign currencies	27,782	34,844
Total performance guarantees	**76,907**	**85,097**
Loan commitments		
in BAM	76,090	86,545
in foreign currencies	-	-
Total loan commitments and guarantees	**76,090**	**86,545**
Letters of credit in foreign currencies	267	313
Total contingent liabilities on undriwen credit lines and guarantees, given guarantees and other warrantees	**179,703**	**197,681**

As of 31.12.2023, provisions for the credit risk of assumed obligations and given financial guarantees amounted to BAM 5,209 thousand (31.12.2022: BAM 3,036 thousand).

Gross exposure by credit risk Stages

Gross exposure	31.12.2023 Credit risk level Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000	31.12.2022 Total BAM '000
Internal valuation Stage						
Performing loans						
Low risk	157,774	-	-	-	157,774	169,536
Medium risk	-	21,910	-	-	21,910	28,075
Non-performing loans						
Default status	-	-	19	-	19	70
Total	**157,774**	**21,910**	**19**	**-**	**179,703**	**197,681**

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 01.01.2023	**169,536**	**28,075**	**70**	**-**	**197,681**
New funding	102,037	5,218	-	-	107,255
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	1,046	(1,045)	(1)	-	-
Transfers to Stage 2	(1,882)	1,890	(8)	-	-
Transfers to Stage 3	(10)	(1)	11	-	-
Repaid assets	(112,953)	(12,228)	(52)	-	(125,232)
Amounts written-off	-	-	-	-	-
Other changes	-	-	-	-	-
Balance as of 31.12.2023	**157,774**	**21,910**	**19**	**-**	**179,703**

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

5.17. Loan commitments and financial guarantees (continued)

Movements of provisions

Provision	Stage 1 BAM '000	Stage 2 BAM '000	Stage 3 BAM '000	POCI BAM '000	Total BAM '000
Balance as of 01.01.2023	**1,444**	**1,558**	**34**	**-**	**3,036**
New funding	668	684	-	-	1,352
Assets no longer recognised	-	-	-	-	-
Transfers to Stage 1	21	(21)	-	-	-
Transfers to Stage 2	(216)	217	-	-	-
Transfers to Stage 3	(8)	(1)	8	-	-
Repaid assets	(622)	1,468	(25)	-	821
Amounts written-off	-	-	-	-	-
Balance as of 31.12.2023	**1,288**	**3,904**	**17**	**-**	**5,209**

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	-	-	-	-	-
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)	-	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**

6. Segment Reporting

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

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

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

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

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

Report on Profit and Loss and Other Comprehensive Income by segments

31.12.2023	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	**13,718**	**31,962**	**3,077**	**48,757**	**(1)**	**48,757**
Net fee and commission income	**6,114**	**12,681**	**(110)**	**18,685**	**(1,861)**	**16,824**
ow Packages and account maintenance	136	5,330	-	5,466	191	5,658
ow Payment operations transactions	2,480	4,183	-	6,663	(200)	6,464
ow Card fees	219	891	-	1,110	(114)	996
ow Loan fees	118	731	-	849	13	862
ow Forex dealing fees	1,828	1,425	(38)	3,215	(1,825)	1,390
ow Financial guarantee contract and loan commitments	1,331	89	-	1,420	-	1,420
ow Other fees and commissions	1	32	(72)	(38)	73	35
Net income from financial instruments	539	-	(35)	504	1,900	2,404
Total operating income	**20,371**	**44,643**	**2,933**	**67,946**	**39**	**67,985**
Staff expenses	(2,489)	(5,465)	(10,755)	(18,709)	(1)	(18,710)
Depreciation	(432)	(2,474)	(2,024)	(4,930)	(68)	(4,998)
Other administrative expenses	(1,023)	(5,800)	(5,582)	(12,405)	(2,284)	(14,689)
Indirect and other allocated expenses	(5,195)	(12,929)	18,124	-	-	-
Total operating expenses	**(9,139)**	**(26,668)**	**(237)**	**(36,044)**	**(2,353)**	**(38,397)**
Profit before impairment and provisions	**11,232**	**17,975**	**2,696**	**31,902**	**(2,314)**	**29,588**
Net (losses) / recoveries from impairment for credit risks	**(5,646)**	**2,319**	**(773)**	**(4,100)**	**(3,176)**	**(7,276)**
Financial assets at amortised costs	(5,646)	2,319	(773)	(4,100)	(3,194)	(7,294)
Financial assets at fair value through other comprehensive income	-	-	-	-	18	18
Provisions for risks and expenses	**(1,308)**	**(2,083)**	**1,118**	**(2,273)**	**2,354**	**81**
Other operating income	28	1,854	1,382	3,264	(516)	2,748
Integration costs	-	-	(193)	(193)	193	-
Result before tax	**4,305**	**20,065**	**4,229**	**28,600**	**(3,458)**	**25,142**
Income tax	(3,374)	(478)	956	(2,895)	529	(2,366)
Result after tax	**931**	**19,588**	**5,186**	**25,705**	**(2,930)**	**22,775**

6. Segment Reporting (continued)

Statement of profit and loss and other comprehensive income by segments

31.12.2022	Enterprises and the public sector BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjustments BAM '000	Total by financial statements BAM '000
Net interest income	**14,477**	**30,000**	**2,485**	**46,962**	**(39)**	**46,923**
Net fee and commission income	**5,216**	**11,677**	**(134)**	**16,760**	**-**	**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	-	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**

6. Segment Reporting (continued)

Statement of financial position by segments

31.12.2023	Enterprises and the public sector BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjustments BAM '000	Total by financial statements BAM '000
Assets						
Cash and cash balances	-	-	153,054	153,054	(9)	153,044
Financial assets at fair value through profit and loss account	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	82,973	82,973	-	**82,973**
Financial assets at amortised cost	267,916	412,091	320,319	1,000,327	(2,779)	**997,548**
Obligatory reserve with the CB	-	-	97,303	97,303	-	97,303
Loans and receivables with banks	-	-	223,016	223,016	(17)	222,999
Loans and receivables with clients	267,916	412,091	-	680,008	(2,762)	677,246
Tangible and intangible assets	-	-	31,020	31,020	380	**31,400**
Deferred tax assets	-	-	993	993	338	1,331
Other assets	-	-	-	11,585	(1,966)	9,619
Total assets	**267,916**	**412,091**	**588,359**	**1,279,952**	**(4,036)**	**1,275,916**
Liabilities						
Financial liabilities at fair value through profit and loss account	-	-	-	-	-	-
Financial liabilities at amortised cost	**406,589**	**575,487**	**14,263**	**996,338**	**-**	**996,338**
Deposits and borrowings from banks	-	-	14,263	14,263	-	14,263
Deposits and borrowings from clients	405,993	574,316	-	980,309	-	980,309
Lease liabilities	596	1,171	-	1,766	-	1,766
Financial liabilities held for trading	-	-	-	-	-	-
Tax liabilities	-	-	941	941	(164)	777
Other liabilities	-	-	24,523	24,523	-	24,523
Provisions for credit risks and guarantees	-	-	4,116	4,116	1,093	5,209
Provisions for risks and expenses	-	-	1,805	1,805	-	1,805
Total liabilities	**406,589**	**575,487**	**45,648**	**1,027,723**	**929**	**1,028,652**
Total equity and reserves	931	19,588	231,710	252,229	(4,965)	**247,264**
Of which net profit for current year	931	19,588	5,186	25,705	(2,930)	22,775
Total liabilities, equity and reserves	**407,519**	**595,075**	**277,358**	**1,279,952**	(4,036)	**1,275,916**

6. Segment Reporting (continued)

Statement of financial position by segments

31.12.2022	Enterprises and the public sector BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjustments BAM '000	Total by financial statements BAM '000
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 clients	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 clients	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**

The income and results of the segments shown in the previous tables (for the years ending on 31.12.2023 and 31.12.2022) 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

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

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

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

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

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

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

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

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

7.1. Credit risk

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

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

Measurement of credit risk

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

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

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

7. Risk Management (continued)

7.1. Credit risk (continued)

Risk Control Policies

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

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

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

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

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

7. Risk Management (continued)

7.1. Credit risk (continued)

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

	Note	31.12.2023 BAM '000	31.12.2022 BAM '000
Balance sheet assets			
Cash and cash balances	5.1.	153,044	267,869
Financial assets at fair value through profit or loss		-	1
Financial assets at fair value through other comprehensive income	5.2.	82,973	85,467
Financial assets at amortized cost		**997,548**	**1,041,470**
Obligatory reserve with the Central Bank	5.3.	97,303	107,367
Loans and receivables with banks	5.4.	222,999	105,576
Loans and receivables with clients	5.5.	677,246	828,527
Other assets	5.8.	9,619	6,064
Total balance sheet items exposed to credit risk		**1,243,185**	**1,400,871**
Off-balance sheet items	5.17.		
Guarantees and other warrantees		103,346	110,823
Approved overdraft, framework loans and guarantees		76,357	86,858
Total off-balance-sheet exposure to credit risk		**179,703**	**197,681**
Maximum exposure to credit risk		**1,422,888**	**1,598,552**

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

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

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

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

7. Risk Management (continued)

7.1. Credit risk (continued)

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

31.12.2023	Exposure in performing status			Exposure in non-performing status			Total		
Financial instruments	Gross	ECL	Net	Gross	ECL	Net	Gross	ECL	Net
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Financial instruments that are decreased by ECL									
Cash and cash balances	153,674	(629)	153,044	-	-	-	**153,674**	**(629)**	**153,044**
Financial assets at amortised cost	**1,009,342**	**(19,450)**	**989,892**	**34,849**	**(27,192)**	**7,657**	**1,044,191**	**(46,642)**	**997,549**
Obligatory reserve with the Central Bank	97,871	(568)	97,303	-	-	-	97,871	(568)	97,303
Loans and receivables with banks	223,222	(223)	222,999	-	-	-	223,222	(223)	222,999
Loans and receivables with clients	688,249	(18,659)	669,590	34,849	(27,192)	7,657	723,098	(45,851)	677,247
Other assets	11,743	(2,124)	9,619	-	-	-	11,743	(2,124)	9,619
Financial instruments that are not decreased by ECL									
Financial assets through other comprehensive income	82,973	(92)	**82,973**	-	-	-	82,973	(92)	**82,973**
Total	**1,257,731**	**(22,295)**	**1,235,529**	**34,849**	**(27,192)**	**7,657**	**1,292,580**	**(49,487)**	**1,243,186**

31.12.2022	Exposure in performing status			Exposure in non-performing status			Total		
Financial instruments	Gross	ECL	Net	Gross	ECL	Net	Gross	ECL	Net
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Financial instruments that are decreased by ECL									
Cash and cash balances	268,152	(283)	267,869	-	-	-	**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	-	-	-	107,500	(133)	107,367
Loans and receivables with banks	105,682	(106)	105,576	-	-	-	105,682	(106)	105,576
Loans and receivables with clients	837819	(20789)	817,030	37,398	(25,901)	11,497	875,217	(46,690)	828,527
Other assets	6137	(73)	6,064	381	(381)	-	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**

7. Risk Management (continued)

7.1. Credit risk (continued)

Received collateral and other instruments of credit security

The bank defines a policy for managing credit risk mitigation techniques, which aims to ensure optimal management of security instruments and mitigate potential losses from placements in the event of default.
The efficient application of credit risk mitigation techniques in the Bank's business processes leads to the optimization of the use of capital.
Collateral assessment is one of the basic elements of the loan approval process, in addition to the assessment of the client's creditworthiness.
The quality of the client is based on the assessment of creditworthiness and the quality of the business relationship with the Bank. Collateral can never be a substitute for a client's rating. If the rating or creditworthiness of the client is not adequate, the loan cannot be approved. Collateral instruments serve the Bank to protect itself in case of default, when the debtor is unable to make payments.
The basic condition for accepting security instruments is legal execution. It is necessary to make careful efforts and work diligently to ensure that the possibility of collection from security instruments is not jeopardized for legal reasons.
Careful and adequate collateral management is required, in terms of continuous monitoring and assessment. The estimated collateral must be monitored regularly, at least once a year. More regular monitoring and supervision is necessary in case of significant changes in market conditions.
In applying the credit risk mitigation technique, the Bank emphasizes the importance of the process and control of legal protection requirements, as well as the assessment of the suitability of collateral.

		Allocated value of obtained collateral instruments					
31.12.2023	**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	153,044	-	-	-	-	-	153,044
Financial assets at fair value through profit and loss account	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	82,973	-	-	-	-	-	82,973
Financial assets at amortised cost	**997,548**	**3,473**	**80,241**	**138,356**	**11,850**	**233,920**	**763,628**
Obligatory reserve with the CB	97,303	-	-	-	-	-	97,303
Loans and receivables with banks	222,999	-	-	-	-	-	222,999
Loans and receivables with clients	677,246	3,473	80,241	138,356	11,850	233,920	443,326
Other assets	9,619	-	-	-	-	-	9,619
Total balance sheet assets exposed to credit risk	**1,243,185**	**3,473**	**80,241**	**138,356**	**11,850**	**233,920**	**1,009,265**
Off-balance sheet assets							
Guarantees and other warranteess	103,346	2,811	3,585	9,249	4,954	20,599	82,747
Overdrafts, framework loans and guarantees	76,357	1,059	-	3,988	204	5,251	71,106
Total off-balance sheet assets exposed to credit risk	**179,703**	**3,870**	**3,585**	**13,237**	**5,158**	**25,850**	**153,853**
Total balance and off-balance sheet exposure	**1,422,888**	**7,343**	**83,826**	**151,593**	**17,008**	**259,770**	**1,163,118**

7. Risk Management (continued)

7.1. Credit risk (continued)

Received collateral and other instruments of credit security (continued)

31.12.2022	Gross exposure	Allocated value of obtained collateral instruments					
		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 clients	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**

7. Risk Management (continued)

7.1. Credit risk (continued)

Loss allowance for expected credit losses (ECL)

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

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

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

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

Definition of default status and recovery

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

PD assessment process

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

EAD

EAD (Exposure at Default) is a measure of exposure at the time of the event of default. The duration of the EAD is obtained taking into account the expected changes in future periods, based on the repayment plan.
The above estimate includes balance and off-balance items (guarantees, letters of credit and the unused part of loans and guarantee frameworks), later weighted so-called CCF factor (credit conversion factor).

7. Risk Management (continued)

7.1. Credit risk (continued)

LGD

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

PD and LGD adjustments are applied according to the requirements of IFRS 9:

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

Incorporation of forward-looking information

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

7. Risk Management (continued)

7.1. Credit risk (continued)

Incorporation of forward-looking information (continued)

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

$$Overlay\ factor = \frac{ECLweighted}{ECL_{basic}}$$

The weighted ECL is calculated based on the probability of the scenario (for 2023, 60% basic and 40% negative):

ECL weighted = 60%*ECL basic + 40% ECL negative

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

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

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

							Baseline IFRS 23Q4 (60%)				Adverse IFRS 23Q4 (40%)			
Macroeconomic scenario	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**
Real GDP, yoy % change	3.2	3.7	2.8	-3.1	7.5	3.9	1.6	2.5	3.0	3.5	1.6	-1.6	1.6	4.2
Inflation (CPI) yoy, eop	1.2	1.6	0.3	-1.6	6.4	14.8	2.1	3.1	3.0	2.0	2.1	4.5	2.5	2.0
Inflation (CPI) yoy, average	1.3	1.4	0.6	-1.0	2.0	14.0	6.0	3.1	3.0	2.5	6.0	3.3	3.5	2.2
Monthly Wage, nominal EUR	675,6	696,7	726,7	740,6	788,5	880,5	948,4	1002,3	1063,3	1128,0	948,4	939,0	985,2	1076,8
Unemployment rate, %	38.4	36.0	33.3	33.8	32.5	30.1	29.0	27.5	25.5	23.0	29.0	33.4	31.8	29.3
House Price Index, yoy % change	4.3	9.6	-7.5	1.8	7.4	10.0	6.0	5.0	5.0	5.0	6.0	3.7	4.4	5.0

7. Risk Management (continued)

7.1. Credit risk (continued)

Sensitivity of ECL to future economic conditions

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

ECL sensitivity was estimated as the ratio between:

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

The following assumptions are implied:

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

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

Cumulated GDP 3Y growth in %		ECL Amount (BAM /mln)		ECL Difference vs Baseline	% ECL Difference vs Baseline	IFRS9 23q4	
						ECL Sensitivity vs 3-year cum GDP (in BAM/mln)	% ECL Sensitivity vs 3-year cum GDP
Baseline Scenario	Negative Scenario	Baseline Scenario	Negative Scenario	Baseline Scenario	Negative Scenario	For 1 GDP point drop (3-year cumulated basis)	
7.1	3.2	38	39	2	4%	0.3	0.8%

Geopolitical overlay resulting from Russia-Ukraine crisis

During 2023, the focus is shifted to a new geo-political context in relation to the earlier economic activities arising from the Covid-19 pandemic.

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

In order to take into account the risks caused by the sudden increase in energy costs, inflation and interest rates for legal entities and individuals, a methodology for geopolitical overlap was adopted in 2022 and was applied throughout 2023.

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

Provisions for credit losses as of December 31, 2023 include the effect of geopolitical overlap in the amount of BAM 3,483 thousand and consists of the following items:

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

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

7. Risk Management (continued)

7.1. Credit risk (continued)

Geopolitical overlay resulting from Russia-Ukraine crisis

An update in the allocation process of the Geo-political overlay for Energy-intensive cluster is introduced in 4Q 2023. Specifically, the new allocation process aims at allocating LLP focusing more, compared to initial approach, to the riskiness in terms of staging, thus leveraging on the capability of SICR framework to be sensitive to all the signals of risk currently in place (as stated in the beginning of this document). As such given the PD outcomes resulting from the model and the different level of default risk embedded in the Staging framework, this is used to allocate LLP resulting from geo-political overlay.

In detail, taking into account the perimeter of application of the Geo-political overlay for energy-intensive on the most recent portfolio , the following ratio should be computed:

x%=(avg IFRS9 1Y PD_Stage2)/((avg IFRS9 1Y PD_Stage1+avg IFRS9 1Y PD_Stage2))

Where:

- avg IFRS9 1Y PD_(Stage2)is the average IFRS9 1Y PD of Stage 2 positions belonging to the perimeter of application of the Geo-political overlay for energy-intensive on the most recent portfolio,
- avg IFRS9 1Y PD_Stage1 average IFRS9 1Y PD of Stage 1 positions belonging to the perimeter of application of the Geo-political overlay for energy-intensive on the most recent portfolio.

Then at least x% of the total additional LLP due to Energy-intensive Geo-political overlay should be allocated on Stage 2 positions of the relevant application portfolio and the remaining (1- x%) on Stage 1 positions.

7. Risk Management (continued)

7.1. Credit risk (continued)

Geopolitical overlay resulting from Russia-Ukraine crisis (continued)

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

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

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

Grouping of financial assets measured on a collective and individual approach

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

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

Loans assessed on an individual basis

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

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

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

Loans assessed on a portfolio basis

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

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

7. Risk Management (continued)

7.1. Credit risk (continued)

Manual adjustments for clients with significantly increased credit

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

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

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

The analysis of the loan portfolio according to the mentioned categories is given below:

	31.12.2023			31.12.2022		
	Gross loans BAM '000	Impairment BAM '000	%	Gross loans BAM '000	Impairment BAM '000	%
Stage 1						
Loans to legal entities	246,036	3,755	1.50%	355,006	3,488	1.00%
Loans to private individuals	385,238	5,805	1.50%	436,755	9,577	2.20%
Total Stage I 1	**631,274**	**9,560**	**1.50%**	**791,762**	**13,066**	**1.70%**
Stage 2						
Loans to legal entities	27,658	4,406	15.90%	16,240	2,820	17.40%
Loans to private individuals	29,317	4,693	16.00%	29,805	4,955	16.60%
Total Stage I 2	**56,975**	**9,099**	**16.00%**	**46,045**	**7,775**	**16.90%**
Stage 3						
Loans to legal entities	20,106	13,191	65.60%	21,351	11,259	52.70%
Loans to private individuals	14,743	14,001	95.00%	16,059	14,591	90.90%
Total Stage 3	**34,849**	**27,192**	**78.00%**	**37,410**	**25,850**	**69.10%**
Total loans	**723,098**	**45,851**	**6.30%**	**875,217**	**46,690**	**5.30%**

The coverage of the nonperforming portfolio loans by impairment (ECL) is 78.0% (2022: 69.1%).

7. Risk Management (continued)

7.1. Credit risk (continued)

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

	31.12.2023			31.12.2022		
	Undue	Due	Total	Undue	Due	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Legal entities						
Stage 1	243,902	2,134	246,036	354,644	362	355,006
(Loss allowance)	(3,717)	(37)	(3,755)	(3,487)	(1)	(3,488)
Stage 2	26,998	660	27,658	15,524	462	15,987
(Loss allowance)	(4,287)	(119)	(4,406)	(2,601)	(92)	(2,693)
Stage 3	19,815	291	20,106	17,371	4,234	21,605
(Loss allowance)	(12,900)	(291)	(13,191)	(8,682)	(2,704)	(11,386)
Gross exposure legal entities	**290,715**	**3,085**	**293,800**	**387,540**	**5,058**	**392,598**
(Loss allowance)	**(20,905)**	**(447)**	**(21,352)**	**(14,770)**	**(2,797)**	**(17,567)**
Net exposure legal entities	**269,810**	**2,638**	**272,448**	**372,770**	**2,261**	**375,031**
Private individuals						
Stage 1	382,817	2,419	385,237	436,260	495	436,755
(Loss allowance)	(5,752)	(53)	(5,805)	(9,572)	(6)	(9,577)
Stage 2	28,906	412	29,318	29,655	150	29,805
(Loss allowance)	(4,574)	(119)	(4,693)	(4,925)	(30)	(4,955)
Stage 3	9,541	5,202	14,743	13,475	2,584	16,059
(Loss allowance)	(8,854)	(5,147)	(14,001)	(12,121)	(2,470)	(14,591)
Gross exposure private individuals	**421,264**	**8,034**	**429,298**	**479,390**	**3,229**	**482,619**
(Loss allowance)	**(19,180)**	**(5,320)**	**(24,499)**	**(26,618)**	**(2,506)**	**(29,124)**
Net exposure private individuals	**402,084**	**2,714**	**404,798**	**452,772**	**723**	**453,495**
Total gross loans	**711,979**	**11,118**	**723,097**	**866,930**	**8,287**	**875,217**
(Total loss allowance)	**(40,085)**	**(5,767)**	**(45,851)**	**(41,388)**	**(5,303)**	**(46,690)**
Total net loans	**671,895**	**5,352**	**677,246**	**825,542**	**2,984**	**828,527**

Stage 1 and 2: undue performing loans

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

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

	Loans to 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
31.12.2023								
Stage 1 Standard monitoring	261,831	100,853	20,133	**382,817**	132,686	105,501	5,715	**243,902**
Stage 2 Standard monitoring	18,783	8,797	1,326	**28,906**	13,884	12,100	1,014	**26,998**
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**

7. Risk Management (continued)

7.1. Credit risk (continued)

Stage 1 and 2: due performing loans

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

	Consumer loans	Housing loans	Credit card loans and approved account 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
31.12.2023								
Matured – Stage 1								
up to 30 dpd	1,711	306	402	**2,419**	374	-	442	**816**
from 30 to 60 dpd	-	-	-	**-**	-	1,318	-	1,318
from 60 to 90 dpd	-	-	-	**-**	-	-	-	-
above 90 dpd	-	-	-	**-**	-	-	-	-
Total	**1,711**	**306**	**402**	2,419	**374**	**1,318**	**442**	**2,134**
Pledge value					**33**	**17**	**2**	**51**
Matured – Stage 2								
up to 30 dpd	173	37	46	**255**	80	-	27	**107**
from 30 to 60 dpd	66	6	18	**90**	-	540	5	545
from 60 to 90 dpd	54	3	10	**67**	-	8	-	8
over 90 dpd	-	-	-	**-**	-	-	-	-
Total	**292**	**47**	**73**	**412**	80	**548**	**32**	**660**
Pledge value	-	-	-	-	2	3	-	**5**
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**	-	-	-	-
over 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

7. Risk Management (continued)

7.1. Credit risk (continued)

Stage 3: non-performing loans

The classification of non-performing loans from clients, 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 approved account 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
31.12.2023								
Stage 3	11,959	1,867	917	**14,743**	-	20,003	103	**20,106**
Pledge value	9	1,368	-	**1,377**	-	17,577	-	**17,577**
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**

7. Risk Management (continued)

7.1. Credit risk (continued)

Restructured loans and receivables

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

Restructured loans as of December 31, 2023 (exposure to all restructured placements, regardless of whether they are under the jurisdiction of Business segments or Monitoring and Special Credit Management) totalled BAM 21,417 thousand (December 31, 2022: BAM 3,210 thousand).

The increase in the total exposure of restructured placements is the result of the restructuring of the largest exposure of Corporate Banking classified in Credit Risk Level 3.

	31.12.2023	31.12.2022
	BAM '000	BAM '000
Restructured loans	21,417	3,210
Loan portfolio gross	723,097	875,217
Share of restructured loans in the gross loan portfolio	3.0%	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. 2023						
Private individuals	6	-	538	36	503	484
Legal entities	-	-	568	367	19,802	12,872
Total	**6**	**-**	**1,106**	**403**	**20,305**	**13,356**
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**

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.

7. Risk Management (continued)

7.1. Credit risk (continued)

Concentration of credit risk by industry

Breakdown of the Bank's loan portfolio as at 31 December 2023 and 31 December 2022 per industry is provided in the table below:

	31.12.2023 BAM '000	31.12.2022 BAM '000
Legal entities and entrepreneurs		
Agriculture, forestry and fishing	4,086	5,702
Mining and quarrying	1,256	1,457
Manufacturing	67,751	84,521
Electricity and gas production and supplying	1,003	28,864
Water supply and remediation activities	161	485
Construction	11,101	13,440
Wholesale and retail trade	29,732	41,058
Transporting and storage	30,576	35,312
Accommodation and food service activities	88	262
Information and communication	2,543	2,681
Financial and insurance activities	9,572	5,347
Real estate activities	31	190
Professional, scientific and technical activities	4,348	4,288
Administrative and support service activities	2	2
Public administration and defence; compulsory social security	111,935	145,495
Education	36	76
Human health and social work activities	19,565	23,395
Arts, entertainment and recreation	4	8
Other service activities	12	15
Total loans to legal entities and entrepreneurs	**293,800**	**392,598**
Total loans to private individuals	429,298	482,619
Total gross loans	**723,097**	**875,217**
Loan impairment	(45,851)	(46,690)
Total net loans	**677,246**	**828,527**

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*	31.12.2023 BAM '000	31.12.2022 BAM '000
Number of clients with exposure over 10% of eligible capital	**3**	**5**
Balance and off-balance credit exposure - gross	149,315	218,747
Loss allowance and provision for off-balance credit exposure (ECL)	(1,142)	(610)
Balance and off-balance credit exposure - net	148,173	189,387

* relates to individual clients and does not include exposures to banks

Exposure to public sector (central institutions)	31.12.2023 BAM '000	31.12.2022 BAM '000
Balance and off-balance credit exposure - gross	174,607	204,748
Loss allowance and provision for off-balance credit exposure (ECL)	(2,490)	(581)
Balance and off-balance credit exposure - net	172,117	204,167

7. Risk Management (continued)

7.2. Liquidity Risk

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

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

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

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

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

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

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

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

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

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

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

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

	31.12.2023	31.12.2022
Liquidity coverage ratio (LCR) in %	302.1%	344.9%
Net Stability Financial Ratio (NSFR)	168.5%	148.3%

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

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

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

SLR (Structural liquidity ratio)	31.12.2023		31.12.2022	
	(in mil. BAM)	(in mil. BAM)	(in mil. BAM)	(in mil. BAM)
	>1G	>3G	>1G	>3G
Cumulative liabilities	690	608	740	656
Cumulative assets	717	463	824	523
Warning level	74%	95%	65%	90%
Value	**96%**	**131%**	**90%**	**125%**

Structural liquidity is also monitored individually by currency, through the foreign exchange (FX) structural liquidity gap indicator. The foreign exchange (FX) structural liquidity gap also relies on the economic aspect, based on 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, required reserves, securities and derivatives.

EUR FX SLG >1G	31.12.2023 (in mil. BAM)	31.12.2022 (in mil. BAM)
Cumulative liabilities	131	149
Cumulative assets	183	257
Warning level	(196)	(332)
Value	**(51)**	**(108)**

OTHER FX SLG >1G	31.12.2023 (in mil. BAM)	31.12.2022 (in mil. BAM)
Cumulative liabilities	0.30	0.48
Cumulative assets	0.02	0.01
Warning level	(2)	(39)
Value	**0.28**	**0.47**

The following tables show the liquidity structure as of December 31, 2023 and 31.12.2022, which represents an overview of assets and liabilities by appropriate time baskets based on the period remaining until the agreed maturity.

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

The 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.

31.12.2023	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	153,044	-	-	-	-	**153,044**
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	82,682	-	291	-	-	82,973
Financial assets at amortised cost	**333,213**	**52,970**	**128,227**	**337,570**	**145,568**	**997,548**
Obligatory reserve with the CB	97,303	0	0	0	0	97,303
Loans and receivables with banks	222,999	0	0	0	0	222,999
Loans and receivables with clients	12,911	52,970	128,227	337,570	145,568	677,246
Other assets	5,787	1,259	2,048	524	0	9,618
Total receivables	**574,727**	**54,229**	**130,567**	**338,094**	**145,568**	**1,243,185**
Financiall liabilities at fair value through profit or loss	-	-	-	-	-	-
Financial liabilities at amortised cost	**696,491**	**26,989**	**78,589**	**179,346**	**14,924**	**996,338**
Deposits and borrowings from banks	1	859	5,419	7,984	-	14,263
Deposits and borrowings from clients	696,422	25,995	72,636	170,332	14,924	**980,309**
Lease liabilities	68	135	533	1,030	-	1,766
Current tax liabilities	777	-	-	-	-	777
Other liabilities	10,584	6,492	4,587	2,860	-	24,523
Financial guarantees and LCs	5,181	-	98,432	-	-	103,613
Loan commitments	4,754	-	71,337	-	-	76,090
Total liabilities	**717,786**	**33,481**	**252,944**	**182,207**	**14,924**	**1,201,341**

The Bank expect to meet their obligations from operating cash flows and proceeds of maturing financial assets and assets at fair value through other comprehensive income.

7. Risk Management (continued)

7.2. Liquidity Risk (continued)

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 clients	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 clients	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	-	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**

7. Risk Management (continued)

7.3. Market Risks

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

Market risk exposure management includes activities related to client risk management and asset and liability management, and is regulated through a system of internal acts and a network of defined limits and warning signals, which are monitored on a daily basis. The measurement of market risks is based on the VaR ("*Value at Risk* ") methodology; VaR is the estimated potential overnight loss, which arises on the total and individual positions of the balance sheet structure in a defined period, based on numerous assumptions of changes in market conditions with a confidence level of 99%. The Group uses historical volatility simulation as an estimation model, which is based on the last 250 observations of daily returns. The quality of the VaR model is continuously monitored by retroactive testing. In addition to the VaR model, Financial and non-financial risks also use the limits of the open foreign exchange position and the basis point calculation (BPV) as a supplement to the set VaR limits.

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

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

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

Overview of the Bank's overall VaR position:

Var FVtOCI	**2023**	**2022**
	BAM '000	**BAM '000**
Average for the period	635	830
Maximum for the period	739	1,125
Minimum for the period	508	458

Var FVtPL	**2023**	**2022**
	BAM '000	**BAM '000**
Average for the period	0,42	2
Maximum for the period	5,28	9
Minimum for the period	0,10	1

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

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk

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

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

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

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

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

	2023	2022
Currency risk ratios:		
As of 31 December	0.98%	1.59%
maximum for the period - month of December	33.37%	32.19%
minimum for the period - month of December	0.16%	0.17%

The foreign exchange position is calculated as the ratio of the sum of the values of all long and short individual foreign exchange positions of the Bank and its recognized (regulatory) capital on the reporting date (maximum allowed up to 40% of recognized capital).

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

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

The analysis of assets and liabilities expressed in foreign currency amounts as of December 31, 2023 and December 31, 2022 is presented in the following tables.

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk (continued)

31.12.2023	EUR BAM '000	EUR linked items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
Assets							
Cash and cash balances	15,789	-	1,250	4,165	21,205	131,839	153,044
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	31,742	50,940	-	-	82,683	291	82,973
Financial assets at amortised cost	**204,783**	**179,861**	**11,686**	**9,918**	**406,248**	**591,300**	**997,548**
Obligatory reserve with the CB	-	-	-	-	-	97,303	97,303
Loans and receivables with banks	201,394	-	11,686	9,918	222,999	-	222,999
Loans and receivables with clients	3,388	179,861	-	-	183,250	493,996	677,246
Tangible assets	-	-	-	-	-	21,987	21,987
Intangible assets	-	-	-	-	-	9,413	9,413
Current tax assets	-	-	-	-	-	216	216
Deferred tax assets	-	-	-	-	-	1,115	1,115
Other assets	220	-	7	2	229	9,390	9,619
Total assets	**252,534**	**230,802**	**12,944**	**14,085**	**510,364**	**765,551**	**1,275,916**
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	**288,873**	**100,169**	**12,787**	**13,967**	**415,796**	**580,542**	**996,338**
Deposits and borrowings from banks	14,262	-	-	-	14,262	1	14,263
Deposits and borrowings from clients	274,611	100,169	12,787	13,967	**401,534**	578,775	980,309
Lease liabilities	-	-	-	-	-	1,766	1,766
Current tax liabilities	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	777	777
Other liabilities	3,130	-	141	155	3,426	21,098	24,523
Provisions for risks and expenses	2,051	5	-	-	2,056	4,957	7,013
Total liabilities	**294,054**	**100,174**	**12,928**	**14,122**	**421,278**	**607,374**	**1,028,652**
Equity and reserves	(224)	58	-	-	(166)	247,430	247,264
Total liabilities, equity and reserves	**293,830**	**100,232**	**12,928**	**14,122**	**421,112**	**854,803**	**1,275,916**
Net foreign currency position	**(1,175)**	**130,570**	**-**	**-**	**129,395**	**(129,395)**	**-**

7. Risk Management (continued)

7.3. Market Risks (continued)

Currency Risk (continued)

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 clients	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 clients	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**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk

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

The main sources of interest rate risk are:

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

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

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

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

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

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

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

		(in BAM)		BP01 banking book 31.12.2023			
	03M	**3M1Y**	**1Y3Y**	**3Y10Y**	**>10Y**	**Sum**	**EUR**
TOTAL BP01	3,857	2,460	4,072	50,387	11,791	56,709	33,157
Limit	19,558	39,117	39,117	68,454	19,558	78,233	78,233
Limit utilisation	**20%**	**6%**	**10%**	**74%**	**60%**	**72%**	**42%**

		(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%**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk (continued)

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

Presentation of the Bank's exposure to interest rate risk according to the local regulatory requirement through the interest "gap " as of December 31, 2023, and December 31, 2022 is shown in the following tables.

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

31.12.2023	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	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
Assets								
Cash and cash balances	120,412	-	-	-	-	32,632	**153,044**	15,231
Financial assets at fair value through profit or loss	-	-	-	-	-	-	**-**	-
Financial assets at fair value through other comprehensive income	-	16,495	12,424	53,637	126	291	**82,973**	82,683
Financial assets at amortised cost	**225,818**	**204,279**	**295,337**	**181,514**	**86,316**	**4,284**	**997,548**	**613,358**
Obligatory reserve with the CB	-	-	97,303	-	-	-	**97,303**	-
Loans and receivables with banks	222,836	-	-	-	-	162	**222,999**	222,836
Loans and receivables with clients	2,982	204,279	198,034	181,514	86,316	4,122	**677,246**	390,522
Tangible assets	-	-	-	-	-	21,987	**21,987**	-
Intangible assets	-	-	-	-	-	9,413	**9,413**	-
Current tax assets - pre-paid income tax	-	-	-	-	-	216	**216**	-
Deferred tax assets	-	-	-	-	-	1,115	**1,115**	-
Other assets	-	-	-	-	-	9,619	**9,619**	-
Total assets	**346,230**	**220,775**	**307,761**	**235,151**	**86,441**	**79,557**	**1,275,916**	**711,272**
Liabilities							**-**	
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	**-**	-
Financial liabilities at amortised cost	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**4,964**	**996,338**	**977,177**
Deposits and borrowings from banks	18	3,882	10,185	-	-	177	**14,263**	18
Deposits and borrowings from clients	108,129	25,148	677,285	151,858	14,869	3,020	**980,309**	977,159
Lease liabilities	-	-	-	-	-	1,766	**1,766**	-
Current tax liabilities	-	-	-	-	-	-	**-**	-
Deferred tax liabilities	-	-	-	-	-	777	**777**	-
Other liabilities	-	-	-	-	-	24,523	**24,523**	-
Provisions for risks and expenses	-	-	-	-	-	7,013	**7,013**	-
Total liabilities	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**37,278**	**1,028,652**	**977,177**
Equity and reserves	**-**	**-**	**-**	**-**	**-**	**247,264**	**247,264**	**-**
Total liabilities, equity and reserves	**108,147**	**29,031**	**687,470**	**151,858**	**14,869**	**284,541**	**1,275,916**	**977,177**
Interest rate mismatch	**238,083**	**191,744**	**(379,709)**	**83,294**	**71,573**	**(204,985)**	**0,00**	**(265,905)**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk (continued)

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	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate 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 clients	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 clients	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)**

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk (continued)

The following table shows the estimated future cash flow for interest-bearing and non-interest-bearing liabilities of the Bank as of 31.12.2023 and 31.12.2022:

31.12.2023	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
Liabilities						
Transaction accounts and deposits from banks	195	776	5,374	7,917	-	14,263
Transaction accounts and deposits from clients	111,150	25,148	677,285	151,858	14,869	980,309
Lease liabilities	1,766	-	-	-	-	1,766
Other liabilities	24,523	-	-	-	-	24,523
Total liabilities	**137,634**	**25,925**	**682,658**	**159,775**	**14,869**	**1,020,861**
31.12.2022						
Transaction accounts and deposits from banks	22,602	39,117	-	-	-	61,718
Transaction accounts and deposits from clients	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**

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:

	31.12.2023 %	31.12.2022 %
Assets		
Funds in excess of the obligatory reserve held with the Central Bank	-	-0.21
Loans and receivables due from banks	2.40	-0.03
Loans and receivables due from clients	5.74	4.63
Financial assets at fair value through other comprehensive income	3.23	3.70
Liabilities		
Deposits due to banks	-4.39	-1.04
Deposits due to clients	-0.44	-0.30

Risk of Changes in Interest Rate Margin

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

7. Risk Management (continued)

7.3. Market Risks (continued)

Interest Rate Risk in the Banking Book

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

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

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

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

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

Interest rate risk in the Banking Book indicators	2023	2022
Economic value sensitivity (EV sensitivity) in %	-5.33%	-5.14%
Net interest income sensitivity (NII sensitivity) in %	-6.46%	-2.83%
Total BP01 in EUR	**56,709**	**52,805**

7.4. Operational Risk

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

In accordance with the Group's methodology, as well as the regulations of the RS Banking Agency, the Bank has established and is constantly improving the operational risk management system. The system includes tools and mechanisms for continuous monitoring of damages suffered by the Bank from operational risks and exposure of the Bank to operational risks, assessment of operational risks in processes and products, monitoring of key risk indicators, and defining ways to avoid, control or transfer operational risks to third parties, as well as the reporting system.

The above processes and indicators, which make up the operational risk management system, are regularly informed and reported to the Non-Financial Risks Committee, the Management Board of the Bank and the Group, as well as the local regulator, and the operational risk management system is regularly harmonized with the Group's standards and local and international regulations.
Losses resulting from the following events can be considered an operational risk: internal or external fraud, employee relations and safety at work, customer complaints, fines and penalties due to violations of regulations, damage to the Bank's tangible assets, work interruptions and system errors, management processes.

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

7. Risk Management (continued)

7.4. Operational Risk (continued)

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

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

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

7.5. Reputation Risk

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

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

7.6. Capital Management

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

The objectives of the Bank's capital management are:

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

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

7. Risk Management (continued)

7.6. Capital Management (continued)

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

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

On each of the above-mentioned rates, the continuous maintenance of the protective layer for the preservation of capital is prescribed in the amount of 2.5%. In addition to the stated prescribed rates, there are (not yet prescribed) requirements for other protective layers of capital, i.e. for a combined buffer, which represents the minimum regular basic capital, increased by a protective layer for capital preservation and increased by the following protective layers, depending on which is applicable and that:

- bank-specific countercyclical buffer,
- a buffer for a systemically important bank (prescribed in the range of 0% to 2% and will be prescribed individually for each bank after the BARS ranks the banks according to systemic importance), and
- a buffer for systemic risk,
- an additional capital requirement for banks related to the results of the SREP control, which represents an additional protective layer of capital.

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:

	31.12.2023 BAM '000	31.12.2022 BAM '000
REGULATORY CAPITAL	**210,159**	**209,015**
CORE CAPITAL	**210,159**	**209,015**
COMMON EQUITY TIER 1 CAPITAL	**210,159**	**209,015**
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	(6,213)	(5,329)
Other reserves	52,999	52,928
(–)Other intangible assets	(9,413)	(11,184)
(–)Deferred tax assets that are dependent on future profitability and do not arise from temporary differences minus related tax liabilities	(63)	(90)
(–)Deferred tax assets that are dependent on future profitability and do arise from temporary differences minus related tax liabilities	(1,052)	(1,211)
SUPPLEMENTARY CAPITAL	**-**	**-**
Common Equity Tier 1 Capital ratio (CET1)	**31.5%**	**27.6%**
Core capital ratio (T1)	**31.5%**	**27.6%**
Regulatory capital ratio	**31.5%**	**27.6%**

The realized capital rates as of December 31, 2023 are significantly above the prescribed minimums.

7. Risk Management (continued)

7.6. Capital Management (continued)

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, 2023, it is significantly above the prescribed minimum and amounts 16.0%.
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:

	31.12.2023 BAM '000	31.12.2022 BAM '000
Financial Derivatives: Present Replacement Cost	**-**	**1**
Off-balance sheet items with a 10% conversion factor	**698**	**874**
Off-balance sheet items with a 20% conversion factor	28,512	29,049
Off-balance sheet items with a 50% conversion factor	15,967	24,700
Off-balance sheet items with a 100% conversion factor	-	-
Other assets	**1,275,916**	**1,440,649**
()The amount of the deductible item	**(10,528)**	**(12,484)**
Financial leverage ratio exposure	**1,310,565**	**1,482,789**
Capital	**-**	**-**
Core capital	**210,159**	**209,015**
Financial leverage		
Financial leverage ratio	**16.04%**	**14.10%**

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:

	31.12.2023 BAM '000	31.12.2022 BAM '000
Consignment placement		
Liabilities based on principal	17	26
Liabilities based on interest	58	56
TOTAL	**75**	**82**

9. Analysis of changes in financing during the year

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

2023	Borrowings	Lease liabilities
Balance at 01 January	**72,282**	**1,972**
Payment of lease liability		(774)
New lease liability		568
Receipts from interest-bearing borrowings	390	
Repayment of interest-bearing borrowings	(19,256)	
Total changes from financing cash flows	**(18,866)**	**(206)**
Liability-related		**43**
Interest expense	1,297	(43)
Interest paid	(1,295)	
Total liability-related other changes	**2**	
Other changes	5	
Balance as at 31 December	**53,423**	**1,766**

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**

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 2023
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 2023

Positions included in the Statement of Profit or Loss

	31.12.2023 BAM '000	31.12.2022 BAM '000
Interest income		
UniCredit S.p.A. Milan, Italy	1,066	168
UniCredit Bank d.d. Mostar; BiH	-	38
Total interest income	**1,066**	**206**
Fee and commission income		
UniCredit S.p.A. Milan, Italy	6	1
UniCredit Bank Austria AG Vienna, Austria	8	4
UniCredit Bank Czech Republic and Slovačka	2	-
Total fee and commission income	**16**	**5**
Interest expenses		
UniCredit S.p.A. Milan, Italy	(728)	(646)
UniCredit Bank AG Munich, Germany	-	(2)
UniCredit Bank Austria AG Vienna, Austria	-	(9)
Zagrebačka banka d.d. Zagreb, Croatia	-	(2)
UniCredit Bank d.d. Mostar, BiH	-	(272)
Total interest expenses	**(728)**	**(931)**
Fee and commission expenses		
UniCredit S.p.A. Milan, Italy	(18)	(64)
UniCredit Bank AG Munich, Germany	(1)	(5)
UniCredit Bank Austria AG Vienna, Austria	-	(8)
Zagrebačka banka d.d. Zagreb, Croatia	(234)	(204)
UniCredit Bank d.d. Mostar, BiH	(1)	-
Total fee and commission expenses	**(254)**	**(281)**
Operating expenses of business		
UniCredit S.p.A. Milan, Italy	(251)	(193)
UniCredit Services GmbH Austria	(1,647)	(1,500)
Zagrebačka banka d.d. Zagreb, Croatia	(9)	(77)
UniCredit Bank d.d. Mostar, BiH	(376)	(332)
Total operating expenses of business	**(2,283)**	**(2,102)**
Other operating expenses		
UniCredit Services GmbH Austria	(193)	-
Total other operating expenses	**(193)**	**-**
Net expenses	**(2,376)**	**(3,103)**

10. Related Party Disclosure (continued)

Positions included in the Statement of Financial Position

	31.12.2023 BAM '000	31.12.2022 BAM '000
Assets		
FX nostro accounts		
UniCredit S.p.A. Milan, Italy	5,221	4,352
UniCredit Bank Austria AG Vienna, Austria	2,620	2,480
UniCredit Bank AG Munich, Germany	1,085	1,695
UniCredit Bank Serbia a.d. Belgrade, Serbia	141	83
Zagrebačka banka d.d. Zagreb, Croatia	515	266
Total FX nostro accounts	**9,582**	**8,876**
Term given deposits		
UniCredit S.p.A. Milan, Italy	31,397	39,117
UniCredit Bank d.d. Mostar, BiH	-	-
Total term given deposits	**31,397**	**39,117**
Other receivables		
UniCredit S.p.A. Milan, Italy	817	595
UniCredit Bank AG Munich, Germany	28	28
UniCredit Banka Slovenija d.d. Ljubljana	392	189
UniCredit Services GmbH Austria	45	3
UniCredit Bank Serbia a.d. Belgrade, Serbia	75	75
UniCredit Bulbank, Bugarska	4	-
Total other receivables	**1361**	**890**
Total assets	**42,340**	**48,883**
Liabilities		
Demand deposits		
UniCredit Bank Austria AG Vienna, Austria	1	1
Term received deposits		
UniCredit Bank d.d. Mostar, BiH	-	39,285
Total term received deposits	**-**	**39,285**
Other liabilities		
UniCredit Bank d.d. Mostar, BiH	115	190
UniCredit S.p.A Milan, Italy	323	75
UniCredit Services GmbH Austria	2,217	356
Zagrebačka banka d.d. Zagreb, Croatia	448	350
UniCredit Bank Serbia a.d. Belgrade, Serbia	457	131
UniCredit Bank Czech Republic and Slovakia	369	298
Total other liabilities	**3,929**	**1,400**
Total liabilities	**3,930**	**40,686**
Net assets	**38,410**	**8,008**

10. Related Party Disclosure (continued)

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:

	31.12.2023 BAM '000	31.12.2022 BAM '000
Supervisory Board	85	79
Management Board		
Short-term compensation		
Gross salaries paid during the current year for the current year	1,613	1,522
Bonuses paid during the current year for the previous year gross	373	313
Long-term compensation		
Insurance policies paid during the current year gross	23	29
Payments during the current year based on previous years gross	239	191
Total Management Board	**2,248**	**2,056**
Other key management		
Short-term compensation		
Gross salaries paid during the current year for the current year	1,263	790
Bonuses paid during the current year for the previous year gross	212	139
Long-term compensation		
Insurance policies paid during the current year gross	25	15
Payments during the current year based on previous years gross	-	-
Total other key management	**1,500**	**944**

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

The Bank's management consists of 6 members. The amount within the framework of the long-term remuneration of members of the Management Board for gross payments during the current year based on previous years does not include payments to previous members of the Management Board.

Key management includes 17 members, which is 8 more than at the end of 2022 due to the change in the Group's methodology.

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

10. Related Party Disclosure (continued)

Transactions with key management personnel (continued)

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

	2023 BAM '000	2022 BAM '000
Supervisory Board		
Loans as of 31 December	-	-
Interest income for the year	-	-
Deposits as of 31 December	1	13
Interest expense for the year	-	-
Management Board		
Loans as of 31 December	17	75
Interest income for the year	*3*	*3*
Deposits as of 31 December	487	389
Interest expense for the year	*(2)*	*(3)*
Other key management		
Loans as of 31 December	439	322
Interest income for the year	*13*	*11*
Deposits as of 31 December	568	357
Interest expense for the year	*(3)*	*(1)*
Total key management		
Total loans as of 31 December	**456**	**397**
Total interest income for the year	***16***	***14***
Total deposits as of 31 December	**1,056**	**759**
Total interest expense for the year	**(5)**	**(4)**

11. Fair Value of Financial Assets and Liabilities

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

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

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

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

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

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

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

Loans that are not settled are classified by the Bank in accordance with the Group's instructions by equating their book value and fair value.
All assets and liabilities of the Bank are classified on hierarchy level 2 and hierarchy level 3.
The Bank classifies debt securities at hierarchy level 2, and fair value adjustments are made in accordance with the Group's centralized calculation.
The Bank classifies equity securities in hierarchy level 3.

The bank calculates the fair value of the bonds in its portfolio quarterly and reconciles the book value with the calculated fair value. The fair value calculation takes place in several steps:

- the first step is the calculation of local prices, respecting regulatory regulations,
- in the second step, the Group independently performs an independent price calculation (IPV - *Independent Price Verification*),
- in the third, last step, a comparison of local and IPV prices is made and, in case the IPV prices are lower than the local ones, an adjustment is made (FVA - *Fair Value Adjustment*).

IPV prices are calculated based on the model (*Mark-to-Model*). The bond valuation effect on December 31, 2022 was BAM 6.2 million, and on December 31, 2023 BAM 7.1 million. The increase in the negative effect at the end of 2023 compared to the end of the previous year is mostly the result of the calculation of internal bond prices based on the yield curve from the Banja Luka Stock Exchange, which reflects local market conditions, instead of the effective yield from the primary bond market, which was used on December 31, 2022.

The table below shows the fair value of financial assets and liabilities at amortized cost, while the fair value of assets at fair value through other comprehensive income is presented in note 5.2:

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

	31.12.2023 Fair value levels			31.12.2022 Fair value levels		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Loans and receivables with banks	-	-	222,970	-	-	105,541
Loans and receivables with clients	-	117,650	537,564	-	200,815	601,889
Total loans	**-**	**117,650**	**760,534**	**-**	**200,815**	**707,430**
Deposits and borrowings from banks	-	-	14,070	-	-	61,501
Deposits and borrowings from clients	-	-	964,574	-	-	1,038,949
Total deposits	**-**	**-**	**978,643**	**-**	**-**	**1,100,450**

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

	31.12.2023				31.12.2022			
	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	222,970	222,999	(29)	-0.01%	105,541	105,576	(36)	-0.03%
Loans and receivables with clients	655,214	677,246	(22,032)	-3.25%	802,704	828,527	(25,823)	-3.12%
Total loans	**878,184**	**900,245**	**(22,061)**	**-2.45%**	**908,244**	**934,103**	**(25,858)**	**-2.77%**
Deposits and borrowings from banks	14,070	14,263	(193)	-1.35%	61,501	61,718	(217)	-0.35%
Deposits and borrowings from clients	964,574	980,309	(15,736)	-1.61%	1,038,949	1,063,610	(24,660)	-2.32%
Total deposit	**978,643**	**994,572**	**(15,929)**	**-1.60%**	**1,100,450**	**1,125,328**	**(24,878)**	**-2.21%**

12. Pledged Property

As of December 31, 2023, 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, 2023 amount to BAM 132 thousand (December 31, 2022: BAM 170 thousand).

Apart from the above pledge, the Bank has no other pledges and mortgages on real estate and equipment as of December 31, 2023.

13. Events after the statement of financial position date

After the balance sheet date, there were no events that would require additional disclosures or possible corrections of these financial statements (corrective events) until the date of their issuance.

14. Auditing expenses

In accordance with a contract to audit the 2023 annual report, Group reporting package and regulatory reports for Banking Agency of Republic of Srpska the bank m KPMG B-H d.o.o. the amount of BAM 90,682 without VAT and expenses (2022: BAM 78,992 without VAT and expenses).

In accordance with a contract for auditing of the information system for 2023 (obligatory reporting to Banking Agency of Republic of Srpska) the bank contracted with KPMG B-H d.o.o. the amount of BAM 16,957 without VAT and expenses (2022: BAM 13,319 without VAT and expenses).

The total amount spent on auditing and other assurance services in 2023 amounted to BAM 106,739 without VAT and expenses (2022: BAM 92,311 without VAT and expenses).

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

» unicreditbank-bl.ba

Empowering
Communities to Progress.

UniCredit Bank Banja Luka