UNION BANKA D.D. SARAJEVO

Financial statements for the year ended

31 December 2023 and Independent Auditor's Report

Content

Responsibility for the financial statements

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina („Official Gazette of Federation of Bosnia and Herzegovina" No. 15/21), the Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, which give a true and fair view of the state of affairs and results of Union banka d.d. Sarajevo (the „Bank") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, and for this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards implemented; and
- The financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. Also, it must ensure that the financial statements comply with the legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Vedran Hadžiahmetović
President of the Management Board

UNION BANKA DD SARAJEVO SARAJEVO BR. 3

Edin Mujagić
Member of the Management Board for Risks

Union banka d.d.
Hamdije Kreševljakovića 19
71000 Sarajevo
Bosnia and Herzegovina

28 February 2024

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Independent auditor's report

To the Shareholders of Union Banka d.d. Sarajevo

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Union Banka d.d. Sarajevo (the Bank), which comprise the statement of financial position as at 31 December 2023, statement of comprehensive income, statement of changes in equity and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy 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 its financial performance and its cash flows for the year then ended in accordance with legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the 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 Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of the loan loss provisions

The carrying amount of loans to customers amounts to BAM 492 million (or 44% of total assets) as at 31 December 2023. As described in Note 4 Key accounting estimations - Impairment of loans and receivables, the provisions for loans are determined under application of regulatory requirements regarding credit risk prescribed by the Banking Agency of Federation of Bosnia and Herzegovina.

This is a key audit matter as significant judgement is involved to determine the provisions for loans impairment.

We understood and evaluated the processes and controls for collective provision impairment within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modeling and information systems experts in areas that required specific expertise (i.e. data reliability and the ECL model).

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Key areas of judgement included the interpretation of the requirements to determine impairment under application of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors as disclosed in Note 29. c) Risk management - Credit quality of financial assets, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment. Additionally, the Bank is obliged to observe regulatory requirements regarding credit risk prescribed by the Banking Agency of Federation of Bosnia and Herzegovina and adjust its internal calculations under expected credit losses (ECL) models to be in line with these requirements. Also, war in Ukraine had adverse effect on many industries, affecting further increase in inflation, which together with economic uncertainty, might adversely affect business performance of debtors in the current year. Uncertainty around those factors along with uncertain economic outlook resulted in more complex assessment of this effect onto ECL model.

or individually assessed loans, the possible outcomes are based on discounted cash flows and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts itself, including collateral realization.

For further information, refer to Note 29. c) Risk management - Credit quality of financial assets of the accompanying financial statements.

We assessed the modelling techniques and methodology against the requirements of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina. We also assessed the reasonableness and appropriateness of significant assumptions used in models for calculating the ECL and evaluated if the Bank is compliant with regulatory requirements regarding ECL calculation.

We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to requirements of legal accounting regulations applicable to banks in Federation of Bosnia and Herzegovina (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings), as well as impact of war in Ukraine and rising prices on those parameters.

We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

In relation to individually impaired loans, we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision. For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. In particular, we tested key inputs to the impairment calculation including the expected future cash flows and their timing and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines.

We also re-performed management's impairment calculation for mathematical accuracy and application of parameters on selected individually impaired loans.

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

We examined a sample of loan exposures from industries that could be highly affected by the war in Ukraine and inflation, obtained the latest financial data and evaluated if there are triggers for significant increase in credit risk (SICR) or default which may require client reclassification to Stage 2 or Stage 3. We engaged internal risk modelling experts to review forward looking information (FLI) and input parameters used and to assess if war in Ukraine and inflation impact was adequately reflected on probability of default (PD) used.

We assessed the adequacy of the disclosures included in Note 29. c) Risk management - Credit quality of financial assets and Note 4 Key accounting estimations - Impairment of loans and receivables of the accompanying financial statements.

Other Information included in the Bank's Annual Business Report

Other information consists of the information included in the Annual Business Report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the Law on accounting and auditing in Federation of Bosnia and Herzegovina. 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 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 Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina, 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.

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*
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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

From the matters communicated with Audit Committee, 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

DRUŠTVO ZA REVIZIJU • ERNST & YOUNG • SARAJEVO, d.o.o.

Danijela Mirković, Procurator

Tarik Alijagić, Licensed auditor

Ernst & Young d.o.o. Sarajevo
Vrbanja 1 (SCC - Sarajevo City Center)
71000 Sarajevo
Bosnia and Herzegovina

Sarajevo, 28 February 2024

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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2023

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

	Notes	2023	2022
Income from interest and similar income at the effective interest rate	5	21,322	16,016
Interest expenses and similar expenses at the effective interest rate	6	(1,404)	(2,846)
Net income from interest and similar income at the effective interest rate		**19,918**	**13,170**
Fee and commission income	7	4,099	4,312
Fee and commission expense	8	(1,871)	(1,593)
Net fee and commission income		**2,228**	**2,719**
Impairment and provisions	9	(4,437)	(2,190)
Other gains from financial assets		353	3
Net gains on foreign exchange differences		366	296
Gains from long-term non-financial assets		-	92
Dividend income		83	73
Other income	10	704	848
Employees' expenses	11	(7,157)	(6,322)
Depreciation and amortization	20, 21	(1,153)	(1,133)
Other expenses	12	(6,380)	(6,094)
PROFIT FROM REGULAR BUSINESS BEFORE TAX		**4,525**	**1,462**
Current income tax		(537)	(183)
Deferred income tax		1,362	(47)
INCOME TAX	13	825	(230)
NET PROFIT FOR THE YEAR		**5,350**	**1,232**
STATEMENT OF OTHER COMPREHENSIVE INCOME / (LOSS)			
(Decrease) / increase in the fair value of debt instruments at fair value through other comprehensive income		-	(5,775)
Other items that can be reclassified as profit or loss		71	(1,963)
Income tax that applies to these items		(7)	774
OTHER COMPREHENSIVE INCOME / (LOSS)		**64**	**(6,964)**
TOTAL COMPREHENSIVE INCOME / (LOSS)		**5,414**	**(5,732)**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of financial position
as at 31 December 2023

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

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	15	109,567	230,295
Financial assets at fair value through profit and loss	16	-	199
Financial assets at fair value through other comprehensive income	17	1,015	945
Financial assets at amortized cost	18	977,966	791,827
Prepaid income tax		-	117
Deferred tax assets	19	1,386	-
Tangible assets	20	22,789	22,594
Intangible assets	21	563	592
Other assets and receivables	22	332	210
TOTAL ASSETS		**1,113,618**	**1,046,779**
LIABILITIES			
Financial liabilities at amortized cost	23	983,633	923,500
Income tax liabilities		356	-
Deferred tax liabilities	19	386	355
Provisions	24	1,856	1,417
Other liabilities	25	2,293	1,827
TOTAL LIABILITIES		**988,524**	**927,099**
EQUITY			
Share capital	26	99,098	99,098
Reserves		19,998	18,766
Revaluation reserves		648	584
Profit		5,350	1,232
TOTAL EQUITY		**125,094**	**119,680**
TOTAL LIABILITIES AND EQUITY		**1,113,618**	**1,046,779**

The accompanying accounting policies and notes form an integral part of these financial statements.

Signed on behalf of the Bank on 28 February 2024:

UNION BANKA DD SARAJEVO BR. 3

Vedran Hadžiahmetović	Edin Mujagić	Nermin Sijerčić
President of the Management Board	Member of the Management Board for Risks	Head of Accounting and Controlling department

Statement of cash flows
for the year ended 31 December 2023
(all amounts are expressed in thousands BAM, unless otherwise stated)

	From 01.01. to 31.12. current year	From 01.01. to 31.12. previous year
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income at the effective interest rate	21,322	16,016
Outflows from interest and similar income at the effective interest rate	(1,404)	(2,846)
Inflows from fees and commissions	4,099	4,312
Outflows of fees and commissions	(1,871)	(1,593)
Inflows from collection of previously written-off receivables for given loans and interest	1,899	1,037
Outflows based on employee payments	(7,157)	(6,322)
Outflows based on the payment of operating expenses and expenses	(6,464)	(5,399)
Paid income tax	(181)	-
Other outflows from operating activities	(103)	(10)
Cash flows from operating activities before changes in operating assets and operating liabilities	**10,140**	**5,195**
Net (increase) / decrease in mandatory reserve with Central bank	(14,889)	(5,148)
Net (increase) / decrease in placements with other banks	3,885	1,808
Net (increase) / decrease in loans and receivables from clients	(72,236)	(67,430)
Net increase / (decrease) in deposits from banks and other fin. institutions	9,506	1,923
Net increase / (decrease) in deposits from clients	35,266	(15,191)
Net increase / (decrease) in other financial liabilities at amortized cost	(349)	(1,544)
Net increase / (decrease) in provisions	(439)	(213)
Net increase / (decrease) in other liabilities	(466)	(42)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(29,582)**	**(80,642)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of debt instruments at fair value through OCI	-	(133,284)
Inflows from the sales of debt instruments at fair value through OCI	-	56,998
Purchases of debt instruments at amortized cost	(149,096)	-
Inflows from the sales of debt instruments at amortized cost	44,967	-
Purchases of plant and properties	(1,825)	(1,145)
Inflows from disposal of property, plant and equipment	-	94
Purchases of intangible assets	(257)	(128)
Dividends received	83	73
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(106,128)**	**(77,392)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from the issuance of ordinary shares	-	30,000
Inflows from subordinated loans	15,000	15,000
Repayments of principal of subordinated loans	-	(30,000)
Other outflows from financial activities	(18)	(19)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**14,982**	**14,981**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(120,728)**	**(143,053)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**230,295**	**373,348**
EFFECTS OF CHANGES IN CURRENCY EXCHANGE RATES OF CASH AND CASH EQUIVALENTS	**-**	**-**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**109,567**	**230,295**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2023

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

	Share capital	Reserves	Revaluation reserves	Profit	Total
31 December 2021	**69,098**	**17,737**	**7,548**	**1,029**	**95,412**
Distribution of the profits from the previous period	-	1,029	-	(1,029)	-
Net profit for the period	-	-	-	1,232	1,232
Other comprehensive loss	-	-	(6,964)	-	(6,964)
Total comprehensive loss	-	-	*(6,964)*	*1,232*	*(5,732)*
Issue of share capital	30,000	-	-	-	30,000
31 December 2022	**99,098**	**18,766**	**584**	**1,232**	**119,680**
Distribution of the profits from the previous period	-	1,232	-	(1,232)	-
Net profit for the period	-	-	-	5,350	5,350
Other comprehensive income	-	-	64	-	64
Total comprehensive income	-	-	*64*	*5,350*	*5,414*
Issue of share capital	-	-	-	-	-
31 December 2023	**99,098**	**19,998**	**648**	**5,350**	**125,094**

The accompanying accounting policies and notes form an integral part of these financial statements.

(all amounts are expressed in thousand BAM, unless otherwise stated)

1. GENERAL INFORMATION

History and incorporation

Union banka d.d. Sarajevo (the „Bank“) was established in 1995 as branch of Jugoslovenska banka for foreign trade. By the end of 1989, the Bank was operating under Jugobanka d.d. Belgrade. In 1990, the Bank has been transformed into individual financial institution under name Jugobanka Jubbanka d.d. Sarajevo. At the end of 1992, the Bank changes its name into Union banka d.d. Sarajevo, while at the end of 1997, the Bank is registered as a legal successor of Jugobanka Jubbanka d.d. Sarajevo for territory of the Federation of Bosnia and Herzegovina (the „FBiH“ or "Federation").
In January 2018, the Bank changed its head office to the address Hamdije Kreševljakovića 19, Sarajevo, Bosnia and Herzegovina. As of 31 December 2023, the Bank was operating through 4 branches: Sarajevo, Mostar, Zenica, Tuzla, and 10 offices: Goražde, Bihać, Zavidovići, Stari Grad – Sarajevo, Novi Grad – Sarajevo, Novo Sarajevo – Sarajevo, Ilidža, Mostar, Konjic and Travnik.

Principal activities of the Bank

The Bank provides banking services through developed network of branches in Bosnia and Herzegovina and for:

- Accepting and placing deposits;
- Accepting demand and term deposits;
- Granting short and long-term loans and guarantees;
- Transactions on the interbank money market;
- Performing local and international payments;
- Debit and credit card operations;
- Providing banking services through a branch network in the FBiH.

Managing bodies of the Bank

Supervisory Board:	
Maja Letica	President
Lejla Demirović	Member as of 18 January 2024
Alija Aljović	Member as of 18 January 2024
Orhan Pašalić	Member as of 18 January 2024
Dario Đolo	Member as of 18 January 2024
Advija Alihodžić	Member until 18 January 2024
Dražena Tunjić Pavlović	Member until 18 January 2024
Aida Hadžigrahić	Member until 18 January 2024
Management Board:	
Vedran Hadžiahmetović	President of the Management Board
Edin Mujagić	Member of the Management Board for Risks
Leon Begić	Member of the Management Board for Operations
Audit Committee:	
Hajrudin Hadžović	President
Damir Šapina	Member
Marko Čule	Member
Ševala Isaković-Kaplan	Member as of 26 January 2024
Nejla Jusufović	Member as of 26 January 2024
Nermin Šahinović	Member until 24 October 2023
Lejla Demirović	Member until 24 October 2023

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of Financial Statements

The financial statements of the Bank have been prepared in accordance with legal accounting regulations applicable on banks in the Federation of Bosnia and Herzegovina ("FBiH"), which is based on the Law of Accounting and Auditing of FBiH, the Law on Banks of FBiH and bylaws FBiH Banking Agency adopted on the basis of the mentioned laws:

- Law on Accounting and Auditing of FBiH determines the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previously mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.
- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the "Decision"), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: "Financial instruments" ("IFRS 9"). The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS).
- The Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Banks and other financial institutions (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Banks and other financial institutions (Official Gazette FBiH 81/21), Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Banks and other financial institutions (Official Gazette FBiH 102/22, 99/23) and Rulebook on the content and form of the Report on changes in equity (Official Gazette FBiH 81/21). These regulations governing the presentation of financial statements take precedence over the requirements defined in this regard by IFRS published by the Association of Accountants, Auditors and Financial Workers of the Federation of Bosnia and Herzegovina (the "Association").

The Bank has, in accordance with the provisions of the Decision as of 31 December 2023, recognized higher value adjustments for credit losses in the amount of BAM 364 thousand (including value adjustments for write-offs) compared to the amount obtained by calculation resulting from the Bank's internal model, which is compliant with IFRS 9. This difference arose due to the following reasons:

- application of minimum value adjustment rates prescribed in Article 23 of the Decision for exposures in the Stage 1 - difference in the amount of BAM 363 thousand,
- application of minimum value adjustment rates prescribed in Article 24 of the Decision for exposures in the Stage 2 - difference in the amount of BAM 1 thousand,
- application of minimum value adjustment rates prescribed in Article 25 of the Decision for exposures in Stage 3 (non-performing assets) - the difference in the amount of BAM 0 thousand,
- during 2023, write-off of exposures to off-balance in the total amount of BAM 703 thousand.

(all amounts are expressed in thousand BAM, unless otherwise stated)

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis for preparation and presentation of Financial Statements (continued)

The previously described differences between the legal accounting regulations applicable to the banks in the FBiH and the requirements for recognition and measurement based on methodology used for reporting in accordance with IFRS have resulted in the following effects:

	31.12.2022 IFRS	**Effects of FBA Decision 31.12.2022**	**31.12.2022**
Assets	1,047,306	(527)	1,046,779
Liabilities	927,224	(125)	927,099
Equity	120,332	(652)	119,680

	31.12.2023 IFRS	**Effects of FBA Decision 31.12.2023**	**31.12.2023**
Assets	1,113,816	(198)	1,113,618
Liabilities	988,690	(166)	988,524
Equity	125,458	(364)	125,094

	31.12.2023
Financial result before tax for the year ended 31.12.2023 if IFRS methodology is used	5,714

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis for preparation and presentation of Financial Statements (continued)

These financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies given in the text.
In compiling these financial statements, the Bank applied the accounting policies that are explained in Note 3.

All amounts in the Financial Statement have been expressed in thousands of convertible marks. The Mark represents the official reporting currency in Bosnia and Herzegovina.

Going concern

The Financial statements are prepared in accordance with going concern assumption, which implies that the Bank will continue as a going concern for the foreseeable future.

Comparative figures

Financial statements for the year ended 31 December 2023 have been prepared in accordance with the requirements of the Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Banks and other financial institutions (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Banks and other financial institutions (Official Gazette FBiH 81/21) and Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Banks and other financial institutions (Official Gazette FBiH 102/22, 99/23), and instructions by The Banking Agency of Federation of Bosnia and Herzegovina. Therefore, Bank adjusted comparative figures for 2022 for Employees' expenses and Other expenses (a reclassification amounting to BAM 1,118 thousand from employee's expenses to other expenses), as well as for the Financial liabilities at amortized cost and Other liabilities (a reclassification amounting to BAM 1,455 thousand from financial liabilities at amortized cost to other liabilities).

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2. New and amended standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2023:

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments had no impact on the financial statements of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no impact on the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments had no impact on the financial statements of the Bank.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2. New and amended standards (continued)

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The amendments had no impact on the financial statements of the Bank.

2.3. Standards issued but not yet effective and not early adopted

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease.
A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION

a) Interest Income

Interest income / expense is recognized in the statement of profit or loss for the period that it belongs to using the method of effective interest rate. Effective interest rate is the rate that discounts estimated future cash flows (including all fees on items paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

b) Fee and commission income and expenses

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognized in the period when services are rendered.

c) Taxation

Income tax expense represents the sum of the current tax liability and deferred tax.

Current Income Tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss and other comprehensive income because it includes items of income or expense that are taxable or deductible in other years and it further includes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

Deferred Income Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

d) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include balances with the Central Bank of Bosnia and Herzegovina (the „CBBH") and current accounts with other banks.

Cash and cash equivalents exclude the obligatory minimum reserve with the CBBH as these funds are not available for the Bank's day to day operations. The obligatory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

e) Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a contractual party in a contract related to a financial instrument.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributed to the acquisition of financial assets, or the occurrence of financial liability (other than financial assets and liabilities at fair value through profit and loss) are added, or deducted from the fair value of financial assets, or financial liabilities, at initial recognition.

Financial Assets

Transaction costs directly attributable to the acquisition of the financial assets and financial liabilities at fair value through profit and loss are recognized immediately in the income statement and other comprehensive income for the period.
Financial assets are recognized or derecognized at the trade date when the sale of assets is defined by the agreed delivery date of financial asset within the deadlines determined in accordance with the conventions on the market.

The classification of financial assets depends on the nature and purpose of the financial asset and is determined at the moment of initial recognition.

Measurement of the financial assets and liabilities

The Bank classifies all financial assets based on a business model for asset management and contractual terms of assets, measured by:

1. Valuation by the amortized cost method („AC"),
2. Valuation at fair through profit and loss („FVPL"), and
3. Valuation at fair value through other comprehensive income („FVOCI").

The methodology for classification and measurement of exposure is an internal act of the bank that defines the classification and valuation of assets.
The classification of financial instruments into certain category of accounting measurement depends on the business model in which an instrument is acquired, the characteristics of contractual cash flows, and the options of fair valuation provided by IFRS 9.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial instruments (continued)

Effective interest rate method

Effective interest rate method is the method of calculating the amortized cost of financial assets and the allocation of interest income over a specific period. The effective interest rate is the interest rate that discounts future cash flows (including all fees that form an integral part of effective interest rate, transaction cost and other premiums and rebates) through the expected lifetime of the financial asset, or where possible, a shorter period.

Financial instruments recognize income based on the effective interest rate.

Loans and receivables

Loans, deposits and other receivables with fixed or determinable payments that are not quoted in an active market, have been classified as "loans and receivables". They occur when the Bank gives money to the debtor without the intention of simultaneous sale of these receivables or sales in the near future.

The Bank measures loans, placed deposits and other receivables at amortized cost if the following conditions are met:

- A financial asset is held within a business model with the aim of holding it for collection of contractual cash flows

- The contractual terms of the financial asset give cash flows at specific points of time that are exclusively result of the principal and interest payments (SPPI) of the outstanding principal amount.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial Instruments (continued)

Business model assessment

The business model is determined at the level that reflects the way in which a group of financial assets is managed to achieve a particular business goal, such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model relates to the way in which financial assets are managed to generate cash flows. In other words, the business model determines whether cash flows will arise from the collection of contractual cash flows, sales of financial assets or both. Therefore, this assessment is not carried out based on scenarios that cannot reasonably be expected, such as the "worst-case scenario" or "stress case" scenario.

If the cash flows after initial recognition are realized differently than the Bank's original expectations, the Bank does not change the classification of the remaining financial assets in the business model, but takes into account this information when assessing newly created or newly purchased financial assets.

The steps in the classification of financial instruments are:

1. Determination whether it is a modification of financial instruments,
2. Determination of the nature of balance sheet item being acquired,
3. Determination of the type of individual financial instrument being acquired,
4. Determination of an instrument that contains significant credit risk at the moment of acquisition,
5. Determination of the business model for which a financial instrument is acquired („BM“),
6. Determination of contracted cash flows characteristics for a particular financial instrument that is being acquired („SPPI“),
7. Procedure for the reclassification of financial instruments.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial Instruments (continued)

SPPI test (solely payments of principal and interest on the principal amount outstanding)

The second step in the classification process is that the bank assesses funding contractual terms for identification whether they meet the SPPI test. The determination of the contracted cash flows characteristics for each financial instrument that is being acquired is carried out only for debt instruments, those that have not received the status of POCI assets.
This determination is carried out for the purpose of assessing whether the contracted terms for a particular item of financial assets represent cash flows which are only payments of principal and interest on the outstanding amount of principal on specified dates.

Contractual terms that introduce a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic loan agreement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank assesses the contractual terms according to the basic portfolio segments (long-term corporate loans, short-term corporate loans, retail loans, credit cards, current account overdrafts, debt securities and other financial assets).

All debt financial instruments meet the characteristics of the test. On the date of the assessment, as well as on the date of the report, the Bank does not have assets that fulfill the status of the POCI.

Financial assets measured at fair value through profit or loss

Financial assets are classified in this way if they are:

- purchased with the aim of selling in the near future; or
- a part of the identified portfolio of financial instruments that the Bank holds together, and which acts according to the short-term earnings pattern; or
- a derivative instrument that is not characterized as an effective hedging instrument.

Financial assets can be recognized as financial assets at fair value although not "intended for trading" if:

- Such a classification eliminates or significantly reduces the inconsistency of measurement and recognition that would otherwise arise; or
- the financial assets are part of a group of financial assets or liabilities whose performance is measured based on fair value, in accordance with documented risk management of the Bank or its investment strategy, and information on the internal grouping of assets on that basis; or
- is a part of a contract that contains one or more embedded derivatives.

Financial assets recognized as financial assets at fair value through profit or loss are presented at fair value with the gains and losses presented in the income statement.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial Instruments (continued)

Financial assets at amortized cost

Bond and treasury bills with fixed or determinable payments and fixed maturity, for which the Bank has intention and ability to hold them to maturity, are classified at amortized cost. They are recorded at their fair value using the effective interest rate method, reduced for impairment, with income recognized on the basis of effective income.

Financial assets measured at fair value through other comprehensive income

Certain stocks, government bonds and treasury bills are valued at fair value and recognized through other comprehensive income. Gains and losses arising from changes in fair value are recognized directly as equity, in other words the revalorization reserves with the exception of impairment losses, interest calculated using the effective interest rate method, and gains and losses on exchange differences on monetary assets, which are recognized directly as profit or loss. In the case of a write-off of the asset or when the asset has suffered impairment, the cumulative gain or loss previously recognized as a revalorization reserve is included in the income statement and other comprehensive income for the period.
Dividends on equity instruments classified as "fair value through other comprehensive income" are recognized as profit or loss when the Bank establishes the right to receive a dividend.

Impairment of financial assets

Financial assets, other than financial entities that are stated at fair value through the profit or loss, are valued with the aim to identify the impairment indicators at each reporting date. Financial assets had impairment where it is proven that because of one or more events that occurred after the initial recognition of financial assets, estimated future cash flows of the investment are changed.
Objective evidence of impairment may include:

- significant financial difficulties of the parties under the contract; or
- delay of failure to pay interest or principal; or
- when it becomes probable that the borrower will go bankrupt or through a financial reorganization.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets for which no impairment is recognized is included in basis for impairment assessment on a group basis. For group impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of that financial asset.

The carrying amount of financial assets at amortized cost is reduced by using the value adjustment account. When the receivables are uncollectible, it is written off through the value adjustment account. Subsequent collection of previously written off amounts are credited to value adjustment account. Changes in the carrying amount of the value adjustment account are recognized in the profit or loss and other comprehensive income.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial Instruments (continued)

With the exception of equity instruments measured at fair value through other comprehensive income, if, in the subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurred after the impairment recognition, the previously recognized impairment loss is corrected through the Income statement and other comprehensive income to the extent that it will not result in a carrying amount greater than the amortized cost would be if it was not recognized as impairment at the date when the impairment was recognized.

Termination of recognition of financial assets

The Bank ceases to recognize financial assets only when the contractual rights to cash flows from financial assets expire; or when transferring financial assets, and therefore all risks and rewards of ownership of the asset are transferred to another entity. If the Bank does not transfer and substantially retains all risks and returns from ownership, and keeps control over financial assets, the Bank continues to recognize financial assets.
In accordance with the Decision on credit risk management and determination of expected credit losses, the Bank as of 1.1.2020 and during the year performed an accounting write-off for all exposures for which, in accordance with the Decision, if the conditions of 100% coverage of value adjustments in the period of the last two years were met.

f) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that confirms a right to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of issue costs.

Liabilities for contracted Financial guarantee

Liabilities for contracted financial guarantees are measured initially at their fair value and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets'; or
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified either as „financial liabilities at through profit or loss" or other financial liabilities". The Bank has no financial liabilities at fair value through profit or loss.

(all amounts are expressed in thousand BAM, unless otherwise stated)

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

f) Financial liabilities and equity instruments issued by the Bank (continued)

Other financial liabilities

Other financial liabilities, including due to banks, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and interest expense over the relevant period. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

g) Tangible assets

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. The cost of ongoing maintenance and repairs, replacements and investment maintenance are recorded as a cost when incurred.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation is charged from the moment the tangible asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method.

Estimated depreciation and amortization rates were as follows:

	2023	**2022**
Buildings	1.3%	1.3%
Computer equipment	20%	20%
Vehicles and equipment	10%-15%	10%-15%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the statement of profit or loss and other comprehensive income in the period in which they occur.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

g) Tangible assets (continued)

Impairment

At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the net selling price or value in use, depending on which one is higher. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment losses, in this case, are treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revalorization increase.

h) Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

Buildings	1.3%

i) Intangible assets

Intangible assets are measured initially at cost and are amortized on a straight-line basis over their estimated useful life.

j) Employee benefits

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set of legal rates during the course of the year on the gross salary. The Bank pays those taxes and contributions in the favor of the institutions of the FBiH (on federal and canton levels).

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

j) Employee benefits (continued)

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the statement of profit or loss and other comprehensive income in the period in which the salary expense is incurred.

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 6 average net salaries of the employee or 6 average salaries of the FBiH in accordance with the most recent published report by the Federal Statistics Bureau, depending on what is more favorable to the employee. The cost of retirement severance payments are recognized when earned.

k) Foreign currency translation

Transactions in currencies other than BAM are initially recorded at exchange rate on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rates on the reporting period date. Non-monetary items carried at fair value that and denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated at the reporting period date. Gains and losses arising on translation are included in the statement of profit or loss and other comprehensive income for the period.

The Bank values its assets and liabilities by middle rate of the CBBH valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2023	1 EUR = 1.95583 BAM	1 USD = 1.769982 BAM
31 December 2022	1 EUR = 1.95583 BAM	1 USD = 1.833705 BAM

l) Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, if it is probable that the outflow of resources will be required to settle the obligation. The management board of the Banka determined the amount of provisions based on reliable estimate of expenses that will occur by settling the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reserved.

lj) Equity and reserves

Share capital

Share capital represents the nominal value of paid-in-ordinary and preference shares and is denominated in BAM.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

lj) Equity and reserves (continued)

Investments revaluation reserve

Investments revaluation reserve comprises changes in fair values of financial assets available-for-sale.

Retained earnings

Profit for the year after appropriations to owners are transferred to retained earnings.

Dividends

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

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss of the current period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

m) Leases

IFRS 16 defines a lease as a contract under which the lessor transfers to the lessee the right of use an asset (leased object) for an agreed period for a fee. For a contract to be considered a lease, it is necessary for the lessee to have the right to control the use the leased property, so that the lessor does not have the opportunity to determine the manner and purpose of using the property and that it is tangible property. This standard provides guidance to facilitate the identification of leases that differentiates them from service contracts.

The following are excluded from IFRS 16:

- Short-term leases (up to 12 months)

- Low value leases (small value leases are identified based on the value of the lease item itself - up to KM 10,000.00, not the rental cost).

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

m) Leases (continued)

From January 1, 2019 lessees are required to record the assets they lease as assets and liabilities in their books of account, with subsequent recognition of depreciation expense (cost model) and interest expense. On the first day of the lease, the lessee measures the lease liability at the present value of all future payments during the lease term. Payment is discounted by applying an incremental interest rate. The incremental rate is the rate of interest that the lessee would have to pay to borrow, within a similar timeframe and with similar guarantees, the funds necessary to purchase assets of the same value as assets with a right of use in the same economic environment.

Discounting determines the present value of all future lease payments (cash flows):

$$PV = \frac{FV}{(1 + i)n}$$

Where:

PV – present value

FV – future value

i – incremental interest rate

n – period of lease

On 1 January 2019, the Bank made a transition to IFRS 16 in accordance with a modified retrospective approach.

The Bank has elected to use exemptions, proposed by the standard, for lease contracts for which the lease is terminated in 12 months from the date of initial application, as well as to lease contracts for which asset in question can be considered as a low value asset. The Bank has a contract to lease certain office equipment (personal computers, printers and photocopy machines) which are considered to be low value assets.

As a result of the Amendment to IFRS 16 on 1 January 2019, the following leasing contracts previously recognized as operating leases are now being qualified as a lease defined by a new standard: real estate, technical equipment, and vehicles.

4. KEY ACCOUNTING ESTIMATIONS

In the application of the Bank's accounting policies, explained in Note 3, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources.

The estimates and associated assumptions are based on previous experience and other factors considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised if they refer only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment, and investment property

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment, and investment property at the end of each annual reporting period.

Impairment of loans and receivables

As described in Note 3 above, at each reporting period date, the Bank assessed indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis.

The Methodology for measuring the impairment of loans and other financial assets, in accordance with the requirements of IFRS 9: “Financial instruments” (“IFRS 9”), is applied in the preparation of financial statements as of 1 January 2018. The Banking Agency of Federation of Bosnia and Herzegovina (“FBA”) adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (“Decision”), which applies from 1 January 2020 and which resulted in certain differences resulting from the calculation of the correct values for credit losses due to the application of minimum rates prescribed by the Decision that are not required by IFRS 9. The Bank updated its methodology with regulations of the Decision, as of 1 January 2020, and impairment losses on loans and receivables are determined under application of regulatory requirements.

In general, impairment losses are recognized in relation to the carrying amounts of corporate and retail loans, and as provisions for liabilities and costs arising from off-balance sheet exposure to clients, mainly in terms of unused frame loans and guarantees.

4. KEY ACCOUNTING ESTIMATIONS (continued)

Impairment of loans and receivables (continued)

Impairment allowances are also considered for credit exposure to banks and other assets that are not measured at fair value through profit or loss, where the primary risk of impairment is not credit risk.
The Bank first assesses whether there is objective evidence of impairment individually for assets that are individually significant, and collectively for assets that are not individually significant.

In assessing collective impairment, the following guidelines are used:

- Future cash flows of a homogenous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- Information on historical losses rates and applied consistently to defined homogenous segments/groups;
- Historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- The methodology and assumptions used to estimate future cash flows are regularly revised and updated as necessary.

Impairment allowance in nondefault corporate loans portfolio is calculated on collective basis, and the segment of this loan portfolio with status default implies calculation of the impairment allowance on an individual basis.
Retail loans implies collective assessment of impairment allowance, with the exception of the significant threshold exposures defined by the Methodology that fulfill the default status.

Corporate loan portfolio was segmented in groups of short-term and long-term loans, and accordingly the calculation of PD parameter for each of the stated categories has been performed. As at 31 December 2021, segmentation of corporate loan portfolio was updated to following groups: SME (small and medium enterprises) and large companies.

Retail portfolio is segmented in following groups; retail loans, credit cards, and current accounts overdrafts.

Fair values of financial instruments

As described in Note 31, the Management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market participants are applied.

Financial instruments, other than financial assets at amortized costs, are valued using the discounted cash flow analysis which is based on assumptions, where possible, with observable market prices and rates. Considering the fact that there is no active secondary market for the securities portfolio, the Bank decided to use the discounted cash flow method. The discount is based on the weighted average interest rate on active securities with similar characteristic (maturity, issuer).

(all amounts are expressed in thousand BAM, unless otherwise stated)

5. INCOME FROM INTEREST AND SIMILAR INCOME AT THE EFFECTIVE INTEREST RATE

	2023	2022
Interest on retail loans	8,169	6,791
Interest on corporate loans	6,474	5,669
Interest on financial assets at amortized cost	5,678	-
Interest on placements with other banks	1,001	48
Interest on financial assets through other comprehensive income	-	3,508
	21,322	**16,016**

6. INTEREST EXPENSES AND SIMILAR EXPENSES AT THE EFFECTIVE INTEREST RATE

	2023	2022
Interest on corporate deposits	701	482
Interest on retail deposits	660	741
Interest on borrowings	26	33
Interest expense on lease liabilities	16	12
Negative interest on placements with other banks	1	110
Interest on assets exceeding the obligatory reserve with CBBH	-	1,379
Interest on assets of obligatory reserve with CBBH	-	85
Negative interest on securities	-	4
	1,404	**2,846**

7. FEE AND COMMISSION INCOME

	2023	2022
Payment transactions fees	3,114	3,415
Fees from off-balance sheet transactions	639	499
Other fee and commission income	207	235
Fees from conversion transactions	139	163
	4,099	**4,312**

8. FEE AND COMMISSION EXPENSE

	2023	2022
E-banking and SWIFT	1,500	1,205
Domestic payment transactions	371	367
Guarantees	-	21
	1,871	**1,593**

(all amounts are expressed in thousand BAM, unless otherwise stated)

9. IMPAIRMENT AND PROVISIONS

	2023	2022
Net credit losses/(net releases of previously recognised credit losses) from financial assets at amortised cost	3,974	2,122
Provisions/(net releases of previously recognised provisions) for the credit risk of assumed liabilities and guarantees given	3	(130)
Net credit losses/(net releases of previously recognised credit losses) from financial assets at fair value through other comprehensive income	-	65
Provisions/(net releases of previously recognised provisions) for litigation	-	27
Other provisions/(net releases of previously recognised provisions)	460	106
	4,437	**2,190**

10. OTHER OPERATING INCOME

	2023	2022
Rent income	341	337
Income from assets received for unpaid loans	-	225
Other	363	286
	704	**848**

11. EMPLOYEES' EXPENSES

	2023	2022
Net salaries	7,008	6,210
Taxes and contributions	149	112
	7,157	**6,322**

The average number of personnel employed as of 31 December 2023 was 198, while as of 31 December 2022 was 199.

Employees' expenses include BAM 1,464 thousand (2022: BAM 1,295 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

(all amounts are expressed in thousand BAM, unless otherwise stated)

12. OTHER EXPENSES

	2023	2022
Services	1,523	1,592
Other employee expenses	1,400	1,151
Maintenance	1,023	923
Insurance	780	756
Other expenses	412	427
Advertising and entertainment	368	396
Energy	289	298
Telecommunications	284	279
Material expenses	157	145
Other taxes and contributions	144	127
	6,380	**6,094**

13. INCOME TAX

Income tax components can be shown as following:

	2023	2022
Current income tax	537	183
Deferred income tax	(1,362)	47
Total income tax	**(825)**	**230**

	2023	2022
Profit before income tax	**4,525**	**1,462**
Income tax expense at 10%	452	146
Adjustments for:		
Capital gains	-	-
Non-taxable income	(1,475)	(78)
Non-taxable expenses	659	299
Tax relief	(485)	(184)
Effects of lower accounting depreciation rate and higher depreciation rate for tax purposes	24	47
Current and deferred income tax expense	**(825)**	**230**
Effective income tax rate	**(18%)**	**16%**

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares during the year.

	2023	2022
Profit attributable to shareholders (BAM '000)	5,350	1,232
Weighted average number of ordinary shares for the year	4,954,921	4,954,921
Basic earnings per share (BAM)	**1.08**	**0.25**

Diluted earnings per share are not calculated since the Bank has not issued dilutive equity instruments.

15. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Account with the CBBH	82,830	189,203
Correspondent accounts with other banks	9,132	21,930
Cash at the Bank's treasury	9,934	17,556
Cash at ATMs	1,904	1,821
Term deposits up to 1 month	5,867	-
	109,667	**230,510**
Less: Impairment allowance	(100)	(215)
	109,567	**230,295**

Changes in impairment allowance can be presented as follows:

	2023	2022
Balance at the beginning of the year	**215**	**386**
Net increase / (decrease) in impairment allowance (Note 9)	(115)	(171)
Balance at the end of the year	**100**	**215**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2023	31 December 2022
ALTA bank d.d. Beograd, Srbija	-	199
	-	**199**

The majority shareholder, ALTA PAY GROUP d.o.o. Beograd, in accordance with Article 515 of the Company Law, has carried out a compulsory buyout of the shares of all remaining shareholders during 2023, as it holds more than 90% of the total issued shares of the issuer.

(all amounts are expressed in thousand BAM, unless otherwise stated)

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
Equity securities:		
Bosna reosiguranje d.d. Sarajevo	958	427
Sarajevo-Osiguranje d.d. Sarajevo	27	33
S.W.I.F.T. Belgium	30	23
	1,015	**483**

The changes in value of this assets were as follows:

	2023	2022
Balance at the beginning of the year	**945**	**198,698**
Purchases during the year	-	133,284
Interest (Note 5)	-	3,508
Unrealized gain from fair value adjustment (through OCI)	70	(681)
Principal and interest collection	-	(56,962)
Balance prior to booking to financial assets at amortized cost at year-end	**1,015**	**277,847**
Reposting to financial assets at amortized cost	-	(271,809)
Release of unrealized profit from fair value adjustment	-	(5,093)
	1,015	**945**

Impairment changes can be displayed as follows:

	2023	2022
Balance at the beginning of the year	**9**	**1,972**
Increase/(decrease) of impairment	1	680
Reposting to impairment by amortized cost	-	(2,643)
Balance at the end of the year	**10**	**9**

(all amounts are expressed in thousand BAM, unless otherwise stated)

18. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2023	31 December 2022
Obligatory reserve with the Central bank of Bosnia and Herzegovina	106,518	91,629
Deposits with other banks	5,933	9,818
Loans and receivables from customers	492,206	419,970
Other financial assets at amortized cost	373,309	270,410
	977,966	**791,827**

18.1. OBLIGATORY RESERVE WITH THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2023	31 December 2022
Obligatory reserve with the CBBH	106,625	91,721
Less: Impairment allowance	(107)	(92)
	106,518	**91,629**

Changes in impairment allowance can be presented as follows:

	2023	2022
Balance at the beginning of the year	**92**	**97**
Net increase / (decrease) in impairment allowance (Note 9)	15	(5)
Balance at the end of the year	**107**	**92**

Minimum obligatory reserve is calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserves were 10% of total deposits and borrowing.

The Governing Board of the Central Bank of Bosnia and Herzegovina, at the meeting held on 1 July 2023, adopted a Decision amending the Decision on determining and maintaining the obligatory reserve and determining the fee on the reserve amount. By basis of this decision, fee is calculate and paid out on the funds of obligatory reserve based in the domestic currency, KM – at a rate of 25 basis points, on obligatory reserve funds based on foreign currency or domestic currency with a currency clause - fee is calculated and paid out at a rate of 10 basis points. For funds above obligatory reserve, fee is not calculated. The decision was made with the aim of alignment with the reference interest rate of the European Central Bank (ECB), with its application effective from 1 January 2023. With a further amendment to the decision mentioned above, on 31 May 2023, the amount of fee for obligatory reserve funds was increased to 50 and 30 basis points respectively, and this amendment was implemented from 1 July 2023. On the funds above obligatory reserve, no fee is calculated.

(all amounts are expressed in thousand BAM, unless otherwise stated)

18.2 DUE FROM BANKS

	31 December 2023	31 December 2022
Due from banks	5,939	9,828
Less: Impairment allowance	(6)	(10)
	5,933	**9,818**

Changes in impairment allowance can be presented as follows:

	2023	2022
Balance at the beginning of the year	**10**	**8**
Net increase in impairment allowance (Note 9)	(4)	2
Balance at the end of the year	**6**	**10**

18.3 LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2023	31 December 2022
Long-term loans		
Corporate	159,972	144,057
Retail	247,425	209,912
Less: Current portion of long-term loans	(78,875)	(68,018)
	328,522	*285,951*
Short-term loans		
Corporate	97,145	74,040
Retail	1,598	1,837
Add: Current portion of long-term loans	78,875	68,018
	177,618	*143,895*
Total loans before allowance for impairment losses	**506,140**	**429,846**
Less: Impairment allowance based on individual assessment	(3,508)	(5,656)
Less: Impairment allowance based on group assessment	(10,426)	(4,220)
	492,206	**419,970**

The movements in the allowance for impairment losses are summarized as follows:

	2023	2022
Balance at the beginning of the year	**9,876**	**9,660**
Write-offs during the year	(701)	(2,588)
Change in impairment allowance, net (Note 9)	4,759	2,804
Balance at the end of the year	**13,934**	**9,876**

(all amounts are expressed in thousand BAM, unless otherwise stated)

18.3. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

An industry analysis of the gross loan portfolio before allowance for impairment losses was as follows:

	31 December 2023	31 December 2022
Retail	249,084	211,809
Mining and industry	98,487	79,317
Trade	70,406	62,775
Construction	26,319	32,989
Administration and other public services	21,139	20,088
Financial services	16,681	5,831
Transportation and communications	12,486	8,292
Real estate	6,290	3,020
Agriculture	2,319	2,029
Restaurants and tourism	1,578	1,701
Energy	825	1,342
Other	526	653
	506,140	**429,846**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2023 and 31 December 2022.

Weighted average interest rate can be presented as follows:

	2023	2022
Corporate	2.39%	2.42%
Retail	3.57%	3.55%

(all amounts are expressed in thousand BAM, unless otherwise stated)

18.4. OTHER FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2023	31 December 2022
Debt securities	376,380	271,809
Fees receivables	197	93
Other receivables	225	1,180
Guarantee	82	-
Impairment allowance	(3,575)	(2,672)
	373,309	**270,410**

	31 December 2023	31 December 2022
Debt securities:		
Federal Ministry of Finance of Bosnia and Herzegovina	374,012	270,884
JP Autoceste FBiH	1,001	-
Accrued interest	1,367	925
	376,380	**271,809**

Movement is as follows:

	2023.	2022.
Begining balance	**271,809**	**-**
Purchases	146,020	-
Interest (Note 5)	5,678	-
Principal and interest collection	(47,127)	-
Transfer to financial assets at amortized cost	-	271,809
Ending balance	**376,380**	**271,809**

During 2023, the Bank purchased the following securities issued by the Federal Ministry of Finance:

- treasury bills with a nominal value of BAM 8,000 thousand. The interest rate on treasury bills ranges from 0.90% to 1.30% per annum, with a maturity date of 25 October 2023;
- bonds with a nominal value of BAM 17,494 thousand. The interest rate on bonds ranges from 2.90% to 4.69% per annum, with a maturity date of 24 May 2033;
- treasury bills with a nominal value of BAM 20,000 thousand. The interest rate on treasury bills ranges from 0.88% to 1.29% per annum, with a maturity date of 12 June 2024;
- bonds with a nominal value of BAM 10,000 thousand. The interest rate on bonds ranges from 2.94% to 3.19% per annum, with a maturity date of 21 June 2028;
- bonds with a nominal value of BAM 16,000 thousand. The interest rate on bonds ranges from 2.99% to 3.34% per annum, with a maturity date of 27 September 2030;
- bonds with a nominal value of BAM 23,980 thousand. The interest rate on bonds ranges from 2.99% to 4.25% per annum, with a maturity date of 4 October 2029;
- bonds with a nominal value of BAM 6,990 thousand. The interest rate on bonds ranges from 4.25% to 4.95% per annum, with a maturity date of 18 October 2028.

(all amounts are expressed in thousand BAM, unless otherwise stated)

18.4. OTHER FINANCIAL ASSETS AT AMORTIZED COST (continued)

• treasury bills with a nominal value of BAM 23,000 thousand. The interest rate on treasury bills ranges from 2.49% to 3.55%, with a maturity date of 15 May 2024;

• bonds with a nominal value of BAM 1,936 thousand. The yearly interest rate on bonds is from 3,40% to 4.25%, with a maturity date of 29 November 2025;

• treasury bills with a nominal value of BAM 19,110 thousand. The interest rate on treasury bills ranges from 3.40% to 4.20%, with a maturity date of 11 September 2024.

19. DEFERRED TAXES ASSETS / LIABILITIES

The movements in deferred tax assets / liabilities are presented in the table below:

	Deffered tax asset	Deferred tax liabilities
Balance as of 1 January 2022	**-**	**1,082**
Recognition through other comprehensive income	-	-
Decrease of deferred tax liability for securities	-	(774)
Recognition through the profit and loss	-	-
Increase in deferred tax liability for tangible assets	-	47
Balance as of 31 December 2022	**-**	**355**
Balance as of 1 January 2023	**-**	**355**
Recognition through other comprehensive income	-	-
Increase in deferred tax liability for securities	-	7
Recognition through the profit and loss		
Increase in deferred tax assets for loan loss provisions	1,386	-
Increase in deferred tax liability for tangible assets	-	24
Balance as of 31 December 2023	**1,386**	**386**

Deferred tax assets consist of temporary differences attributable to credit losses, as shown in the table above. According to the Corporate Income Tax Law of the Federation of Bosnia and Herzegovina, expected credit losses (ECL) for Stages 1 and 2 represent an unrecognized tax expense and increase the tax base. However, when the ECL decreases, income from the ECL change is recorded, which is excluded from the tax base, representing a temporary tax difference.

(all amounts are expressed in thousand BAM, unless otherwise stated)

20. TANGIBLE ASSETS

	Land and buildings	Furniture and equipment	Vehicles	Computer equipment	Leasehold improvements	Investment in progress	Right-of-use assets (IFRS 16)	Investment property	Total
COST									
At 31 December 2021	**19,983**	**2,742**	**684**	**1,519**	**342**	**473**	**761**	**5,156**	**31,660**
Additions	-	-	-	-	-	1,032	218	-	1,250
Transfer (from)/to	-	332	425	87	77	(921)	-	-	-
Write-offs/sale	-	(191)	(237)	(53)	-	-	(177)	-	(658)
At 31 December 2022	**19,983**	**2,883**	**872**	**1,553**	**419**	**584**	**802**	**5,156**	**32,252**
Additions	-	-	-	-	-	752	508	-	1,260
Transfer (from)/to	32	390	-	141	104	(667)	-	-	-
Write-offs / sale	-	(98)	-	(75)	-	-	(411)	-	(584)
At 31 December 2023	**20,015**	**3,175**	**872**	**1,619**	**523**	**669**	**899**	**5,156**	**32,928**
ACCUMULATED DEPRECIATION									
At 31 December 2021	**4,815**	**1,809**	**442**	**1,103**	**86**	**-**	**360**	**676**	**9,291**
Depreciation	226	278	81	166	18	-	189	67	1,025
Write-offs	-	(191)	(237)	(53)	-	-	(177)	-	(658)
At 31 December 2022	**5,041**	**1,896**	**286**	**1,216**	**104**	**-**	**372**	**743**	**9,658**
Depreciation	231	268	112	137	22	-	210	67	1,047
Write-offs / sale	-	(80)	-	(75)	-	-	(411)	-	(566)
At 31 December 2023	**5,272**	**2,084**	**398**	**1,278**	**126**	**-**	**171**	**810**	**10,139**
NET BOOK VALUE									
At 31 December 2023	**14,743**	**1,091**	**478**	**340**	**397**	**666**	**728**	**4,346**	**22,789**
At 31 December 2022	**14,942**	**987**	**590**	**336**	**315**	**581**	**430**	**4,413**	**22,594**

(all amounts are expressed in thousand BAM, unless otherwise stated)

21. INTANGIBLE ASSETS

	Software and licenses
COST	
At 31 December 2021	**1,112**
Additions	-
Activation	112
Write offs / sale	(8)
At 31 December 2022	**1,216**
Additions	-
Activation	77
Write offs / sale	-
At 31 December 2023	**1,293**
ACCUMULATED DEPRECIATION	
At 31 December 2021	**523**
Depreciation	108
Write offs	(7)
At 31 December 2022	**624**
Depreciation	106
Write offs	-
At 31 December 2023	**730**
NET BOOK VALUE	
At 31 December 2023	**563**
At 31 December 2022	**592**

(all amounts are expressed in thousand BAM, unless otherwise stated)

22. OTHER ASSETS AND RECEIVABLES

	31 December 2023	31 December 2022
Prepaid expenses	318	215
Inventories	14	20
Deferred income	-	(25)
	332	**210**

23. FINANCIAL LIABILITIES AT AMORTIZED COST

	31 December 2023	31 December 2022
Due to banks and other financial institutions	13,447	3,941
Due to customers	937,491	902,225
Borrowings – subordinated debt	30,015	15,001
Lease liabilities	729	430
Other financial liabilities at amortized cost	1,951	1,903
	983,633	**923,500**

23.1. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
Demand deposits		
In domestic currency	8,276	3,836
In foreign currencies	5,171	105
	13,447	**3,941**

(all amounts are expressed in thousand BAM, unless otherwise stated)

23.2. DUE TO CUSTOMERS

	31 December 2023	31 December 2022
Demand deposits:		
Corporate:		
In domestic currency	349,506	452,867
In foreign currencies	9,874	9,299
	359,380	462,166
Retail:		
In domestic currency	65,183	56,340
In foreign currencies	18,972	17,106
	84,155	73,446
Special purpose deposits:		
In domestic currency	347,978	202,871
In foreign currencies	378	249
	348,356	203,120
	791,891	***738,732***
Term deposits:		
Corporate:		
In domestic currency	57,046	83,376
In foreign currencies	26,893	24,633
	83,939	108,009
Retail:		
In domestic currency	23,596	21,262
In foreign currencies	26,812	27,281
	50,408	48,543
Special purpose deposits:		
In domestic currency	10,451	6,835
In foreign currencies	802	106
	11,253	6,941
	145,600	***163,493***
	937,491	**902,225**

Interest rates on demand deposits of banks during 2023 were from 0.00% till 0.01%, and interest rates on term deposits were from 0.20% till 2.25%.

23.3 BORROWINGS - SUBORDINATED DEBT

Between the Government of FBiH, represented by the Ministry of Finance of FBiH, and the Bank on 12 May 2022, the Loan Agreement was signed on subordinated terms in the amount of BAM 15 million, and on 31 May 2023 the Loan Agreement was signed on subordinated terms in the amount of BAM 15 million. As of 31 December 2023, subordinated debt amount to BAM 30 million and compared to the end of the previous year, they are increased by BAM 15 million. The approved funds are intended for the formation of a credit line for long-term housing loans. The maturity of the loan under this Agreement is 20 years from the date of payment of the full amount of funds. The loan repayments are bullet. The interest rate is fixed at 0.10% per annum.

(all amounts are expressed in thousand BAM, unless otherwise stated)

23.3. LEASE LIABILITIES

	31 December 2023	31 December 2022
Lease liabilities	729	430
	729	**430**

23.4. OTHER FINANCIAL LIABILITIES AT AMORIZED COST

	31 December 2023	31 December 2022
Other liabilities	870	869
Liabilities to suppliers	463	139
Accrued expenses	332	268
Liabilities for unallocated proceeds	285	627
Liabilities towrad employees	1	-
	1,951	**1,903**

24. PROVISIONS

	31 December 2023	31 December 2022
Provision for employees	1,124	657
Provisions for commitments and contingencies	352	380
Provisions for ligitation	380	380
	1,856	**1,417**

	Employee benefits	Provisions for commitments and contingencies	Ligitation	Total
Balance as of 31 December 2021	**562**	**538**	**530**	**1,630**
Additional provisions (Note 9)	211	1,559	27	1,797
Releases due to payments (Note 9)	(116)	(1,717)	(177)	(2,010)
Balance as of 31 December 2022	**657**	**380**	**380**	**1,417**
Additional provisions (Note 9)	619	662	-	1,281
Releases due to payments (Note 9)	(152)	(690)	-	(842)
Balance as of 31 December 2023	**1,124**	**352**	**380**	**1,856**

24. PROVISIONS (Continued)

Potential and assumed liabilities

In its operations, the Bank assumes loan liabilities that are recorded in off-balance sheet accounts, which relate to guarantees, letters of credit, and the unused part of approved loans.

	31 December 2023	31 December 2022
Potential liabilities		
Framework loan agreements and approved card limits	22,667	29,228
Commitments		
Performance guarantees	21,135	19,076
Payment guarantees	16,993	14,729
	60,795	**63,033**

25. OTHER LIABILITIES

	31 December 2023	31 December 2022
Liabilities for paid installments	2,116	1,723
Deferred income	151	80
Other taxes and contributions	14	11
Managed funds (Note 28)	12	13
	2,293	**1,827**

26. SHARE CAPITAL

	31 December 2023			31 December 2022		
Shareholders	**Number of shares**	**Amount '000 BAM**	**%**	**Number of shares**	**Amount '000 BAM**	**%**
Ministry of finance of the FBiH	4,808,948	96,179	97.05	4,808,948	96,179	97.05
ZIF BIG INVESTICIONA GRUPA d.d. Sarajevo	36,864	737	0.75	36,864	737	0.75
Kolić Kadrija	11,324	226	0.23	11,324	226	0.23
BOSNA RE d.d. SARAJEVO	10,529	211	0.21	10,529	211	0.21
Other shareholders	87,256	1,738	1.76	87,256	1,738	1.76
Total	**4,954,921**	**99,098**	**100**	**4,954,921**	**99,098**	**100**

The Bank's share capital consists of 4,954,921 ordinary shares with a nominal value of 20 BAM. During 2022, the Bank completed the process of recapitalization through closed issuance of shares by converting the subordinated debt of the Ministry of Finance of the FBiH into share capital in the total amount of 30 million BAM, which increased the ownership share of the Ministry of Finance in the total equity and now amounts to 97.05%.

(all amounts are expressed in thousand BAM, unless otherwise stated)

27. RELATED-PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business.

	31 December 2023	31 December 2022
Receivables:		
Shareholders	7,844	3,361
Management Board members and key functions	978	1,579
	8,822	**4,940**
Investments:		
Shareholders	374,012	270,885
	374,012	**270,885**
Payables:		
Shareholders	308,996	367,107
Supervisory Board members	87	84
Management Board members and key functions	590	580
	309,673	**367,771**
Off-balance sheet:		
Shareholders	6,741	5,119
Management Board members and key functions	19	20
	6,760	**5,139**

	2023	2022
Income:		
Shareholders	4,745	3,017
Management Board members and key functions	39	63
	4,784	***3,080***
Expenses:		
Shareholders	349	283
	349	***283***

The remuneration of the members of the Management Board and the Supervisory Board were as follows:

	2023	2022
– gross salaries	423	370
– other benefits	82	58
Fees to Supervisory Board members (gross)	78	95
	583	**523**

(all amounts are expressed in thousand BAM, unless otherwise stated)

28. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank, and therefore, are not included in its balance sheet.

The table below provides analysis of the funds managed on behalf of customers:

	31 December 2023	31 December 2022
Placements		
Retail	2	2
Corporate	13,537	12,531
	13,539	***12,533***
Financing		
Governmental organizations	13,467	12,462
Corporate	9	9
Retail	75	75
	13,551	***12,546***
Net liability (Note 25)	**12**	**13**

The Bank does not bear the risk for these placements and charges a fee for its services.

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT

a) Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can be continued to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31 December 2023	31 December 2022
Debt	983,633	923,500
Equity	125,094	119,680
Debt to capital ratio %	**7.86**	**7.72**

Debt is defined as financial liabilities at amortized cost as presented in detail in Note 23. Capital includes share capital and retained earnings. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, by considering the guidelines developed by FBA for supervisory purposes. The required information are submitted to the FBA on a quarterly basis.

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of BAM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum 12%.

By the FBA decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: BAM 117.8 million (2023: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), decreased by intangible assets and deferred tax assets); and
- Tier 2 capital or Supplementary Capital: BAM 30 million (2023: subordinated debt, increased/decreased by regulatory reserves.

The risk-weighted assets reflect on an estimate of credit, market, and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

As of 31 December 2023, and 31 December 2022, the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2023, the adequacy of the Bank's capital amounts to 33.30% (31 December 2022: 33.61%).

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

a) Capital risk management (continued)

	31 December 2023	31 December 2022
Core capital – Tier 1 capital		
Ordinary shares	99,098	99,098
Reserves	19,998	18,766
Revaluation reserves	648	584
Less: Intangible assets	(563)	(586)
Less: Deferred tax assets that depend on future profitability and do not arise from temporary differences reduced by related tax liabilities	(1,386)	-
Total Core Capital	**117,795**	**117,862**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	-	-
Subordinated debt	30,000	15,000
Total Supplementary Capital	**30,000**	**15,000**
Decreases of capital		
Missing regulatory reserves	-	-
Net capital	**147,795**	**132,862**
Risk-weighted assets	425,760	379,904
Weighted operating risk (unaudited)	18,093	15,414
Total weighted risks	**443,853**	**395,318**
Capital adequacy (%)	**33.30%**	**33.61%**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

b) Financial risk management objectives

The Bank's Department for liquidity and assets / liabilities management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk.

Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below *Foreign currency risk and Interest rate risk*). Market risk exposures are analyzed by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the way it manages and measures the risk.

Foreign currency risk

The Bank performs certain transactions denominated in foreign currency. There is an exposure to foreign currency exchange rates.

The Bank's carrying amount of assets and liabilities in foreign currency at the reporting date are as follows:

As of 31 December 2023	BAM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	88,437	17,645	1,439	2,046	109,567
Financial assets at fair value through profit and loss	-	-	-	-	-
Financial assets at fair value through other comprehensive income	985	30	-	-	1,015
Financial assets at amortized cost	971,928	6,038	-	-	977,966
Deferred tax assets	1,386	-	-	-	1,386
Tangible assets	22,789	-	-	-	22,789
Intangible assets	563	-	-	-	563
Other assets and receivables	332	-	-	-	332
Total	**1,086,420**	**23,713**	**1,439**	**2,046**	**1,113,618**
LIABILITIES					
Financial liabilities at amortized cost	894,642	85,711	1,269	2,011	983,633
Income tax liabilities	356	-	-	-	356
Deferred tax liabilities	386	-	-	-	386
Provisions	1,790	66	-	-	1,856
Other liabilities	2,293	-	-	-	2,293
Total	**899,467**	**85,777**	**1,269**	**2,011**	**988,524**
NET FOREIGN POSITION	**186,953**	**(62,064)**	**170**	**35**	**125,094**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

b) Financial risk management (continued)

Foreign exchange risk (continued)

As of 31 December 2022	BAM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	195,980	30,887	1,400	2,028	230,295
Financial assets at fair value through profit and loss	199	-	-	-	199
Financial assets at fair value through other comprehensive income	917	28	-	-	945
Financial assets at amortized cost	782,134	9,693	-	-	791,827
Prepaid income tax	117	-	-	-	117
Tangible assets	22,594	-	-	-	22,594
Intangible assets	592	-	-	-	592
Other assets and receivables	210	-	-	-	210
Total	**1,002,742**	**40,608**	**1,400**	**2,028**	**1,046,779**
LIABILITIES					
Financial assets at fair value through profit and loss	-	-	-	-	-
Financial liabilities at amortized cost	844,711	75,468	1,366	1,955	923,500
Deferred tax liabilities	355	-	-	-	355
Provisions	1,368	49	-	-	1,417
Other liabilities	1,827	-	-	-	1,827
Total	**848,260**	**75,517**	**1,366**	**1,955**	**927,098**
NET FOREIGN POSITION	**154,482**	**(34,909)**	**34**	**73**	**119,680**

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where BAM strengthens 10% against USD. For a 10% weakening of BAM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	2023	**2022**
Profit / (loss)	17	3

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds also at fixed interest rates.

The Bank's exposures to the interest rates on financial assets and financial liabilities is presented in detail in the liquidity risk management section of this note (see point d).

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only operating with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Exposure to loans is controlled by customer limits that are continuously reviewed by the Credit and Operating Risk Management Department (at the level of individual counterparty according to legal and regulatory constraints). Namely, a quarterly review is provided by the Credit Risk Management Committee.

Risk management's control function, on regular basis, monitors the compliance of the Bank's exposure to the FBA restrictions set by the law and subordinated acts.

The Bank does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related parties.
The process of impairment allowance measurement (ECL) involves the following steps:
1. segmentation of portfolios into homogeneous groups,
2. classification of portfolio into the stages (stages 1, 2 and 3),
3. determination of impairment assessment model (collective or individual).
Retail portfolio is segmented in homogeneous groups as follows:

- Housing loans,
- Consumer loans
- Credit cards,
- Overdrafts on current accounts

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit quality stages (client stage)

Corporate credit portfolio exposure was segmented in following homogenous product groups:

- Exposures to large companies,
- Exposures to small and medium-sized enterprises (SMEs),
- Guarantees and letters of credit (including binding frame guarantees).

For the category of financial instruments that did not have a significant increase in credit risk from initial recognition or have low credit risk, expected credit losses are stated based on the risk of default over the next 12 months, i.e. assets are categorized into Stage 1. If the credit risk has increased significantly, but there is no objective evidence of impairment allowance, assets are allocated in Stage 2.

Assets that meet the criteria of objective impairment allowance (default status) are classified to Stage 3.

The Bank will use, as evidence of a decrease in quality compared to the moment of initial recognition (transition from Stage 1 to Stage 2), the following:

- delay in repayment of liabilities to the Bank in a materially significant amount for more than 30 days, except in cases where the Bank can prove that the delay is not the result of a significant increase in credit risk (delay due to technical error), the criterion for allocating exposure to credit risk level 2 is mandatory,

- restructuring of exposures related to increase in credit risk,

- the client is on the watch list due to certain quality factors.

Counting the days per due involves using a material counter. The materially significant amount includes receivables from:

- a individual in the amount of more than 200 BAM and 1% of the debtor's balance sheet exposure, and

- a legal entity in the amount of more than 1,000 BAM and 1% of the debtor's balance sheet exposure.

The counting of the days per due begins on the day when the total amount of all due outstanding liabilities of the debtor, for all contractual amounts, has become materially significant.

Evidence of the decrease in quality can be retrieved only if there are reasonable and available information indicating that there is no significant increase in credit quality. Evaluation method implies collective or individual impairment assessment.

All exposures that are individually/independently significant are assessed individually and are classified in Stage 3 (status default).

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Individually significant exposure is exposure that exceeds the following significance thresholds:

- retail exposure: BAM 100,000.00
- corporate exposure: BAM 0.00
- exposure to central government, regional government, and institutions: BAM 0.00.

The Bank determines the default status on the client level, i.e. borrower for all exposures. During the individual impairment allowance assessment, each contract classified as individually significant is analyzed so that the existence of objective evidence of impairment could be determined.

The transition from Stage 3 to Stage 1 is not possible.

Allocation of exposures to lower stage	Exposure	Recovery period		
		Stage 2	**Stage 1**	**Total**
	Unmodified exposures in Stage 2		3	**3**
	Unmodified exposures in Stage 3	6	3	**9**
	Modified exposures which were in Stage 2 in moment of modification		6	**6**
	Modified exposures which were in Stage 3 in moment of modification (including POCI)	12	24	**36**

Expected Credit Loss Calculation ("ECL")

Impairment allowance ECL is calculated by applying PD and LGD risk parameters to exposure. (EAD – exposure at default).

The PD parameter at the level of individual exposure, can be interpreted as the probability that certain transaction or client will, within a given time period, fulfil the definition of the default status in, in other words, the loss event will be identified at individual level. Hence, for the transaction/client already in default status, PD rate is assumed to be equal to 1.

The loss due to the occurrence of the default status (LGD parameter) represents the bank's internal assessment of the level of expected loss related to the exposure in the event of the occurrence of the default status.

The LGD should cover the period from entry to default to end for a particular exposure / client.

The FBA Instruction defines that if a bank does not have an adequate time series, quantity and / or quality of relevant historical data, and is not able to determine the value of LGD parameters using its model in an adequate and documented way, then it uses fixed values of that parameter based on conservative estimates. and they cannot be lower than:

a) 45% for exposures secured by acceptable collateral,

b) 75% for exposures not secured by acceptable collateral.

In accordance with the above, the bank applies these rates, depending on the level of coverage of individual parties with eligible collateral (real estate and securities).

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

In December 2023, testing and validation of risk parameters was performed.

EAD parameter

Validation of EAD was done by student's (t-test), which is used when comparing whether two populations (modeled and realized exposure) show common characteristics, that is, represent the same population (portfolio).

As part of this analysis, the change in the level of exposure was observed over a period of 12 months, which represents the horizon of the calculation of the PD parameter. The change was observed quarterly for the dates 12/2019-12/2020 to 09/2022-09/2023 (twelve periods), in such a way that for each specified period the expected change in the portfolio in accordance with the repayment plan was compared to the realized change.

PD parameter

Adequacy of the PD parameter was done using the binomial test. In the testing, a comparison is made of the actual number of transitions into default in a certain "cohort" (parties that were in the status of not default) on the observed date, with the number of loans that would have been expected to have gone into default according to the settings of the binomial schedule and PD which was valid on the date of observation.

Calculated ECL show that the rates of PD obtained by the existing method of calculation for all homogeneous groups mostly correspond to the actual transitions for the observed annual periods. An exception occurs for the home loan portfolio. A large portion of the portfolio in this homogeneous group was realized in the past few years, so the rate is influenced by earlier periods when there were no entries as it was a "new portfolio". A balance can be expected for the same in the future period. In accordance with all the above, the PD calculation can be assessed as adequate.

LGD parameter

The period from December 31, 2011 to November 30, 2023 is considered for calculation for legal entities, and from April 30, 2015 to November 30, 2023 for individuals. Based on the obtained results, it can be stated that in the portfolio of legal entities, the largest part of the collection and recovery of non-performing loans occurs during the first year after default. If the portfolio is viewed by the criterion of collateral security, loans with collateral show a higher rate of collection, but over a longer period of five years. For loans without collateral, the largest part of the collections occurred during the first three years. In general, the collection rate approaches the "flat rate" already after the past 5 years. Both categories of rates are below the regulatory required ones, where the regulatory rate of 45% for exposures with collateral is reached after 4 years, while for exposures without collateral, the remaining unpaid exposure is already lower than the regulatory rate of 75% during the first year. Based on the obtained results, it can be stated that in the portfolio of individuals, the largest part of the collection and recovery of non-performing loans also occurs during the first year after default. If the portfolio is viewed by the criterion of collateral security, loans with collateral show a lower collection rate, which is justified considering that they completely relate to home loans, where due to the nature of the enforcement procedure a longer collection period is required, and it is also a newer portfolio, where the initial base is low. For loans without collateral, the largest part of collections and recoveries occurred during the first two years. In general, the collection rate approaches the "flat rate" already after the past three years.

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

In line with the above, as well as the fact that the analysis was carried out based on an excel record of collected data (exposure at the time of default status fulfillment, existence of a mortgage as collateral, date of entry into default and recovery, and schedule of collection, etc.), it can be evaluated that using LGD rates from the FBA Guidance does not lead to overestimation of the possibility of collection and recovery after exposure to default status, and that they are adequate for use in the process of calculating ECL.

CCF parameter

The validation of the CCF parameter is carried out by observing all exposures that have entered into default in the last 36 months (individuals), and 72 months (corporate entities where the period is longer to obtain a larger sample). In this respect, only exposures are considered where the client could have had off-balance sheet exposure (revolving loans, guarantees, all types of cards and overdrafts). Considering the relatively small sample of relevant historical data, the use of conversion factors according to the Decision on the calculation of bank capital is considered appropriate. These factors can be assessed as sufficiently conservative and adequate to cover the movements of utilization of off-balance sheet obligations, by comparing them with the CCF movement for the Bank's portfolio under observation.

Homogeneous groups

Based on its previous approach to credit risk management, the Bank has analyzed possible segmentation of exposures and concluded that there are three main factors that reflect risk:

- type of customer,
- type of product, and
- days of delay, i.e., the status of settled/unsettled liabilities.

According to the obtained results, the calculated values of the PD parameters according to the days of delay criterion for a more granular level of group division (five subgroups of days of delay: 0-7, 8-15, 16-30, 31-60 and 61-90, and three subgroups of days of delay: 0-7, 8-30, and 3 1-90), have a monotonic trend depending on the expected level of risk profile of the homogeneous group. In all divisions, a pronounced concentration of the number of observed parties in the 0-7 days category is noticeable. The consequence of the above is that there is high volatility in other categories due to a smaller number of parties that can lead to sudden and unrealistic changes in PD rates. This is particularly pronounced for homogeneous groups in the corporate portfolio and for home loans for individuals.

The performed analyses show that it is necessary to continuously check the possibility of introducing new division of homogeneous groups in the future period, but also that the current division satisfies the criteria of sufficient number and homogeneity of included segments.

The results of the credit risk parameter testing were timely delivered to the Bank's management, and to the Audit Committee and Supervisory Board through quarterly reports of the risk management control function.

For each monthly calculation of value adjustments, the same was aligned with the relevant organizational parts of the Bank (Customer Business Sector and Credit and Operational Risks Sector) before submitting the results for the approval to the Bank's management.

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

Credit risk - Stage *1*

Collective ECL =(PD+MEF)* LGD * EAD* Dt

PD – probability of default,

MEF – macroeconomic factor,

LGD - expected loss rate in case a client receives default status,

EAD - exposure at default,

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, minimum percentages apply (for low risk exposures - 0.1% exposures and for other exposures - 0.5% exposures).

Credit risk - Stage 2

For loans classified in Stage 2, the impairment allowance is calculated according to the principle of expected lifetime loss (lifetime PD).

Collective ECL= $\sum_{1}^{t}$**(PDt + MEFt)* LGD* EADt * Dt**

t1 – accounting period,

tn – accounting period increased for n years,

PDt- marginal PD rate for t period,

MEF – macroeconomic factor for t period,

LGD – expected loss rate in case a client receives default status,

EAD - exposure at default in t period (undue principal + due liability in the accounting period),

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, a minimum percentage of 5% of exposure shall apply.

Credit risk - Stage 3

The calculation of impairment value on collective basis for Stage 3 is done using the following formula:

ECL=PD * LGD * EAD

The value of PD parameter is 100%.

The individual basis for Stage 3 implies the analysis of the expected future cash flows after the observed placement and the calculation of their present value.

The following formula is used for the impairment allowance: ECL = $\boldsymbol{EAD - \sum CFi/(1{+}EIR)\ ti}$

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Expected Credit Loss Calculation ("ECL") (continued)

Given that these are exposures in default status, it entails that the Bank has already initiated adequate legal actions or will do so in the shortest possible period.

The expected cash flows can be as follows:

- client return to the status of proper repayment without the initiation of legal actions (i.e. client healing)
- restructuring
- third party payment – e.g. guarantees, insurers etc.
- complete or partial repayment by the client after the introduction of legal actions
- collateral realization
- bankruptcy estate distribution upon the termination of the bankruptcy procedure

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, the following shall apply:

Minimum expected credit loss rates for exposures secured by eligible collateral:

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

Minimum expected credit loss rates for exposures not secured by eligible collateral:

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 456 days	100%

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for central governments, regional governments and institutions are calculated using the formula PD*LGD*EAD.

The value adjustment of PD and LGD parameters is performed at least once a year and is based on available research.

For the assets in domestic banks PD is reduced to the monthly level in accordance with the maturity, and the ability to get the information about possible adverse developments in the shortest possible period.

For the assets in foreign banks, the values of PD parameter are used on the annual level. For exposures to the state, entities, state institutions, and/or state-owned companies, the value adjustment is determined on the basis of the value of the PD for the rating B, (Standard & Poors –S&P) and the indicated LGD rates.

Except for the aforementioned table, carrying amount of the financial assets presented in financial statements, decreased by impairment losses, presents the maximum exposure of the Bank to credit risk without taking into account the value of collected collateral.

	31.12.2023			31.12.2022		
	Gross	**Impairment allowance**	**Net**	**Gross**	**Impairment allowance**	**Net**
I. Assets	**1,106,612**	**(17,732)**	**1,088,880**	**1,036,351**	**(12,875)**	**1,023,476**
Cash and accounts at banks	109,667	(100)	109,567	230,510	(215)	230,295
Due from banks	5,939	(6)	5,933	9,828	(10)	9,818
Obligatory reserve with the Central Bank of BiH	106,625	(107)	106,518	91,721	(92)	91,629
Financial assets at fair value through profit or loss	-	-	-	199	-	199
Financial assets at fair value through OCI	1,025	(10)	1,015	954	(9)	945
Loans to customers and receivables	506,140	(13,934)	492,206	429,846	(9,876)	419,970
Debt instruments at amortized cost	376,380	(3,459)	372,921	270,884	(2,643)	268,241
Other assets and receivables	836	(116)	720	2,409	(30)	2,379
II. Off-balance sheet	**65,172**	**(352)**	**64,820**	**63,033**	**(379)**	**62,654**
Payable guarantees	16,993	(84)	16,908	14,729	(87)	14,642
Performance guarantees	25,512	(119)	25,393	19,076	(90)	18,986
Approved unused financing lines	22,667	(148)	22,519	29,228	(202)	29,026
Total (I+II)	**1,171,774**	**(18,074)**	**1,153,700**	**1,099,375**	**(13,245)**	**1,085,130**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit exposure and collateral

	Exposure to credit risk		Fair value of collateral
	Net exposure	Undrawn loans / Guarantees	
At 31 December 2023			
Cash and cash equivalents	109,567	-	-
Due from banks	5,933	-	-
Obligatory reserve with the CBBH	106,518	-	-
Financial assets at fair value through profit or loss	-	-	-
Financial assets at fair value through OCI	1,015	-	-
Loans to customers, net	492,206	64,820	633,624
Debt instruments at amortised cost	372,921	-	-
Other receivables	720	-	-
	1,088,880	**64,820**	**633,624**
At 31 December 2022	230,295	-	-
Cash and cash equivalents	9,818	-	-
Due from banks	91,629	-	-
Obligatory reserve with the CBBH	199	-	-
Financial assets at fair value through profit or loss	945	-	-
Financial assets at fair value through OCI	419,970	62,654	558,718
Loans to customers, net	268,241	-	-
Other receivables	2,379	-	-
	1,023,476	**62,654**	**558,718**

Fair value of the collateral

	31 December 2023	31 December 2022
Real estates	576,203	509,051
Movable assets	16,005	16,232
Deposits	10,941	23,832
Securities	30,476	9,603
Total	**633,625**	**558,718**

Arrears

31 December 2023	Gross loan portfolio	Not due	Up to 30 days	31 – 90 days
Corporate	252,763	231,928	20,689	146
Retail	248,427	246,781	1,280	366
Total	**501,190**	**478,709**	**21,969**	**512**
31 December 2022				
Corporate	211,713	201,146	7,935	2,632
Retail	211,930	210,574	1,142	214
Total	**423,643**	**411,720**	**9,077**	**2,846**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS

31 December 2023	S1	S2	S3	Write-off	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	175,494	359	513	52	176,366	2,433	39	193	2,665	173,701
Consumer loans and credit cards	71,576	443	699	2,326	72,718	1,587	45	473	2,105	70,613
Total retail	**247,070**	**802**	**1,212**	**2,378**	**249,084**	**4,020**	**84**	**666**	**4,770**	**244,314**
Large companies	161,403	5,242	2,864	1,584	169,509	2,771	657	2,593	6,021	163,488
Medium companies	45,727	1,318	731	1,273	47,776	786	208	702	1,696	46,080
Small companies	33,293	6,334	144	4,475	39,771	520	783	144	1,447	38,324
Total corporate	**240,423**	**12,894**	**3,739**	**7,332**	**257,056**	**4,077**	**1,648**	**3,439**	**9,164**	**247,892**
Total	**487,493**	**13,696**	**4,951**	**9,710**	**506,140**	**8,097**	**1,732**	**4,105**	**13,934**	**492,206**
Banks	**20,997**	**-**	**-**	**-**	**20,997**	**23**	**-**	**-**	**23**	**20,974**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29 RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS

31 December 2022	S1	S2	S3	Write-off	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	141,810	314	240	52	142,364	871	18	142	1,031	141,333
Consumer loans and credit cards	68,464	691	290	2,450	69,445	911	55	257	1,224	68,221
Total retail	**210,274**	**1,005**	**530**	**2,502**	**211,809**	**1,782**	**73**	**399**	**2,255**	**209,554**
Large companies	113,552	-	3,975	1,602	117,527	1,411	-	2,721	4,132	113,394
Medium companies	50,702	5,422	-	1,370	56,124	677	490	-	1,167	54,957
Small companies	38,184	4,503	1,699	2,972	44,386	446	377	1,499	2,322	42,064
Total corporate	**202,438**	**9,925**	**5,673**	**5,944**	**218,036**	**2,534**	**867**	**4,220**	**7,621**	**210,415**
Total	**412,712**	**10,930**	**6,203**	**8,446**	**429,845**	**4,316**	**940**	**4,619**	**9,876**	**419,970**
Banks	**31,581**	**-**	**-**	**-**	**31,581**	**34**	**-**	**-**	**34**	**31,547**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 1

31 December 2023	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	175,193	301	-	-	175,494
Consumer loans and credit cards	70,717	859	-	-	71,576
Total retail	**245,910**	**1,160**	**-**	**-**	**247,070**
Large companies	156,272	5,131	-	-	161,403
Medium companies	37,635	8,092	-	-	45,727
Small companies	28,343	4,950	-	-	33,293
Total corporate	**222,250**	**18,173**	**-**	**-**	**240,423**
Total	**468,160**	**19,333**	**-**	**-**	**487,493**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**20,997**	**-**	**-**	**-**	**20,997**

31 December 2022	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	141,454	356	-	-	**141,810**
Consumer loans and credit cards	67,844	620	-	-	**68,464**
Total retail	**209,298**	**976**	**-**	**-**	**210,274**
Large companies	113,552	-	-	-	**113,552**
Medium companies	47,828	2,874	-	-	**50,702**
Small companies	33,526	4,658	-	-	**38,184**
Total corporate	**194,906**	**7,532**	**-**	**-**	**202,438**
Total	**404,204**	**8,508**	**-**	**-**	**412,712**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**31,581**	**-**	**-**	**-**	**31,581**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 2

31 December 2023	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	170	-	189	-	-	359
Consumer loans and credit cards	147	120	177	-	-	443
Total retail	**316**	**120**	**366**	-	-	**802**
Large companies	5,242	-	-	-	-	5,242
Medium companies	1,318	-	-	-	-	1,318
Small companies	3,673	2,516	146	-	-	6,334
Total corporate	**10,232**	**2,516**	**146**	-	-	**12,894**
Total	**10,548**	**2,636**	**512**	-	-	**13,696**
of which: restructured	-	-	-	-	-	-
Bank Receivables	-	-	-	-	-	-

31 December 2022	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	200	-	115	-	-	**315**
Consumer loans and credit cards	474	118	49	50	-	**691**
Total retail	**674**	**118**	**164**	**50**	-	**1,006**
Large companies	-	-	-	-	-	-
Medium companies	4,323	41	1,058	-	-	**5,422**
Small companies	2,519	410	1,534	40	-	**4,503**
Total corporate	**6,842**	**451**	**2,592**	**40**	-	**9,925**
Total	**7,516**	**569**	**2,756**	**90**	-	**10,931**
of which: restructured	-	-	-	-	-	-
Bank Receivables	-	-	-	-	-	-

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

LOANS TO CUSTOMERS - STAGE 3

31 December 2023	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	535	535
Consumer loans and credit cards	89	35	32	8	513	677
Total retail	**89**	**35**	**32**	**8**	**1,049**	**1,212**
Large companies	-	-	-	-	2,864	2,864
Medium companies	-	-	-	-	731	731
Small companies	-	-	-	-	144	144
Total corporate	-	-	-	-	3,739	3,739
Total	**89**	**35**	**32**	**8**	**4,787**	**4,951**
of which: restructured	-	-	-	-	-	-
Bank Receivables	-	-	-	-	-	-

31 December 2022	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	245	**245**
Consumer loans and credit cards	3	-	-	-	240	**243**
Total retail	**3**	-	-	-	**485**	**488**
Large companies	-	-	-	-	3,975	**3,975**
Medium companies	-	-	-	-	-	-
Small companies	-	-	-	-	1,698	**1,698**
Total corporate	-	-	-	-	**5,673**	**5,673**
Total	**3**	-	-	-	**6,158**	**6,161**
of which: restructured	-	-	-	-	-	-
Bank Receivables	-	-	-	-	-	-

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Cash and balances with Central Bank

	31 December 2023	31 December 2022
Cash on hand	11,838	19,377
Obligatory reserve with the Central Bank	106,625	91,721
Deposits with the Central Bank	82,830	189,203
Less: Allowance for impairment losses	(189)	(281)
Total	**201,104**	**300,020**

	31 December 2023	31 December 2022
Placements with Banks	20,997	31,581
Less: Allowance for impairment losses	(23)	(34)
Total	**20,974**	**31,547**

The following table shows the analysis of the change in gross carrying amount of the placements with banks and expected loan loss:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	31,581	-	-	-	31,581
Assets derecognized or repaid	-	(10,585)	-	-	-	(10,585)
At 31 December 2023	-	**20,996**		-	-	**20,996**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	33,495	-	-	-	33,495
New assets originated or purchased	-	(1,914)	-	-	-	(1,914)
At 31 December 2022	-	**31,581**		-	-	**31,581**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Placements with Banks (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2023	-	(34)	-	-	-	**(34)**
New assets originated or purchased	-	12	-	-	-	**12**
At 31 December 2023	**-**	**(22)**	**-**	**-**	**-**	**(22)**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2022 under IFRS 9	-	(67)	-	-	-	**(67)**
Assets derecognized or repaid (excluding write offs)	-	33	-	-	-	**33**
At 31 December 2022	**-**	**(34)**	**-**	**-**	**-**	**(34)**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2022	**-**	**113,552**	**-**	**-**	**3,975**	**117,527**
New assets originated or purchased	-	103,900	-	3,000	-	106,900
Assets derecognized or repaid (excluding write offs)	-	(64,104)	-	-	(1,111)	(65,215)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(2,242)	-	2,242	-	-
Transfers to Stage 3	-	-	-	-	-	-
Change of category under Law	-	10,297	-	-	-	10,297
Write-off	-	-	-	-	-	-
At 31 December 2023	**-**	**161,403**	**-**	**5,242**	**2,864**	**169,509**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	**-**	**93,253**	**-**	**1,730**	**4,484**	**99,467**
New assets originated or purchased	-	75,515	-	-	-	75,515
Assets derecognized or repaid	-	(55,216)	-	(1,730)	(509)	(57,455)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Change of category under Law	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
At 31 December 2022	**-**	**113,552**	**-**	**-**	**3,975**	**117,527**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	**-**	**1,411**	**-**	**-**	**2,721**	**4,132**
New assets originated or purchased	-	1,833	-	151	-	1,983
Assets derecognized or repaid (excluding write offs)	-	(601)	-	-	(128)	(729)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(506)	-	506	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	479	-	-	-	479
Unwind discount	-	156	-	-	-	156
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
At 31 December 2023	**-**	**2,772**	**-**	**657**	**2,593**	**6,021**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Large companies (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	**-**	**456**	**-**	**87**	**1,150**	**1,693**
New assets originated or purchased	-	973	-	-	-	973
Assets derecognized or repaid (excluding write offs)	-	(20)	-	(87)	1,571	1,464
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
Change of category under Law	-	-	-	-	-	-
Unwinding of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
At 31 December 2022	-	**1,411**	-	-	**2,721**	**4,132**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Medium and small companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2022	**-**	**88,886**	**-**	**9,925**	**1,698**	**100,510**
New assets originated or purchased	-	39,208	-	3,878	-	43,086
Assets derecognized or repaid	-	(37,777)	-	(6,421)	(878)	(45,076)
Transfers to Stage 1	-	1,444	-	(1,444)	-	-
Transfers to Stage 2	-	(2,444)	-	2,444	-	-
Transfers to Stage 3	-	-	-	(731)	731	-
Change of category under Law		(10,297)	-	-	-	(10,297)
Write-off	-	-	-	-	(676)	(676)
At 31 December 2023	**-**	**79,020**	**-**	**7,652**	**875**	**87,547**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	**-**	**54,983**	**-**	**20,877**	**9,854**	**85,714**
New assets originated or purchased	-	54,172	-	5,510	-	59,682
Assets derecognized or repaid	-	(25,273)	-	(11,457)	(6,295)	(43,026)
Transfers to Stage 1	-	6,037	-	(6,037)	-	-
Transfers to Stage 2	-	(1,032)	-	1,032	-	-
Transfers to Stage 3	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
At 31 December 2022	**-**	**88,886**	**-**	**9,925**	**1,698**	**100,510**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Medium and small companies (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	**-**	**1,124**	**-**	**867**	**1,498**	**3,489**
New assets originated or purchased	-	685	-	288	-	973
Assets derecognized or repaid (excluding write offs)	-	(338)	-	(306)	(679)	(1,323)
Transfers to Stage 1	-	24	-	(24)	-	-
Transfers to Stage 2	-	(498)	-	498	-	-
Transfers to Stage 3	-	-	-	(79)	79	-
Impact on year end ECL of exposures transferred between stages during the year	-	465	-	(252)	623	836
Unwind of discount	-	-	-	-	-	(676)
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Change of category under Law		(156)	-	-	-	-
Write-off	-	-	-	-	(676)	(676)
At 31 December 2023	**-**	**1,306**	**-**	**991**	**846**	**3,142**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	**-**	**473**	**-**	**1,330**	**4,318**	**6,121**
New assets originated or purchased	-	719	-	328	-	1,047
Assets derecognized or repaid (excluding write offs)	-	(118)	-	(366)	(959)	(1,443)
Transfers to Stage 1	-	64	-	(64)	-	-
Transfers to Stage 2	-	(99)	-	99	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	85	-	(460)	-	(375)
Unwind of discount	-	-	-	-	-	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Changes in models and inputs for ECL calculation	-	-	-	-	-	-
Write-off	-	-	-	-	(1,861)	(1,861)
At 31 December 2022	**-**	**1,124**	**-**	**867**	**1,498**	**3,489**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2022	-	**68,463**	-	**692**	**290**	**69,445**
New assets originated or purchased	-	20,796	-	-	-	20,796
Assets derecognized or repaid (excluding write offs)	-	(17,358)	-	(113)	(22)	(17,493)
Transfers to Stage 1	-	52	-	(52)	-	-
Transfers to Stage 2	-	(127)	-	127	-	-
Transfers to Stage 3	-	(251)	-	(209)	460	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	(1)	-	-	(30)	(31)
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2023	-	**71,574**	-	**445**	**698**	**72,717**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	-	**63,289**	-	**234**	**859**	**64,382**
New assets originated or purchased	-	22,857	-	415	2	23,273
Assets derecognized or repaid (excluding write offs)	-	(17,433)	-	(79)	(32)	(17,544)
Transfers to Stage 1	-	30	-	(30)	-	-
Transfers to Stage 2	-	(213)	-	213	-	-
Transfers to Stage 3	-	(66)	-	(61)	128	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	(666)	(666)
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2022	-	**68,463**	-	**692**	**290**	**69,445**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans– Consumer loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	-	**911**	-	**55**	**258**	**1,224**
New assets originated or purchased	-	772	-	10	2	784
Assets derecognized or repaid (excluding write offs)	-	(92)	-	(2)	(4)	(99)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(12)	-	12	-	-
Transfers to Stage 3	-	(173)	-	(75)	248	-
Impact on year end ECL of exposures transferred between stages during the year	-	179	-	47	-	226
Write off	-	-	-	-	(30)	(30)
At 31 December 2023	-	**1,588**	-	**46**	**473**	**2,105**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	-	**321**	-	**12**	**846**	**1,179**
New assets originated or purchased	-	312	-	39	1	352
Assets derecognized or repaid (excluding write offs)	-	280	-	(4)	(19)	257
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(13)	-	13	-	-
Transfers to Stage 3	-	(50)	-	(46)	96	-
Impact on year end ECL of exposures transferred between stages during the year	-	61	-	41	-	102
Write off	-	-	-	-	(666)	(666)
At 31 December 2022	-	**911**	-	**55**	**258**	**1,224**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2022	**-**	**141,810**	**-**	**314**	**240**	**142,364**
New assets originated or purchased	-	44,737	-	-	-	44,737
Assets derecognized or repaid (excluding write offs)	-	(10,640)	-	(20)	(75)	(10,735)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(65)	-	65	-	-
Transfers to Stage 3	-	(348)	-	-	348	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2023	**-**	**175,494**	**-**	**359**	**513**	**176,366**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	**-**	**112,206**	**-**	**298**	**132**	**112,636**
New assets originated or purchased	-	38,966	-	55	-	39,021
Assets derecognized or repaid (excluding write offs)	-	(9,277)	-	(16)	-	(9,293)
Transfers to Stage 1	-	32	-	(32)	-	-
Transfers to Stage 2	-	(59)	-	59	-	-
Transfers to Stage 3	-	(58)	-	(50)	108	-
Changes in contracted CF for modifications, not resulting in derecognition	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
At 31 December 2022	**-**	**141,810**	**-**	**314**	**240**	**142,364**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Impairment allowance for loans – Housing loans (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	**-**	**871**	**-**	**18**	**142**	**1,031**
New assets originated or purchased	-	681	-	-	-	681
Assets derecognized or repaid (excluding write offs)	-	884	-	14	(26)	872
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(6)	-	6	-	-
Transfers to Stage 3	-	(78)	-	-	78	-
Impact on year end ECL of exposures transferred between stages during the year	-	81	-	-	-	81
At 31 December 2023	**-**	**2,433**	**-**	**38**	**194**	**2,665**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	**-**	**562**	**-**	**15**	**90**	**667**
New assets originated or purchased	-	259	-	5	-	264
Assets derecognized or repaid (excluding write offs)	-	51	-	(1)	1	51
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(3)	-	(21)	24	-
Transfers to Stage 3	-	(26)	-	-	26	-
Impact on year end ECL of exposures transferred between stages during the year	-	28	-	20	-	49
At 31 December 2022	**-**	**871**	**-**	**18**	**142**	**1,031**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Financial guarantees

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2022	**-**	**33,239**	**-**	**566**	**-**	**33,805**
New assets originated or purchased	-	28,575	-	110	-	28,685
Assets derecognized or repaid (excluding write offs)	-	(19,420)	-	(565)	-	(19,985)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(235)	-	235	-	-
Transfers to Stage 3	-	-	-	(28,685)	28,685	-
At 31 December 2023	**-**	**42,159**	**-**	**(28,339)**	**28,685**	**42,505**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	**-**	**14,102**	**-**	**8,002**	**-**	**22,104**
New assets originated or purchased	-	18,609	-	415	-	19,024
Assets derecognized or repaid (excluding write offs)	-	(4,483)	-	(2,840)	-	(7,323)
Transfers to Stage 1	-	5,011	-	(5,011)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2022	**-**	**33,239**	**-**	**566**	**-**	**33,805**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Financial guarantees (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	**-**	**150**	**-**	**28**	**-**	**178**
New assets originated or purchased	-	124	-	6	-	130
Assets derecognized or repaid (excluding write offs)	-	(86)	-	(18)	-	(104)
Transfers to Stage 1	-	(1)	-	1	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2023	**-**	**187**	**-**	**17**	**-**	**204**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	**-**	**63**	**-**	**379**	**-**	**442**
New assets originated or purchased	-	81	-	21	-	102
Assets derecognized or repaid (excluding write offs)	-	(17)	-	(150)	-	(167)
Transfers to Stage 1	-	23	-	(23)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	(199)	-	(199)
At 31 December 2022	**-**	**150**	**-**	**28**	**-**	**178**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Unused liabilities

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount 31 December 2022	-	**29,185**	-	**42**	**1**	**29,228**
New assets originated or purchased	-	14,827	-	116	-	14,943
Assets derecognized or repaid	-	(21,466)	-	(38)	(1)	(21,504)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2023	-	**22,546**	-	**120**	-	**22,667**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount 31 December 2021	-	**22,880**	-	**288**	-	**23,168**
New assets originated or purchased	-	22,085	-	36	-	22,121
Assets derecognized or repaid	-	(15,775)	-	(286)	-	(16,061)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(5)	-	5	-	-
Transfers to Stage 3	-	-	-	(1)	1	-
At 31 December 2022	-	**29,185**	-	**42**	**1**	**29,228**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Provision for impairment - Unused liabilities (continued)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2022	**-**	**200**	**-**	**2**	**-**	**202**
New assets originated or purchased	-	91	-	6	-	97
Assets derecognized or repaid	-	(149)	-	(2)	-	(151)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on the ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2023	**-**	**140**	**-**	**6**	**-**	**148**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 31 December 2021	**-**	**82**	**-**	**14**	**-**	**96**
New assets originated or purchased	-	144	-	2	-	146
Assets derecognized or repaid	-	(26)	-	(14)	-	(40)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on the ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2022	**-**	**200**	**-**	**2**	**-**	**202**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Branch structure of Financial Assets

Exposure of financial assets per industry as of 31 December 2023

DESCRIPTION 1. Corporate loans	Gross carrying amount	Impairment allowance	Net exposure
Production	90,202	2,491	87,711
Trade	69,723	1,980	67,743
Construction	33,838	505	33,333
Real estate, renting and business services	19,489	2,975	16,514
Financial services	16,681	358	16,323
Public administration and defense, compulsory social security	10,183	217	9,966
Catering	1,436	65	1,371
Transport, storage and communication	12,440	266	12,174
Agriculture	684	153	531
Other	2,380	154	2,226
TOTAL 1.	**257,056**	**9,164**	**247,892**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	72,718	2,105	70,613
Housing loans	176,366	2,665	173,701
TOTAL 2.	**249,084**	**4,770**	**244,314**
TOTAL (1.+ 2.)	**506,140**	**13,934**	**492,206**

Exposure of financial assets per industry as of 31 December 2022

DESCRIPTION 1. Corporate loans	Gross carrying amount	Impairment allowance	Net exposure
Production	77,171	1,925	75,246
Trade	61,808	870	60,938
Construction	32,980	1,132	31,848
Real estate, renting and business services	16,041	2,923	13,118
Financial services	5,831	87	5,744
Public administration and defense, compulsory social security	10,298	159	10,139
Catering	896	62	834
Transport, storage and communication	7,751	390	7,361
Agriculture	924	10	914
Other	4,337	63	4,273
TOTAL 1.	**218,037**	**7,621**	**210,416**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	69,445	1,224	68,221
Housing loans	142,364	1,031	141,333
TOTAL 2.	**211,809**	**2,255**	**209,554**
TOTAL (1.+ 2.)	**429,846**	**9,876**	**419,970**

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

c) Credit quality of financial assets (continued)

Credit concentration with the Federation of Bosnia and Herzegovina

The Bank has significant asset concentration with the Federation of Bosnia and Herzegovina:

	Note	31 December 2023	31 December 2022
Bonds:			
Ministry of Finance of FBiH	18	374,012	270,885
Interest receivables:			
Ministry of Finance of FBiH	18	1,358	925
		375,370	**271,810**

On the other hand, significant part of the Bank's financing sources relates to the funds of the Federation of Bosnia and Herzegovina:

	Note	31 December 2023	31 December 2022
Liabilities to customers:			
Ministry of Finance of FBiH	23	269,539	343,557
Subordinated debt:			
Ministry of Finance of FBiH	23	30,000	15,000
		299,539	**358,557**

The Bank does not have concentration beyond the territory of the Federation of Bosnia and Herzegovina

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages the type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flow and by comparing maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

Maturity of financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023							
Non-interest bearing	-	28,785	-	-	1,015	-	29,800
Fixed interest rate instruments	2.64	201,822	26,759	229,293	328,707	356,892	1,143,473
		230,607	**26,759**	**229,293**	**329,722**	**356,892**	**1,173,273**
31 December 2022							
Non-interest bearing	-	43,091	-	-	945	-	44,036
Fixed interest rate instruments	2.31	298,994	35,875	131,235	288,918	284,119	1,039,141
		342,085	**35,875**	**131,235**	**289,863**	**284,119**	**1,083,177**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

(all amounts are expressed in thousand BAM, unless otherwise stated)

29. RISK MANAGEMENT (continued)

d) Liquidity risk management (continued)

Liquidity and interest rate tables (continued)

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023							
Non-interest bearing	-	799,540	688	407	7,625	2,000	810,260
Fixed interest rate instruments	0.91	21,608	27,613	51,610	47,144	30,880	178,855
		821,148	**28,301**	**52,017**	**54,769**	**32,880**	**989,115**
31 December 2022							
Non-interest bearing	-	729,267	738	744	4,263	4,000	739,012
Fixed interest rate instruments	0.54	31,431	8,086	62,498	71,281	15,348	188,644
		760,698	**8,824**	**63,242**	**75,544**	**19,348**	**927,656**

The Bank expects to meet other obligations from due financial assets operating cash flows and inflows.

The Bank does not have any financial assets related to variable interest rate instruments. For financial assets there has been a decrease in the level of interest rates in accordance with market movements, and an increase in the share of the retail housing loans in the Bank's portfolio. In general, financial assets reflect prolonged periods of interest rate contracting, monitored through indicators set by the local regulator.

(all amounts are expressed in thousand BAM, unless otherwise stated)

30. FAIR VALUE MEASUREMENT

30.1 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2023	**31 December 2022**		
1) Financial assets at fair value through profit or loss (see Note 16)		Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 199 thousand	Level 1	Quoted bid prices in an active market.
2) Financial assets at fair value through OCI (see Note 17)	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 958 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 27 thousand	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 886 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 31 thousand	Level 1	Quoted bid prices in an active market.
			Level 2	Discounted cash flows, by considering the last available rate on owned or similar debt securities as yield rate.
	Equity securities quoted on stock exchanges in other countries: • Belgium – BAM 30 thousand	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 28 thousand	Level 3	Unquoted bid prices in an active market.

There were no transfers between Level 1 and Level 2 during the period.

(all amounts are expressed in thousand BAM, unless otherwise stated)

30. FAIR VALUE MEASUREMENT (continued)

30.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	31 December 2023		31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers	492,206	489,605	419,970	418,571
Financial liabilities				
At amortized cost:				
- Due to banks and customers	950,644	948,712	905,963	903,303

	Fair value hierarchy as at 31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans to customers	-	489,605	-	418,571
	-	**489,605**	**-**	**418,571**
Financial liabilities				
At amortized cost:				
- Due to banks and customers	-	948,712	-	903,303
	-	**948,712**	**-**	**903,303**

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The calculation of the fair value is determined by discounting future cash flows using the weighted average interest rate on the state level, published by the CBBH separately for corporate and retail.

31. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date that would require adjustments or disclosures in the financial statements or notes to the financial statements.

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 28 February 2024:

Vedran Hadžiahmetović
President of the Management Board

UNION BANKA DD SARAJEVO
SARAJEVO
BR. 3

Edin Mujagić
Member of the Management Board for Risks

ANNUAL BUSINESS REPORT
For the period of 01 January – 31 December 2023

Sarajevo, February 2024

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

Content:

1. INTRODUCTION

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina („Official Gazette of Federation of Bosnia and Herzegovina" No. 15/21):

- Article 42 - legal entities are obliged to prepare reports that give an objective view of the legal entity's operations and its position, including a description of the main risks and uncertainties faced by the legal entity.

- Article 44 (2) and 46 - The bank is obliged to submit the business report, together with the financial statements (auditor's report), to the Financial Information Agency (FIA) for public disclosure.

- Article 68 (h) – the external auditor should give an opinion on the compliance of business report with the financial statements for the same business year.

Annual business report shown on pages 3 – 26 is approved by the Management Board on 28 February 2024, and is signed on behalf of the Bank by:

UNION BANKA DD SARAJEVO

Vedran Hadžiahmetović President of the Management Board	Edin Mujagić Member of the Management Board for Risks	Nermin Sijerčić Head of Accounting and Controlling department

2. MANAGEMENT'S STATEMENT

Dear clients, business partners and valued shareholders!

Union Banka d.d. Sarajevo as in previous years, continued with strong growth in all relevant business segments.

We are very proud to point out that in 2023 we continued to grow our total assets, which exceeded the amount of 1.1 billion BAM. The balance of gross loans at the end of 2023 amounted to 506 million BAM, which again represents a double-digit growth of this indicator compared to last year. We achieved strong growth in the part of investments in securities issued by the Government of the Federation of Bosnia and Herzegovina, and we are one of the banks with the largest amount of investment in this segment on the banking market. At the same time, the indicator of the participation of non-performing loans in the total loan portfolio was further reduced and amounts to only 0.99%, which makes us one of the best banks on the market of the Federation of Bosnia and Herzegovina.

Also this year, the action of housing loans intended for young people was implemented, with a fixed and extremely favourable interest rate. The total amount of funds set aside for this purpose in the amount of 30 million BAM was fully used in a record period, which once again confirms the attractiveness and quality of this product, for which we have become recognizable on the entire market.

In accordance with the adopted strategy, at the end of 2023, a new branch was opened in Mostar, thus starting the process of expanding the business network, which will continue in the coming period.

We have implemented a number of new products and functionalities in the part of electronic and mobile banking, all with the aim of increasing the share of retail business in the Bank's overall portfolio.

Adequacy of operations and compliance with legal and by-law regulations was again confirmed by a series of audits by the Banking Agency of the Federation of Bosnia and Herzegovina, tax and labor inspections as well as by external auditor.

In 2024, the implementation of the strategy of further strengthening the Bank and the planned growth and development in all business segments will continue. The growth of the loan portfolio while maintaining its quality at the achieved extremely high level will remain the focus of future activities. By continuing the started digitalization process, further improving business processes, expanding the business network, we will further improve the quality of services, and put the fulfillment of clients' requirements and needs at the top of our priorities.

In the following pages, the Management Board of Union bank d.d. Sarajevo is pleased to present the Annual Report for 2023, which includes a financial review of operations, audited financial statements and an independent auditor's report.

UNION BANKA DD SARAJEVO

Vedran Hadžiahmetović	**Edin Mujagić**	**Leon Begić**
President of the Management Board	**Member of the Management Board for Risks**	**Member of the Management Board for Operations**

3. SIGNIFICANT EVENTS OCCURRED IN THE PERIOD FROM THE END OF THE BUSINESS YEAR TO THE DATE OF SUBMISSION OF THE FINANCIAL STATEMENTS

The Bank did not have any significant events occurring in the period from the end of the business year to the date of submission of the financial statements.

4. DEVELOPMENT PLAN OF UNION BANKA DD SARAJEVO

Summary of the development plan of Union bank d.d. Sarajevo is based on the Business Policy and Strategy 2023-2025 approved by the Bank's Supervisory Board.

Mission

Union Banka's mission is to build a development-oriented commercial bank with a wide range of quality banking services that meet the real needs and capabilities of our clients. Based on the principles of our corporate values, the bank's activities should contribute to the economic development and stability of the financial sector of Bosnia and Herzegovina. Taking responsibility and role in the market as the only commercial bank with majority state capital, achieving sustainable growth and long-term care for the community in which we operate is our commitment. We attach an important role in the realization of the mission to the employees, because we believe that the quality and strategic advantage of each institution depends on the professionalism, expertise and investment in training and development of employees.
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Corporate values

Union Banka's corporate values represent the organizational culture, way of doing business and working in the Bank. We define key values as principles that have a positive effect on employee performance and contribute to the Bank's visibility as a reliable and responsible partner to clients and the wider community. By constantly emphasizing key values, we strive to unite the interests of the Bank and employees and thus encourage engagement, motivation, common spirit and quality of work of employees.
These five values represent the core of our corporate culture and are actively applied in everyday business. These values are reflected in the Bank's Code of Conduct through practical guidelines for all employees.

Retail Segment

The Bank will offer common products and services for the needs of target groups within the market segment of the population, and the Bank will strive to provide funds for long-term dedicated lending with specific objectives of creditors as follows:
- Loans for young people for solving the housing matter,
- Purpose loans for energy efficiency,
- Loans with other purposes that do not have the character of mass consumption, ie, contribute to long-term well-being and development,
- Other forms of lending in order to develop a stable portfolio, reduce the effects of concentration of exposures in other segments of lending and ensure long-term stable income.

Corporate Segment

The Bank will strive to establish contacts and cooperation with clients who have a leading position or make a significant contribution to the development of the economy.
Product prices will be formed on the basis of market conditions, creditor requirements as well as the overall effects on all forms of cooperation between the bank and the client. Sales activities will be aligned with available funding sources.
The Bank has the following sales and financing priorities, which are in the function of economic growth of our clients and society in general:
- credit products that encourage the development of entrepreneurship,
- products that contribute to maintaining the same or increasing the number of employees of the legal entity,
- products intended to strengthen the segment of small and medium enterprises,
- products that promote energy, environmental and other forms of efficiency and savings in business,
- support to production, export companies and tourism development
- products that have other financing purposes.

The Bank will use the possibilities of continuing and expanding cooperation with various levels of government that have credit-guarantee funds.

Public sector and state

The Bank will continue its activities on profiling and strengthening the role of the "service bank" for all levels of government and public institutions.
Cooperation with public companies, institutions, different levels of government, will be carried out in order to strengthen the Bank's position and through connecting different segments of the economy and the public sector. Providing support to the public sector and active participation in the optimization of financing models will have a favorable effect on the liquidity and development potentials of the economy in the FBiH.

Financial sector

Cooperation with other financial institutions will be carried out in order to effectively manage available funds and liquidity. The primary criterion for cooperation with financial institutions is dispersion and risk limitation.

5. RESEARCH AND DEVELOPMENT

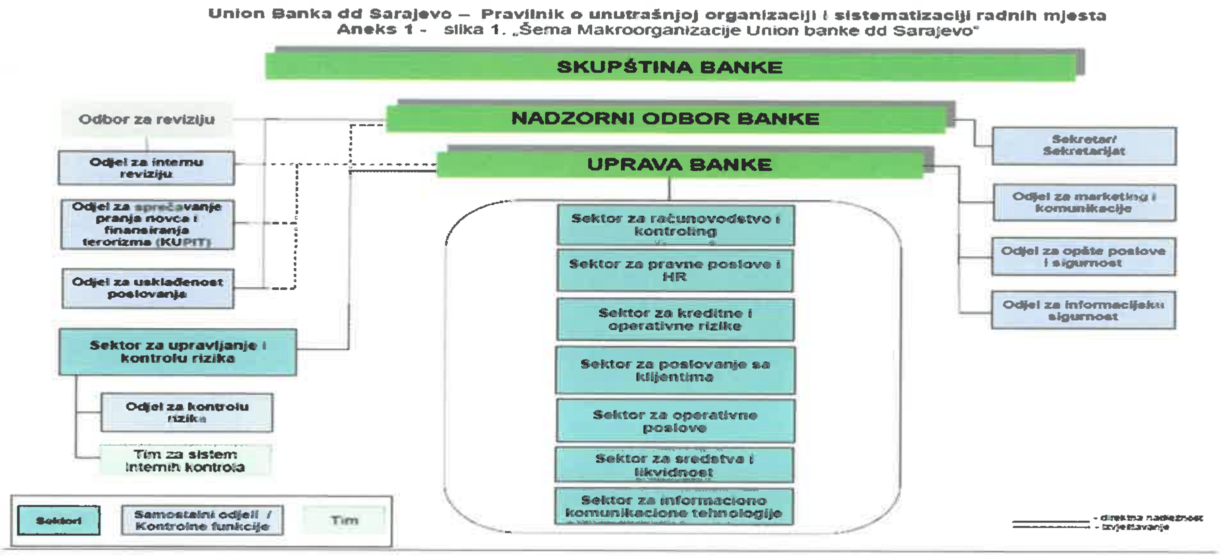
Bank did not have activities in relation to research and development.

6. REPURCHASE OF OWN SHARES, STOCK AND CHANGES IN EQUITY

During 2023, the Bank did not buy back its own shares, nor did it have changes in equity related to share issues.

7. INFORMATION ON BUSINESS SEGMENTS OF LEGAL ENTITY'S

The Bank's operations are organized into 8 Sectors and 6 Independent Departments and Secretary as shown below:



The Credit and Operational Risks Department is an organizational unit in charge of credit and operational risk management processes on the implementation of the Bank's organization and the development of banking business risks, provides support for the internal control, records of known (potential) risks, simulations of effects, measurements, materializations, proposals and implementation of measures to avoid and reduce potential negative effects.

The Department for Operational Affairs is the organizational unit in charge of performing internal payment operations, international payment operations and account administration and joint operations.

The Client Business Department is an organizational unit that is responsible for the sale of all Bank products intended for the target market, implements specific sales and other activities in accordance with the Bank's internal acts and standards, monitors competition and markets and advises on activities in terms of product development. and process optimization with the aim of maximizing the achieved results and market position, but also minimizing the negative effects.

The Accounting and Controlling Department is an organizational unit that supports the Bank's operations by organizing accounting and controlling in accordance with the FBiH Law on Accounting and Auditing, the Law on Banks, IAS and IFRS, performs financial planning, analysis, business control and profitability, optimization of sources of key business and financial information for management and reporting purposes, is responsible for the proper application of the law on direct and indirect taxes on business events.

The Legal Affairs and HR Department is an organizational unit that supports the Bank's operations by achieving compliance with laws, bylaws and other external requirements, establishing, harmonizing and improving the standards of all legal affairs at the Bank level, operational implementation of legal representation and support for processes. includes legal affairs. Within this department, operations of Human Resources Management is performed and is in charge of performing credit administration and execution tasks on clients' accounts.

The Department for Information and Communication Technologies is an organizational unit that performs tasks related to improving system support, organizes their application, installation and maintenance of all information systems, physical maintenance of computer and network equipment, implementation and maintenance of equipment needed for transaction network (SWIFT, CBBH, etc.).), management of IT projects and changes in the information system, planning, design, development, testing and implementation of internally developed applications, direct or indirect support to end customers of the bank in relation to banking services (ebanking, card business) and monitoring the stability of databases and their advanced maintenance.

The Department for Assets and Liquidity is an organizational unit that performs activities related to liquidity, asset and liability management of the Bank, is in charge of managing the Bank's sources of funds, managing foreign exchange position and determining the Bank's exchange rate list. He is also in charge of Correspondent Banking and Securities Investments.

The Department for Risk Management and Control is in charge of risk analysis, ie assessment, measuring, monitoring and reporting of the Bank, the implementation of stress resistance, testing and efficiency methods and Risk management procedures, examination and efficiency of internal controls in the risk management and document assessment process, participation in drafting and reviewing risk management, proposals and recommendations for efficient risk management, and Implementing other checks required for adequate risk control.

8. FINANCIAL INSTRUMENTS WHICH BANK USES

The Bank actively participates in the financial market of the Federation of Bosnia and Herzegovina in the purchase of treasury bills and bonds issued by the Federal Ministry of Finance of BiH and JP Autoceste FBiH.

During 2023, the Bank has purchased:
• treasury bills with a nominal value of BAM 8,000 thousand. The interest rate on treasury bills ranges from 0.90% to 1.30% per annum, with a maturity date of 25 October 2023;
• bonds with a nominal value of BAM 17,494 thousand. The interest rate on bonds ranges from 2.90% to 4.69% per annum, with a maturity date of 24 May 2033;
• treasury bills with a nominal value of BAM 20,000 thousand. The interest rate on treasury bills ranges from 0.88% to 1.29% per annum, with a maturity date of 12 June 2024;
• bonds with a nominal value of BAM 10,000 thousand. The interest rate on bonds ranges from 2.94% to 3.19% per annum, with a maturity date of 21 June 2028;
• bonds with a nominal value of BAM 16,000 thousand. The interest rate on bonds ranges from 2.99% to 3.34% per annum, with a maturity date of 27 September 2030;
• bonds with a nominal value of BAM 23,980 thousand. The interest rate on bonds ranges from 2.99% to 4.25% per annum, with a maturity date of 4 October 2029;
• bonds with a nominal value of BAM 6,990 thousand. The interest rate on bonds ranges from 4.25% to 4.95% per annum, with a maturity date of 18 October 2028.
• treasury bills with a nominal value of BAM 23,000 thousand. The interest rate on treasury bills ranges from 2.49% to 3.55%, with a maturity date of 15 May 2024;
• bonds with a nominal value of BAM 1,936 thousand. The yearly interest rate on bonds is from 3,40% to 4.25%, with a maturity date of 29 November 2025;
• treasury bills with a nominal value of BAM 19,110 thousand. The interest rate on treasury bills ranges from 3.40% to 4.20%, with a maturity date of 11 September 2024.

The Bank classifies all financial assets based on a business model for asset management and contractual terms of assets, measured by:

1. Valuation by the amortized cost method („AC"),
2. Valuation at fair through profit and loss („FVPL"), and
3. Valuation at fair value through other comprehensive income („FVOCI").

The methodology for classification and measurement of exposure is an internal act of the bank that defines the classification and valuation of assets.
The classification of financial instruments into certain category of accounting measurement depends on the business model in which an instrument is acquired, the characteristics of contractual cash flows, and the options of fair valuation provided by IFRS 9.
The accompanying financial statements have been prepared under the historical cost principle, except for assets at fair value through profit or loss and assets at fair value through other comprehensive income.

Effective interest rate method

Effective interest rate method is the method of calculating the amortized cost of financial assets and the allocation of interest income over a specific period. The effective interest rate is the interest rate that discounts future cash flows (including all fees that form an integral part of effective interest rate, transaction cost and other premiums and rebates) through the expected lifetime of the financial asset, or where possible, a shorter period.

Financial instruments recognize income based on the effective interest rate.

Loans and receivables

Loans, deposits and other receivables with fixed or determinable payments that are not quoted in an active market, have been classified as "loans and receivables". They occur when the Bank gives money to the debtor without the intention of simultaneous sale of these receivables or sales in the near future.
The Bank measures loans, placed deposits and other receivables at amortized cost if the following conditions are met:
• A financial asset is held within a business model with the aim of holding it for collection of contractual cash flows
• The contractual terms of the financial asset give cash flows at specific points of time that are exclusively result of the principal and interest payments (SPPI) of the outstanding principal amount.

Business model assessment

The business model relates to the way in which financial assets are managed to generate cash flows. In other words, the business model determines whether cash flows will arise from the collection of contractual cash flows, sales of financial assets or both. Therefore, this assessment is not carried out based on scenarios that cannot reasonably be expected, such as the "worst-case scenario" or "stress case" scenario.

If the cash flows after initial recognition are realized differently than the Bank's original expectations, the Bank does not change the classification of the remaining financial assets in the business model, but takes into account this information when assessing newly created or newly purchased financial assets.

The steps in the classification of financial instruments are:

1. Determination whether it is a modification of financial instruments,
2. Determination of the nature of balance sheet item being acquired,
3. Determination of the type of individual financial instrument being acquired,
4. Determination of an instrument that contains significant credit risk at the moment of acquisition,
5. Determination of the business model for which a financial instrument is acquired („BM“),
6. Determination of contracted cash flows characteristics for a particular financial instrument that is being acquired („SPPI“),
7. Procedure for the reclassification of financial instruments.

SPPI test

The determination of the contracted cash flows characteristics for each financial instrument that is being acquired is carried out only for debt instruments, those that have not received the status of POCI assets.
This determination is carried out for the purpose of assessing whether the contracted terms for a particular item of financial assets represent cash flows which are only payments of principal and interest on the outstanding amount of principal on specified dates.

The Bank assesses the contractual terms according to the basic portfolio segments (long-term corporate loans, short-term corporate loans, retail loans, credit cards, current account overdrafts, debt securities and other financial assets).

Financial assets measured at fair value through profit or loss

Financial assets are classified in this way if they are:

- purchased with the aim of selling in the near future; or
- a part of the identified portfolio of financial instruments that the Bank holds together, and which acts according to the short-term earnings pattern; or
- a derivative instrument that is not characterized as an effective hedging instrument.

Financial assets can be recognized as financial assets at fair value although not "intended for trading" if:

- Such a classification eliminates or significantly reduces the inconsistency of measurement and recognition that would otherwise arise; or
- the financial assets are part of a group of financial assets or liabilities whose performance is measured based on fair value, in accordance with documented risk management of the Bank or its investment strategy, and information on the internal grouping of assets on that basis; or
- is a part of a contract that contains one or more embedded derivatives.

Financial assets recognized as financial assets at fair value through profit or loss are presented at fair value with the gains and losses presented in the income statement.

Financial assets at amortized cost

Bond and treasury bills with fixed or determinable payments and fixed maturity, for which the Bank has intention and ability to hold them to maturity, are classified at amortized cost. They are recorded at their fair value using the effective interest rate method, reduced for impairment, with income recognized on the basis of effective income.

Financial assets measured at fair value through other comprehensive income

Certain stocks, government bonds and treasury bills are valued at fair value and recognized through other comprehensive income. Gains and losses arising from changes in fair value are recognized directly as equity, in other words the revalorization reserves with the exception of impairment losses, interest calculated using the effective interest rate method, and gains and losses on exchange differences on monetary assets, which are recognized directly as profit or loss. In the case of a write-off of the asset or when the asset has suffered impairment, the cumulative gain or loss previously recognized as a revalorization reserve is included in the income statement and other comprehensive income for the period.
Dividends on equity instruments classified as "fair value through other comprehensive income" are recognized as profit or loss when the Bank establishes the right to receive a dividend.

Impairment of financial assets

Financial assets, other than financial entities that are stated at fair value through the profit or loss, are valued with the aim to identify the impairment indicators at each reporting date. Financial assets had impairment where it is proven that because of one or more events that occurred after the initial recognition of financial assets, estimated future cash flows of the investment are changed.

Objective evidence of impairment may include:

- significant financial difficulties of the parties under the contract; or
- delay of failure to pay interest or principal; or
- when it becomes probable that the borrower will go bankrupt or through a financial reorganization.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets for which no impairment is recognized is included in basis for impairment assessment on a group basis. For group impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of that financial asset.

The carrying amount of financial assets at amortized cost is reduced by using the value adjustment account. When the receivables are uncollectible, it is written off through the value adjustment account. Subsequent collection of previously written off amounts are credited to revenue from written-off receivables account. Changes in the carrying amount of the value adjustment account are recognized in the profit or loss and other comprehensive income.

With the exception of equity instruments measured at fair value through other comprehensive income, if, in the subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurred after the impairment recognition, the previously recognized impairment loss is corrected through the Income statement and other comprehensive income to the extent that it will not result in a carrying amount greater than the amortized cost would be if it was not recognized as impairment at the date when the impairment was recognized.

Termination of recognition of financial assets

The Bank ceases to recognize financial assets only when the contractual rights to cash flows from financial assets expire; or when transferring financial assets, and therefore all risks and rewards of ownership of the asset are transferred to another entity. If the Bank does not transfer and substantially retains all risks and returns from ownership, and keeps control over financial assets, the Bank continues to recognize financial assets.

9. LEGAL ENTITY'S OBJECTIVES AND POLICIES REGARDING FINANCIAL MANAGEMENT

The Supervisory Board adopts the Risk Acceptance and Management Strategy, individual risk policies, the Bank's Internal Capital and Liquidity Adequacy Methodology (ICAAP and ILAAP Methodology), the Stress Resilience Testing Program, and ensures that they are subject to independent review by internal audit.

The Management Board is responsible for:

• establishing clear and consistent lines of authority and responsibility for risk assumption and management, including the division of powers and responsibilities between the Supervisory Board, the Management Board and other employees involved in the risk management process, on the other hand.

• In accordance with the principle of proportionality, the Decision on Risk Management in the Bank, and taking into account the fact that the Bank is not systemically significant in the financial sector, the Supervisory Board retained the powers of the Risk Committee.

• establishing adequate communication, exchange of information and cooperation at all organizational levels of the Bank in order to implement the Strategy, policies, procedures and other internal acts for risk management, ensuring an adequate number of employees with expertise in the risk management system, valuation of assets. for identifying and measuring, ie assessing the risks to which the Bank is exposed, stress testing.

• All organizational parts of the Bank have continuous communication with the Bank's Management Board in order to achieve risk management and control in proportion to the size of the Bank.

• Identifying key employees in the risk management process and providing appropriate replacements for those employees, as appropriate. During the initial adjustment, the Bank determined the holders of key functions who have knowledge adequate for the entire risk management process.

• Periodic review, ie, if necessary, harmonization of the Strategy, policies, procedures and other internal acts for risk management. The Bank's Management Board is continuously provided with reports on the positions of the financial statements and information on key risk parameters, which is used in the further process as an input for the harmonization of internal acts for risk management.

• maintaining the effectiveness of internal controls built into the risk management system, including ensuring the security of information systems,

• Establishing appropriate procedures to assess the impact of the introduction of new products, services or systems on the Bank's risk exposure. This is done in a way that the introduction of new products is in accordance with the provisions of the internal act Procedure for the implementation of new and modification of existing products.

• adequate and timely taking of measures in the risk management process, in accordance with the Strategy,

• providing adequate resources for the implementation of the ICAAP procedure, ensuring the documentation of the procedure in the ICAAP. In the previous year, the Bank partially improved the ICAAP process. The Management Board was presented with the Report and key shortcomings and weaknesses in the process itself. The Bank's Management Board adopts the proposal of the Report, providing guidelines for further improvement of the planning procedure and implementation of the procedure.

Control functions through the established system of regular reporting provide the necessary information to the Bank's management bodies on identified weaknesses with recommendations and proposals for improving business processes, activities and areas of risk management. In accordance with the Law, control functions attend the meetings of the Audit Committee and the Supervisory Board at least once during the reporting period.

If necessary, the control functions also attend the sessions of the Bank's Management Board, thus ensuring continuous information of the Management Board on the results of performed controls and audits of the analyzed business processes, activities and risk areas.

Relevant organizational units and management bodies of the Bank are actively involved in the risk management and control process as follows:

• The Department for Planning, Financial Controlling and Reporting submits a report on changes on the balance sheet and income statement items on a daily basis, and deviations from planned values are analyzed on a monthly basis, which is the basis for control indicators on changes in risk level.

• The Department for Liquidity, Asset and Liability Management reports to the Management Board on a daily basis on changes in liquidity level (including information on concentration indicators), foreign exchange risk position, and in case of significant unplanned outflows on the effect on liquidity position parameters. The Bank's Management Board is involved in the work of the ALCO Board,

• The Risk Control and Management Department submits to the Management Board on a monthly basis:

• review of the ratio and changes in the level of the loan-guarantee portfolio, ie credit risk,

• report on credit concentrations,

• interest rate risk report,

• Stress tests of liquidity position for the ALCO Board, in accordance with the Stress Test Program.

• The Risk Control and Management Department submits the indicators of the Recovery Plan to the Bank's Management and organizational units involved in risk management on a weekly basis,

• At the quarterly level, all control functions present to the Management Board a report on the performed risk controls, which are submitted in the further procedure to the Audit Committee and the Supervisory Board for approval and approval.

• The Management Board and the Supervisory Board of the Bank assess the adequacy of the performed stress tests and the procedure of ICAAP and ILAAP at the meetings, and if necessary provide guidelines for changes and optimization of the process.

As part of individual audits, in order to assess the effectiveness of the established system of internal controls, as well as assess the management of all types of risks, and verify compliance with internal regulations and legal regulations related to the Bank's operations, Internal Audit audits.

In accordance with the Internal Audit's Methodology with risk analysis and risk matrix development, individual reports with findings, conclusions and proposals are submitted to the Bank's Management Board for information, and individual findings and proposals are discussed at the Bank's Management Board meetings, as well as measures for their implementation and elimination.

Supervisory staff attends seminars and trainings on current topics, including the area of risk management, and changes in banking regulations and standards. Internal audit also compiles the annual training plan, striving to maintain and improve the level of knowledge from various segments of banking operations, and within the work report monitors and reports on its implementation to the Bank's Management Board, Audit Committee and Supervisory Board.

In accordance with organizational changes and the requirements of the new regulations, the Bank has established internal risk reporting processes, where the formal requirements of the regulations are met.

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

10. THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY

a) Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can be continued to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31 December 2023	31 December 2022
Debt	983,633	923,500
Equity	125,094	119,680
Debt to capital ratio %	**7.86**	**7.72**

Debt is defined as liabilities to banks and other financial institutions, liabilities to customers and subordinated debt. Capital includes share capital and retained earnings.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, by considering the guidelines developed by FBA for supervisory purposes. The required information are submitted to the FBA on a quarterly basis.

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of BAM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum 12%.

By the FBA decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage of potential future net losses, decreased by intangible assets); and
- Tier 2 capital or Supplementary Capital: subordinated debt, increased/less revaluation reserves),

The risk-weighted assets reflect on an estimate of credit, market, and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.
As of 31 December 2023, and 31 December 2022, the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2023, the adequacy of the Bank's capital amounts to 33.30% (31 December 2022: 33.61%).

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

	31 December 2023	31 December 2022
Core capital – Tier 1 capital		
Ordinary shares	99,098	99,098
Reserves	19,998	18,766
Revaluation reserves	648	584
Less: Intangible assets	(563)	(586)
Less: Deferred tax assets that depend on future profitability and do not arise from temporary differences reduced by related tax liabilities	(1,386)	-
Total Core Capital	**117,795**	**117,862**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	-	-
Subordinated debt	30,000	15,000
Total Supplementary Capital	**30,000**	**15,000**
Decreases of capital		
Missing regulatory reserves	-	-
Net capital	**147,795**	**132,862**
Risk-weighted assets	425,760	379,904
Weighted operating risk (unaudited)	18,093	15,414
Total weighted risks	**443,853**	**395,318**
Capital adequacy (%)	**33.30%**	**33.61%**

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

b) Financial risk management

The Bank's Department for liquidity and assets / liabilities management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (currency risk and fair value interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk.

Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures are analyzed by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the way it manages and measures the risk.

Foreign currency risk

The Bank performs certain transactions denominated in foreign currency. There is an exposure to foreign currency exchange rates.

The Bank's carrying amount of assets and liabilities in foreign currency at the reporting date are as follows:

As of 31 December 2023	BAM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	88,437	17,645	1,439	2,046	109,567
Financial assets at fair value through profit and loss	-	-	-	-	-
Financial assets at fair value through other comprehensive income	985	30	-	-	1,015
Financial assets at amortized cost	971,928	6,038	-	-	977,966
Deferred tax assets	1,386	-	-	-	1,386
Tangible assets	22,789	-	-	-	22,789
Intangible assets	563	-	-	-	563
Other assets and receivables	332	-	-	-	332
Total	**1,086,420**	**23,713**	**1,439**	**2,046**	**1,113,618**
LIABILITIES					
Financial liabilities at amortized cost	894,642	85,711	1,269	2,011	983,633
Income tax liabilities	356	-	-	-	356
Deferred tax liabilities	386	-	-	-	386
Provisions	1,790	66	-	-	1,856
Other liabilities	2,293	-	-	-	2,293
Total	**899,467**	**85,777**	**1,269**	**2,011**	**988,524**
NET FOREIGN POSITION	**186,953**	**(62,064)**	**170**	**35**	**125,094**

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where BAM strengthens 10% against USD. For a 10% weakening of BAM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	2023	**2022**
Profit / (loss)	17	3

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds also at fixed interest rates.

c) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only operating with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Exposure to loans is controlled by customer limits that are continuously reviewed by the Credit and Operating Risk Management Department (at the level of individual counterparty according to legal and regulatory constraints). Namely, a quarterly review is provided by the Credit Risk Management Committee.

Risk management's control function, on regular basis, monitors the compliance of the Bank's exposure to the FBA restrictions set by the law and subordinated acts.

The Bank does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related parties.

The process of impairment allowance measurement (ECL) involves the following steps:

1. segmentation of portfolios into homogeneous groups,
2. classification of portfolio into the stages (stages 1, 2 and 3),
3. determination of impairment assessment model (collective or individual).

Retail portfolio is segmented in homogeneous groups as follows:

- Housing loans,
- Credit cards,
- Overdrafts on current accounts

Corporate credit portfolio exposure was segmented in following homogenous product groups:

- Exposures to large companies,
- exposures to small and medium-sized enterprises (SMEs),
- Guarantees and letters of credit (including binding frame guarantees).

For the category of financial instruments that did not have a significant increase in credit risk from initial recognition or have low credit risk, expected credit losses are stated based on the risk of default over the next 12 months, i.e. assets are categorized into Stage 1. If the credit risk has increased significantly, but there is no objective evidence of impairment allowance, assets are allocated in Stage 2.

Assets that meet the criteria of objective impairment allowance (default status) are classified to Stage 3.

The Bank will use, as evidence of a decrease in quality compared to the moment of initial recognition (transition from Stage 1 to Stage 2), the following:

- delay in repayment of liabilities to the Bank in a materially significant amount for more than 30 days, except in cases where the Bank can prove that the delay is not the result of a significant increase in credit risk (delay due to technical error) is a mandatory criterion for assigning exposure to Stage 2,

- restructuring of exposures related to increase in credit risk,

- the client is on the watch list due to certain quality factors.

Counting the days per due involves using a material counter. The materially significant amount includes receivables from:

- a individual in the amount of more than 200 BAM and 1% of the debtor's balance sheet exposure, and

- a legal entity in the amount of more than 1,000 BAM and 1% of the debtor's balance sheet exposure.

The counting of the days per due begins on the day when the total amount of all due outstanding liabilities of the debtor, for all contractual amounts, has become materially significant.

Evidence of the decrease in quality can be retrieved only if there are reasonable and available information indicating that there is no significant increase in credit quality. Evaluation method implies collective or individual impairment assessment.

All exposures that are individually/independently significant are assessed individually and are classified in Stage 3 (status default).

Individually significant exposure is exposure that exceeds the following significance thresholds:

- retail exposure: BAM 100,000.00
- corporate exposure: BAM 0.00
- exposure to central government, regional government, and institutions: BAM 0.00.

The Bank determines the default status on the client level, i.e. borrower for all exposures. During the individual impairment allowance assessment, each contract classified as individually significant is analyzed so that the existence of objective evidence of impairment could be determined.

The transition from Stage 3 to Stage 1 is not possible.

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

Allocation of exposures to lower stage	Exposure	Recovery period		
		Stage 2	**Stage 1**	**Total**
	Unmodified exposures in Stage 2		3	**3**
	Unmodified exposures in Stage 3	6	3	**9**
	Modified exposures which were in Stage 2 in moment of modification		6	**6**
	Modified exposures which were in Stage 3 in moment of modification (including POCI)	12	24	**36**

Expected Credit Loss Calculation ("ECL")

Impairment allowance ECL is calculated by applying PD and LGD risk parameters to exposure. (EAD – exposure at default).

The PD parameter at the level of individual exposure, can be interpreted as the probability that certain transaction or client will, within a given time period, fulfil the definition of the default status in, in other words, the loss event will be identified at individual level. Hence, for the transaction/client already in default status, PD rate is assumed to be equal to 1.

The loss due to the occurrence of the default status (LGD parameter) represents the bank's internal assessment of the level of expected loss related to the exposure in the event of the occurrence of the default status.

The LGD should cover the period from entry to default to end for a particular exposure / client.

The FBA Instruction defines that if a bank does not have an adequate time series, quantity and / or quality of relevant historical data, and is not able to determine the value of LGD parameters using its model in an adequate and documented way, then it uses fixed values of that parameter based on conservative estimates. and they cannot be lower than:

a) 45% for exposures secured by acceptable collateral,

b) 75% for exposures not secured by acceptable collateral.

In accordance with the above, the bank applies these rates, depending on the level of coverage of individual parties with eligible collateral (real estate and securities).

In December 2023, testing and validation of risk parameters was performed.

EAD parameter

Validation of EAD was done by student's (t-test), which is used when comparing whether two populations (modeled and realized exposure) show common characteristics, that is, represent the same population (portfolio).

As part of this analysis, the change in the level of exposure was observed over a period of 12 months, which represents the horizon of the calculation of the PD parameter. The change was observed quarterly for the dates 12/2019-12/2020 to 09/2022-09/2023 (twelve periods), in such a way that for each specified period the expected change in the portfolio in accordance with the repayment plan was compared to the realized change.

PD parameter

Adequacy of the PD parameter was done using the binomial test. In the testing, a comparison is made of the actual number of transitions into default in a certain "cohort" (parties that were in the status of not default) on the observed date, with the number of loans that would have been expected to have gone into default according to the settings of the binomial schedule and PD which was valid on the date of observation.

Calculated ECL show that the rates of PD obtained by the existing method of calculation for all homogeneous groups mostly correspond to the actual transitions for the observed annual periods. An exception occurs for the home loan portfolio. A large portion of the portfolio in this homogeneous group was realized in the past few years, so the rate is influenced by earlier periods when there were no entries as it was a "new portfolio". A balance can be expected for the same in the future period. In accordance with all the above, the PD calculation can be assessed as adequate.

LGD parameter

The period from December 31, 2011 to November 30, 2023 is considered for calculation for legal entities, and from April 30, 2015 to November 30, 2023 for individuals. Based on the obtained results, it can be stated that in the portfolio of legal entities, the largest part of the collection and recovery of non-performing loans occurs during the first year after default. If the portfolio is viewed by the criterion of collateral security, loans with collateral show a higher rate of collection, but over a longer period of five years. For loans without collateral, the largest part of the collections occurred during the first three years. In general, the collection rate approaches the "flat rate" already after the past 5 years. Both categories of rates are below the regulatory required ones, where the regulatory rate of 45% for exposures with collateral is reached after 4 years, while for exposures without collateral, the remaining unpaid exposure is already lower than the regulatory rate of 75% during the first year. Based on the obtained results, it can be stated that in the portfolio of individuals, the largest part of the collection and recovery of non-performing loans also occurs during the first year after default. If the portfolio is viewed by the criterion of collateral security, loans with collateral show a lower collection rate, which is justified considering that they completely relate to home loans, where due to the nature of the enforcement procedure a longer collection period is required, and it is also a newer portfolio, where the initial base is low. For loans without collateral, the largest part of collections and recoveries occurred during the first two years. In general, the collection rate approaches the "flat rate" already after the past three years.

In line with the above, as well as the fact that the analysis was carried out based on an excel record of collected data (exposure at the time of default status fulfillment, existence of a mortgage as collateral, date of entry into default and recovery, and schedule of collection, etc.), it can be evaluated that using LGD rates from the FBA Guidance does not lead to overestimation of the possibility of collection and recovery after exposure to default status, and that they are adequate for use in the process of calculating ECL.

CCF parameter

The validation of the CCF parameter is carried out by observing all exposures that have entered into default in the last 36 months (individuals), and 72 months (corporate entities where the period is longer to obtain a larger sample). In this respect, only exposures are considered where the client could have had off-balance sheet exposure (revolving loans, guarantees, all types of cards and overdrafts). Considering the relatively small sample of relevant historical data, the use of conversion factors according to the Decision on the calculation of bank capital is considered appropriate. These factors can be assessed as sufficiently conservative and adequate to cover the movements of utilization of off-balance sheet obligations, by comparing them with the CCF movement for the Bank's portfolio under observation.

Homogeneous groups

Based on its previous approach to credit risk management, the Bank has analyzed possible segmentation of exposures and concluded that there are three main factors that reflect risk:

- type of customer,
- type of product, and
- days of delay, i.e., the status of settled/unsettled liabilities.

According to the obtained results, the calculated values of the PD parameters according to the days of delay criterion for a more granular level of group division (five subgroups of days of delay: 0-7, 8-15, 16-30, 31-60 and 61-90, and three subgroups of days of delay: 0-7, 8-30, and 3 1-90), have a monotonic trend depending on the expected level of risk profile of the homogeneous group. In all divisions, a pronounced concentration of the number of observed parties in the 0-7 days category is noticeable. The consequence of the above is that there is high volatility in other categories due to a smaller number of parties that can lead to sudden and unrealistic changes in PD rates. This is particularly pronounced for homogeneous groups in the corporate portfolio and for home loans for individuals.

The performed analyses show that it is necessary to continuously check the possibility of introducing new division of homogeneous groups in the future period, but also that the current division satisfies the criteria of sufficient number and homogeneity of included segments.

The results of the credit risk parameter testing were timely delivered to the Bank's management, and to the Audit Committee and Supervisory Board through quarterly reports of the risk management control function.
For each monthly calculation of value adjustments, the same was aligned with the relevant organizational parts of the Bank (Customer Business Sector and Credit and Operational Risks Sector) before submitting the results for the approval to the Bank's management.

Credit risk - Stage *1*

Collective ECL =(PD+MEF)* LGD * EAD* Dt

PD – probability of default,

MEF – macroeconomic factor,

LGD - expected loss rate in case a client receives default status,

EAD - exposure at default,

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, minimum percentages apply (for low risk exposures - 0.1% exposures and for other exposures - 0.5% exposures).

Credit risk - Stage 2

For loans classified in Stage 2, the impairment allowance is calculated according to the principle of expected lifetime loss (lifetime PD).

Collective ECL= $\sum_{1}^{t}(PDt + MEFt) * LGD * EADt * Dt$

t1 – accounting period,

tn – accounting period increased for n years,

PDt- marginal PD rate for t period,

MEF – macroeconomic factor for t period,

LGD – expected loss rate in case a client receives default status,

EAD - exposure at default in t period (undue principal + due liability in the accounting period),

Dt – discount factor calculated on the basis of EIR and period t (t<=1).

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, a minimum percentage of 5% of exposure shall apply.

Credit risk - Stage 3

The calculation of impairment value on collective basis for Stage 3 is done using the following formula:

ECL=PD * LGD * EAD

The value of PD parameter is 100%.

The individual basis for Stage 3 implies the analysis of the expected future cash flows after the observed placement and the calculation of their present value.

The following formula is used for the impairment allowance: ECL = $EAD - \sum CFi/(1+EIR)\ ti$

Given that these are exposures in default status, it entails that the Bank has already initiated adequate legal actions or will do so in the shortest possible period.

The expected cash flows can be as follows:

- client return to the status of proper repayment without the initiation of legal actions (i.e. client healing)
- restructuring
- third party payment – e.g. guarantees, insurers etc.

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

- complete or partial repayment by the client after the introduction of legal actions
- collateral realization
- bankruptcy estate distribution upon the termination of the bankruptcy procedure

In the event that the calculated ECL per individual exposure is less than the minimum percentages defined by the Credit Risk Management and Determination of Expected Credit Losses Program and the Methodology for Measuring Impairment of Loans and Other Financial Assets, the following shall apply:

number	Days of delays	Minimum expected credit loss
1,	up to 180 days	15%
2,	from 181 to 270 days	25%
3,	from 271 to 365 days	40%
4,	from 366 to 730 days	60%
5,	from 731 to 1460 days	80%
6,	more than 1460 days	100%

Minimum expected credit loss rates for exposures not secured by acceptable collateral:

Number	Days of delays	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	more than 456 days	100%

Impairment of exposures to central governments, regional governments and institutions is calculated using the Formula PD*LGD*EAD. At least once a year, the value of PD and LGD parameters is reduced based on available research. For funds on domestic banks, PD is reduced to a monthly level in accordance with maturity, as well as the possibility to obtain information on possible adverse developments in a shorter period of time. For funds in the accounts of foreign banks, the values of the PD parameter on an annual level are used. For exposures to the state, entities, state institutions, or state-owned companies, the rate of correction of values is determined based on the value of PD for rating B (Standard & Poors–S&P) and LGD rates listed, except for the table below, the carrying amount of financial assets shown in the financial statements, minus impairment losses, represents the Bank's maximum exposure to credit risk without taking into account the value of collateral collected).

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

	31.12.2023			31.12.2022		
	Gross	**Impairment allowance**	**Net**	**Gross**	**Impairment allowance**	**Net**
I. Assets	**1,106,612**	**(17,732)**	**1,088,880**	**1,036,351**	**(12,875)**	**1,023,476**
Cash and accounts at banks	109,667	(100)	109,567	230,510	(215)	230,295
Due from banks	5,939	(6)	5,933	9,828	(10)	9,818
Obligatory reserve with the Central Bank of BiH	106,625	(107)	106,518	91,721	(92)	91,629
Financial assets at fair value through profit or loss	-	-	-	199	-	199
Financial assets at fair value through OCI	1,025	(10)	1,015	954	(9)	945
Loans to customers and receivables	506,140	(13,934)	492,206	429,846	(9,876)	419,970
Debt instruments at amortized cost	376,380	(3,459)	372,921	270,884	(2,643)	268,241
Other assets and receivables	836	(116)	720	2,409	(30)	2,379
II. Off-balance sheet	**65,172**	**(352)**	**64,820**	**63,033**	**(379)**	**62,654**
Payable guarantees	16,993	(84)	16,908	14,729	(87)	14,642
Performance guarantees	25,512	(119)	25,393	19,076	(90)	18,986
Approved unused financing lines	22,667	(148)	22,519	29,228	(202)	29,026
Total (I+II)	**1,171,774**	**(18,074)**	**1,153,700**	**1,099,375**	**(13,245)**	**1,085,130**

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

d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages the type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flow and by comparing maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

Maturity of financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023							
Non-interest bearing	-	28,785	-	-	1,015	-	29,800
Fixed interest rate instruments	2.64	201,822	26,759	229,293	328,707	356,892	1,143,473
		230,607	**26,759**	**229,293**	**329,722**	**356,892**	**1,173,273**
31 December 2022							
Non-interest bearing	-	43,091	-	-	945	-	44,036
Fixed interest rate instruments	2.31	298,994	35,875	131,235	288,918	284,119	1,039,141
		342,085	**35,875**	**131,235**	**289,863**	**284,119**	**1,083,177**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

Maturity of financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023							
Non-interest bearing	-	799,540	688	407	7,625	2,000	810,260
Fixed interest rate instruments	0.91	21,608	27,613	51,610	47,144	30,880	178,855
		821,148	**28,301**	**52,017**	**54,769**	**32,880**	**989,115**
31 December 2022							
Non-interest bearing	-	729,267	738	744	4,263	4,000	739,012
Fixed interest rate instruments	0.54	31,431	8,086	62,498	71,281	15,348	188,644
		760,698	**8,824**	**63,242**	**75,544**	**19,348**	**927,656**

The Bank expects to meet other obligations from due financial assets operating cash flows and inflows.

The Bank does not have any financial assets related to variable interest rate instruments. For financial assets there has been a decrease in the level of interest rates in accordance with market movements, and an increase in the share of the retail housing loans in the Bank's portfolio. In general, financial assets reflect prolonged periods of interest rate contracting, monitored through indicators set by the local regulator.

11. OVERVIEW OF CORPORATE GOVERNANCE RULES

Union Banka d.d. Sarajevo declares that it applies the Corporate Governance Policy adopted by the Supervisory Board, which combines the principles of corporate practice and organizational culture within the regulatory framework established by the FBiH Banking Law, FBiH Banking Law, FBiH Banking Agency laws and all other regulations. are appropriately applied to the Bank's operations.

Significant shareholders and restrictions on share rights

The Government of FBiH - through the Ministry of Finance is the most important individual shareholder of the Bank with 97.05% of the Bank's shares.

The Bank's shareholders exercise their rights at the Bank's General Meeting. The General Meeting of the Bank decides on issues determined by the Bank's Articles of Association.

The General Meeting of the Bank is convened by the Supervisory Board, except in cases when otherwise prescribed by law. A request to convene the General Meeting may also be submitted by: a shareholder or a group of shareholders with more than 10% of the total number of voting shares, a member of the Supervisory Board and a member of the Audit Committee.

Supervisory Board

The Supervisory Board consists of five members appointed and dismissed by the Bank's Assembly. The Bank's Supervisory Board must have at least two independent members, in accordance with the Law on Banks and the regulations of the FBiH Banking Agency. Members of the Supervisory Board are appointed for a period of four years with the possibility of re-election. The powers of the Supervisory Board are regulated by the Bank's Articles of Association.

In the period from 01.01.2023 to 31.12.2023 The Bank's Supervisory Board consisted of members, as follows:

- Maja Letica, President of the Supervisory Board
- Advija Alihodžić, member
- Dražena Pavlović- Tunjić, member
- Aida Hadžigrahić, member

Members of the Bank's Supervisory Board were appointed at the Bank's General Meeting held on May 20, 2019 for a period of 4 years.

Members of the Supervisory Board do not own shares in the Bank.

In 2023, 7 regular meetings of the Supervisory Board were held to discuss issues related to the Bank's operations. Professional support to the work of the Supervisory Board can be provided by specialized committees. As an obligatory board, an Audit Committee is appointed.

Audit Committee

The Audit Committee provides expert assistance to the Bank's Supervisory Board in supervising the Bank's operations and the work of the Bank's Management Board.

The Audit Committee has five members who are appointed for a period of four years, with the possibility of appointment for two consecutive terms.

A member of the Audit Committee may not be a member of the Supervisory Board, a member of the Bank's Management Board or a person employed by the Bank, nor may he have a direct or indirect financial interest in the Bank, except for any remuneration.

In the period from 01.01.2023. to 31.12.2023, the Audit Committee consisted of members, as follows:

- Hajrudin Hadžović, Chairman of the Audit Committee
- Damir Šapina, member
- Marko Čule, member
- Nermin Šahinović, member until 24 October 2023
- Lejla Demirović, member until 24 October 2023

In 2023, 5 meetings of the Audit Committee were held, at which issues related to the Bank's operations in the domain of the Audit Committee were discussed.

Management Board

The Bank's Management Board organizes its work, conducts business and represents the Bank.

The Bank's Management Board is responsible for the Bank's operations in accordance with the law, bylaws and decisions of the FBiH Banking Agency.

The Management Board of the Bank consists of three members, one of whom is appointed the President of the Management Board. The President and members of the Bank's Management Board are appointed by the Supervisory Board, and are appointed for a period of four years with the possibility of re-election.

The Bank's Management Board manages the Bank independently and at its own risk and has the full powers necessary for its purpose in accordance with the Banking Law, the Articles of Association and other internal acts of the Bank. Decisions of the Bank's Management Board must be independent of external factors and adopted in the interest of the Bank.

In the period from 01.01.2022. to 31.12.2023. The Management Board consisted of three members:

• Vedran Hadžiahmetović, President of the Management Board

• Leon Begić, Member of the Operations Management Board

• Edin Mujagić, member of the Risk Management Board

Members of the Management Board do not own shares in the Bank.

12. CONCLUDING REMARKS

Report is published publicly on website of Union Banka d.d. Sarajevo (https://www.unionbank.ba/).