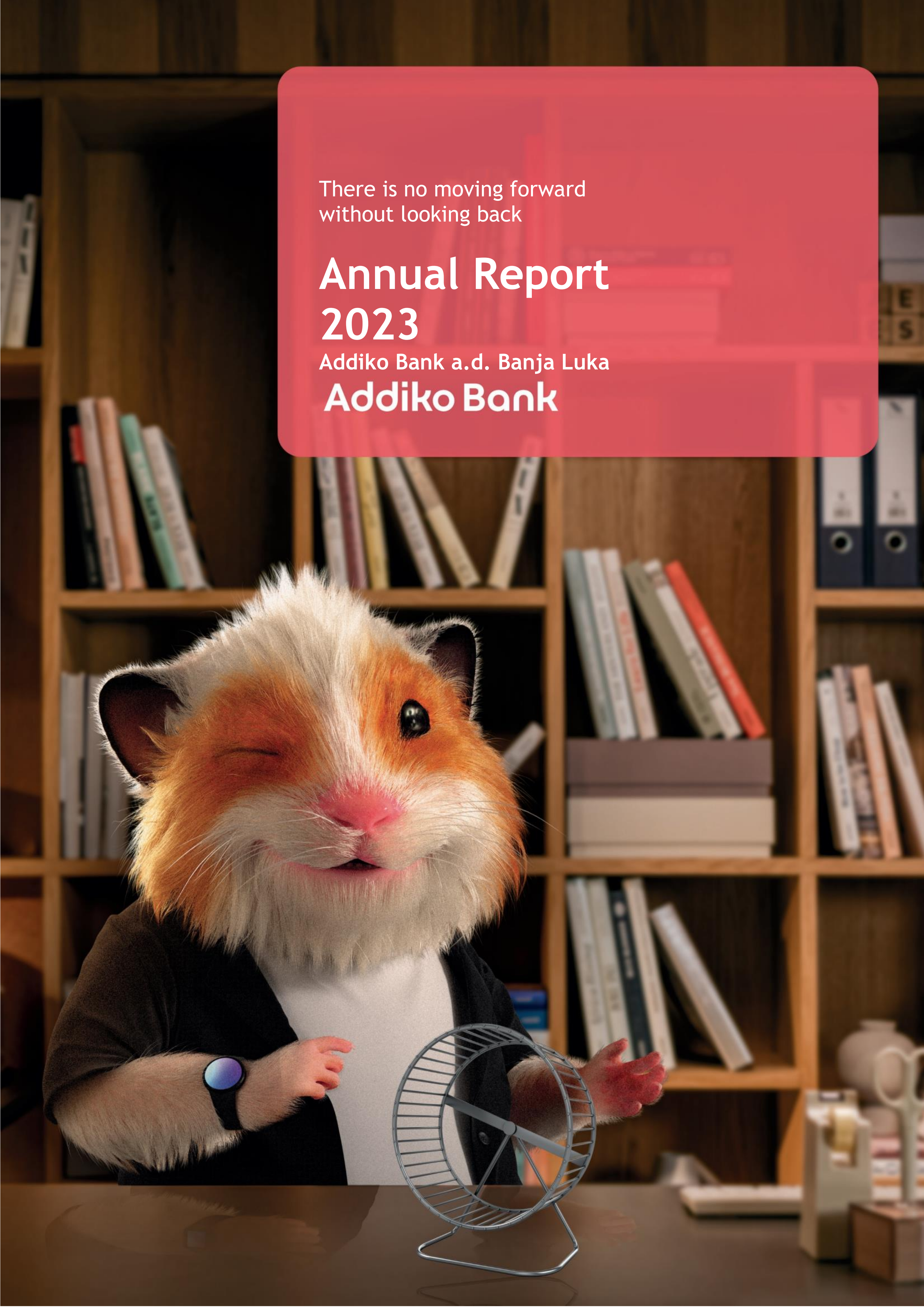
There is no moving forward
without looking back

Annual Report 2023

Addiko Bank a.d. Banja Luka

Addiko Bank



Key data are based on individual financial statements compiled in accordance with the legal accounting regulations applicable to banks in the Republic of Srpska ("RS"), which is based on the Law on Accounting and Auditing of RS and the Law on Banks of RS and by-laws of the Banking Agency of Republic of Srpska.

Key data

			(000) BAM
	2023	**2022**	**(%)**
Net banking income	59.568	48.844	22,0%
Net interest income	41.405	31.714	30,6%
Net fee and commission income	18.163	17.130	6,0%
Net result on financial instruments	-11	-23	-52,2%
Other operating result	-2.001	-1.665	20,2%
General administrative expenses	-32.265	-30.232	6,7%
Operating result before impairments and provisions	**25.291**	**16.924**	**49,4%**
Other result	-866	120	>100%
Credit loss expenses on financial assets	1.785	-2.636	>100%
Income tax	-2.677	-1.773	51,0%
Profit after tax	**23.533**	**12.635**	**86,3%**

Performance ratios	**2023**	**2022**	**(pts)**
Net interest income/total average assets	4,2%	3,3%	0,9
Return on average tangible equity	14,4%	8,2%	6,2
Cost/income ratio	54,2%	61,9%	-7,7
Cost of risk ratio	0,2%	-0,3%	0,5
Cost of risk ratio (net loans)	0,3%	-0,4%	0,7
Earnings per share (in BAM)	0,15	0,08	7,0

Selected items of the Statement of financial position	**2023**	**2022**	**(%)**
Loans and advances to customers	635.446	604.771	5,1%
Deposits of customers	793.718	752.896	5,4%
Equity	174.698	160.549	8,8%
Total assets	1.012.725	967.542	4,7%
Risk-weighted assets	688.614	663.638	3,8%

Balance sheet ratios	**2023**	**2022**	**(pts)**
Loan to deposit ratio	80,1%	80,3%	-0,3
NPE ratio (total exposure)	2,7%	2,9%	-0.2
NPE ratio (on balance loans)	3,5%	3,7%	-0,2
NPE coverage ratio	90,7%	90,7%	0,0
Liquidity coverage ratio	620,0%	302,2%	317,8
Common equity tier 1 ratio	21,0%	21,3%	-0,3
Total capital ratio	21,0%	21,3%	-0,3

Letter from the CEO

Dear clients, shareholders and employees,

The previous year 2023 will go down in the annals of Addiko Bank Banja Luka as the most successful year ever! Inevitably, the question arises as to what we have done differently, and what we have done better, in order to be the best during the fifty-second year of our bank's business operations, as long as we have been operating in the market under different names?

We put the focus on clients and their needs, providing them with a flawless, superior user experience. We carefully listened to all the clients' requests, discussed together the realistic bases of their expectations, and gave estimates and promises that we have actually fulfilled. We have improved our products and services and made them relevant, simple and current, which looks different for each client segment. In the Retail segment, the focus is on the simplicity and availability of products and services, through alternative channels that essentially become primary, while in business with small and medium enterprises we have created relevant products, enriched with advice tailored to the needs of entrepreneurs, along with the digital services we offer.

That this approach was correct is clearly shown by the growth in the number of clients. I am proud to share with you that over 150,000 clients work with Addiko Bank Banja Luka and see us as a key partner in their value chains. The growth of the base of clients who placed their trust in us resulted in a double-digit growth of almost all financial statements positions - except, of course, expenses and risk provisions.

The net profit has been continuously growing for the third year in a row, and so in 2023 it increased to BAM 23.5 million compared to BAM 12.6 million in 2022, which is an increase of 86% on an annual basis. Net interest income increased by 30.6%, while net fee and commission income increased by 6% compared to 2022. The focus on client expectations resulted in an 8% growth of our focus portfolio, i.e., loans for consumers and small and medium enterprises, and even 94% of these two segments' share in total gross perfoming loans at the end of 2023 was achieved. Even in 2023, the citizens had confidence in Addiko Bank Banja Luka, and this is shown by the growth of gross performing loans of as much as 12.8% (i.e., an increase by BAM 51.4 million).

Trust is the starting point, actually a basic requirement for all stakeholders, which is especially true for a digital bank like Addiko Banja Luka. Citizens trust us and prove it by entrusting us with their money. We recorded as much as BAM 40.8 million deposits more than the previous year. At the same time, they have entrusted us with their data, which is also very important. Safeguarding and maintaining this trust is of key importance, so we can boast of the highest security standards, compliance policies, getting to know our clients, and a developed, modern, but fundamentally conservative system of internal controls.

Our business is largely shaped by what is happening in the world around us, from economic and political developments to changing regulatory environments, global trends and social issues. The geopolitical and economic environment is likely to remain uncertain in 2024, which could also affect our clients. I am confident in our ability to perform well in these circumstances, continuing to help clients develop and take an increasingly significant role in the communities in which they operate.

We at Addiko Bank Banja Luka are aware that no one can achieve success in isolation. That is why, apart from the steps we take to meet client expectations, we have also developed interaction with all stakeholders, and all of that gave a special value to our business. Instead of having one-off consultations on certain topics, we conduct an ongoing dialogue about our role in society, the products and services we provide, the business performance we achieve and other topics.

We seek an open dialogue with our stakeholders, responding to their views and needs and supporting them in the challenges they encounter. Their input helps us balance competing expectations, solve problems in an informed manner and, most importantly, help us improve our business. Our capital adequacy is 21%, which is significantly above the prescribed legal minimum and indicates our tremendously stable position.

It is important to stress that the basis of our success and results are primarily our employees, and therefore I would like to thank them in particular. They are the most important factor in the implementation of the strategic goals we have set for ourselves. Their well-being, to which we are committed, together with the skills and abilities they invest themselves, are crucial for our success. By being willing to unlock the full potential of our employees, promoting a diverse, inclusive work culture where everyone feels a sense of belonging, we got the best from everyone. We have motivated employees, ready to give more than what is usually expected from them - often offering a wider smile, additional clarification, another piece of advice and endless patience. It shows and we are very proud of it.

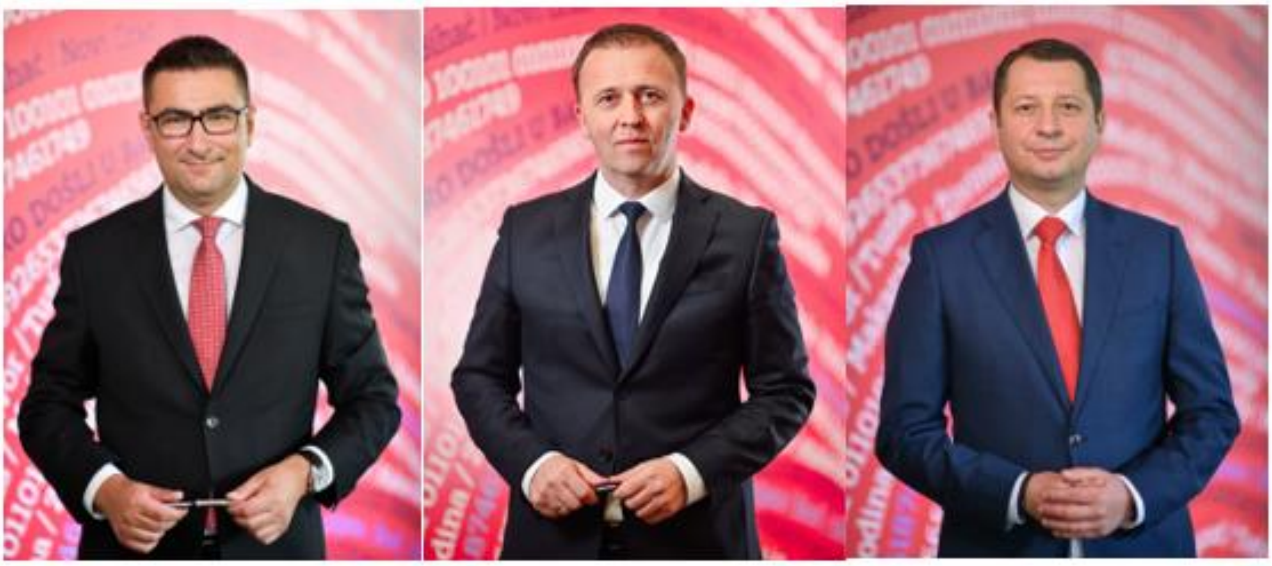
We at Addiko Bank Banja Luka do not make empty promises. We go a step further than the commitments we have taken and focus on actions and progress, and we confirm this again and again year after year. We create and develop our vision, plans and strategies, because we all stand behind them together and we are proud of the responsibility we have in this context. We share our successes, but also the challenges.

Strong financial results, a growing number of clients, an excellent NPS, as well as our progress in other areas such as sustainability and commitment to ESG principles, make me convinced that we are on a solid foundation, that we are able to withstand whatever the future brings and turn it into our advantage.

Sincerely,

Srđan Kondić, CEO of Addiko Bank a.d. Banja Luka

The Management Board of Addiko Bank a.d. Banja Luka



From left to right: Srđan Kondić – Chairman of the Management Board, Mile Todorović – Board Member, Slađan Stanić – Board Member.

Annual Report 2023

Any data is presented on the Addiko Bank a.d. Banja Luka level unless stated otherwise.

The tables in this report may contain rounding differences.

Management Report

Addiko Bank Banja Luka is a member of Addiko Group, a banking group specialized in doing business with consumers and small and medium-sized enterprises (SMEs) in Central and Southeastern Europe (CSEE). The Addiko Group consists of Addiko Bank AG, a fully licensed Austrian parent bank registered in Vienna, Austria, regulated by the Financial Markets Authority of Austria (FMA) and the European Central Bank, as well as six subsidiary banks, registered and licensed to provide services in five countries of Central and Southeastern Europe: Croatia, Slovenia, Bosnia and Herzegovina (where two banks operate: Addiko Bank a.d. Banja Luka and Addiko Bank d.d. Sarajevo), Serbia and Montenegro. As of December 31, 2023, Addiko Bank Banja Luka served approximately 150 thousand clients, using a well-spread network of 28 branches and digital banking channels.

In accordance with its strategy, Addiko Bank Banja Luka (hereinafter: Addiko Bank or Addiko Bank Banja Luka) has positioned itself as a specialist bank for consumers and SME with a focus on the growth of credit activities, as well as on payment services (from the "area in focus"), offering consumer loans for consumers and loans for working capital for SME, which are mainly financed from deposits of the population. Mortgage financing by Addiko Bank, financing of public institutions and large corporate clients ("areas that are not in the focus of business") are gradually reduced, providing liquidity and capital for gradual growth in the segment of business with consumers and SME.

Addiko Bank Banja Luka provides a modern user experience in accordance with its strategy of straightforwardbanking, which includes "focus on the essentials, efficiency and simple communication". Banking products and services are standardized, especially in the segment of business with consumers and the segment of business with small and medium-sized enterprises, with the aim of improving efficiency, reducing risk and maintaining asset quality.

1. Macroeconomic environment

Through 2023, geopolitical conflicts continue to dominate, primarily the war between Ukraine and Russia, which has been going on for two years and is causing constant market instability and additional uncertainty.

The Bank has no direct exposure to Russia and Ukraine, but indirect consequences, such as financial market instability.

Disruptions on commodity and energy markets influenced the inflation in the Eurozone peaking at 10,6% in October 2022, after which a significant downward trend is recorded in 2023, from 8,6% in January to 2,9% in December. However, depending on the measures taken by governments to fight inflation in individual member states, the rates of price increases in December 2023 varied widely.

The Central Bank of Bosnia and Herzegovina cannot influence the interest rates of commercial banks because it is organised as a currency board. As banks in Bosnia and Herzegovina currently rely almost entirely on domestic sources of financing, which are not tied to reference interest rates from the international market, the increase in interest rates is significantly lower compared to commercial banks in the Eurozone. Although interest rates have remained quite low, the inflation rate is decreasing rapidly in Bosnia and Herzegovina, from 14,1% in January to 2,2% in December.

GDP in the Eurozone on an annual basis increased by 0.5% primarily due to lower purchasing power of the population due to high inflation and reluctance to spend. In contrast to the low GDP growth in the Eurozone, Bosnia and Herzegovina is expected to achieve higher GDP growth in 2023 than the average in the European Union.

A significant generator of GDP growth in Bosnia and Herzegovina, in addition to the positive effects of remittances from abroad and continuous investments, is growth in the field of tourism. In accordance with the above, GDP is expected to grow by 1,75% in 2023, while the unemployment rate, although showing a positive trend in the last two years, remains at a high level. Bosnia and Herzegovina was making progress towards fulfilling EU requirements for Bosnia and Herzegovina's accession, with the improvement of the country's sovereign rating by the international rating agency Standard and Poor's (S&P) in August 2023 from 'B' to 'B+', with a stable outlook. The aforementioned increase was due to the resistance of the Bosnia and Herzegovina economy to geopolitical influences, the COVID-19 pandemic, several episodes of political instability and weaker external demand.

(Source: Eurostat, WIIW, Agency for Statistics of BiH, CBBH)

2. Acceleration program

In order to further drive value generation, Addiko was setting up a group-wide program in 2023, the "Acceleration Program". The overall goal of the program is to get closer to Addiko's ambition to become the best specialist bank for Consumers and SMEs in Central and Southeastern Europe (CSEE). The intention is to accelerate the Group's capabilities to create incremental value for its customers and to assure a faster achievement of the Group mid-term targets. The program is based on three main pillars:

- Business Growth in Focus Areas which is dedicated to enable constant, sustainable business growth within the current geography,
- Operational Excellence & Digital which is designed to address Operational Excellence & Digital to achieve further end-to-end process (E2E) optimisation of core processes across the Group and
- Best-in-Class Risk Management where the clear objective is to become best-in-class in risk management

3. Business updates

Marketing activities in 2023

In 2023, the main role of marketing was to drive customer acquisition while further strengthening the image and brand awareness of Addiko as the specialist bank for fast loans, available whenever and wherever.
Through 9 marketing campaigns that we implemented last year on all media channels from TV, radio, outdoor to social networks and online media, Addiko delivered transparent and understandable information about its products, thanks to our brand character, Oskar, which was animated last year.

The key branding initiative was a new image campaign rolled out in the region under "no time" umbrella message, executed in dynamic, modular and creative way that reinforces Addiko's image of the unusually fast and approachable bank in the market.

Product communication highlights included:

- Launch of the "Broken promise" campaign, promising a record-short feedback to clients on their loan request, with a concrete benefit in case of prolongation of the promise (response in 10 minutes or the first installment free of charge).
- Car loan offer and cooperation with the Peugeot distributor.
- Campaign for deposits, which at the time of publication was unique on the market.
- Promotion of unique fast and simply loans, the application of which requires only an identity card as a document.
- The SME Academy, as a competitive advantage in the SME business segment, was expanded to the territory of the entire Bosnia and Herzegovina in 2023 (together with ABSA).
- Campaign in cooperation with Mastercard and other activities and sponsorships.

In the plan for 2024, as part of the Acceleration Program, customer segmentation research conducted in Slovenia, Croatia and Serbia should be adapted to the Bosnia and Herzegovina market, as well as the improvement of digital advertising through the central management of digital marketing activities.

4. Financial development

4.1. Overview of financial performance

- Operating result before impairments and provisions up 49,4% to BAM 25.291 thousand vs. BAM 16.924 thousand last year.
- Credit loss costs for financial assets at 0,2% or BAM 1.785 thousand compared to BAM -2.636 thousand a year earlier.
- NPE ratio in relation to total exposure decreased to 2,7% (2022: 2,9%) while coverage the rate of non-performing exposure remained at approximately the same level at 90,7%.
- Return on average tangible equity up to 14,4% (2022: 8.2%).
- EPS of BAM 0,15 in 2023 compared to BAM 0,08 a year earlier.

The result after tax of BAM 23.533 thousand (2022: BAM 12.635) mostly reflected the strong business development as well as referent interest curve growth.

The share of the two focus segments Consumer and SME as a percentage of the gross performing loan book in-creased to 94% compared to 90% at year-end 2022. The overall customer gross performing loan book continued to grow in 2023, expanding to BAM 652.319 thousand, while the non-focus as well as the medium SME loan book decreased. The overall focus book grew by 8,1% YoY, while the focus portfolio excluding the medium SME loans showed significant growth of 11,2%.

Net interest income achieved robust growth of 30,6%, rising to BAM 41.405 thousand (2022: BAM 31.714 thousand) with improved NIM at 4,18% (2022: 3,32%). The net fee and commission income increased by 6,0% YoY to BAM 18.163 thousand as of year-end 2023 (2022: BAM 17.130 thousand).

General administrative expenses increased to BAM 32.265 thousand (2022: EUR 30.232 thousand) as consequence of the high level of inflation. The cost-income ratio saw further improvement, reaching 54,2% (2022: 61,9%), an improvement by nearly 8 percentage points.

The NPE ratio in relation to the total exposure is 2,7% while NPE ratio in relation to the balance exposure (EBA definition) is 2,4% which are the lowest rates in the last few year.

The CET1 ratio stood at 21,0% (2022: fully-loaded 21,3%).

4.2. Detailed analysis of the result

(000)BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022	(abs)	(%)
Net banking income	59.568	48.844	10.724	22,0%
Net interest income	41.405	31.714	9.691	30,6%
Net fee and commission income	18.163	17.130	1.033	6,0%
Net result on financial instruments	-11	-23	12	-52,2%
Other operating result	-2.001	-1.665	-336	20,2%
Operating income	**57.556**	**47.156**	**10.400**	**22,1%**
General administrative expenses	**-32.265**	**-30.232**	**-2.033**	**6,7%**
Operating result before impairments and provisions	**25.291**	**16.924**	**8.367**	**49,4%**
Other result	-866	120	-986	>100%
Credit loss expenses on financial assets	1.785	-2.636	4.421	>100%
Operating result before tax	**26.210**	**14.408**	**11.802**	**81,9%**
Tax on income	-2.677	-1.773	-904	51,0%
Result after tax	**23.533**	**12.635**	**10.898**	**86,3%**

Net banking income improved by BAM 10.724 thousand to BAM 59.568 thousand (2022: BAM 48.844 thousand).

Net interest income increased significantly by BAM 9.691 thousand, driven by the focus segments Consumer and SME as well as income related to liquidity management and treasury. The regular interest income in the Consumer segment increased by BAM 4.823 thousand compared with year-end 2022 on the back of an increased loan book volume (up BAM 56.420 thousand) and further price growth. The increase in the SME segment was driven by both higher gross performing loan volumes of high-yield Standard segment (up BAM 3.179 thousand) as well as significantly improved loan pricing on total SME gross performing portfolio (+152 bps YoY), supported by the change in market rates on both new business and variable back book. Interest income was additionally complemented by BAM 3.583 thousand reflecting the growth of the both cash and investment portfolio and referent market rates. Further intentionally run-down of the non-focus portfolio is also visible through the decrease in the loan book volume and consequently lower regular interest income in the amount of BAM -180 thousand. On the liabilities side, interest expenses naturally increased by BAM 228 thousand, due to both higher customer deposits volume (up BAM 40.822 thousand) and significant increase of interest rate on term deposits.

Net fee and commission income increased to BAM 18.163 thousand (2022: BAM 17.130 thousand) as a result of increased business activities in the Consumer segment (BAM +896 thousand) and the segment of SME (BAM 183 thousand). In the Consumer segment, this increase was mainly achieved by higher income from fees in the positions of accounts and packages, transactions, cards and loans, while in the segment of SME, the increase in income from fees mainly refers to the positions of accounts and packages, transactions and documentary business.

Net result on financial instruments amounts to BAM -11 thousand at the end of 2023 mainly as a result of foreign exchange and related trading activities (2022: BAM -23 thousand).

Other operating result, as a sum of other operating income and other operating expenses, changed by BAM -336 thousand, i.e. from BAM -1.665 thousand at the end of 2022 to BAM -2.001 thousand at the end of 2023.
This position includes the following significant items:

- Deposit insurance costs in the amount of BAM -1.802 thousand (2022: BAM -1.652 thousand).
- Bank charges and other fees in the amount of BAM -1.191 thousand in 2023 (2022: BAM -1.133 thousand).
- Profits from the sale of non-financial assets on the reporting date amount to BAM 766 thousand (2022: BAM 798 thousand).
- Income from investment properties in the amount of BAM 214 thousand (2022: BAM 321 thousand).

General administrative expenses from BAM -30.232 thousand at the end of 2022 to BAM -32.265 thousand at the end of 2023, which relate to the following main positions:

- Personnel expenses increased compared to the previous period from BAM -13.619 thousand at the end of 2022 to BAM -14.825 thousand as they amounted at the end of 2023. Personal expenses are higher primary due to the adjustment of employees' salaries to market conditions.
- Other administrative costs increased by BAM 1.427 thousand from BAM -12.980 thousand at the end of 2022 to BAM -14.407 thousand at the end of 2023 in line with overall price increase related to inflation.
- Depreciation and amortisation decreased by BAM 600 thousand from BAM -3.633 thousand at the end of 2022 to BAM -3.033 thousand at the year-end 2023.

Negative **Other result** in the amount of BAM -866 thousand at the end of 2023 (2022: BAM 120 thousand) is mainly the result of the net result from operational risks in the amount of BAM -1.823 thousand primarily due to VAT on fees for services performed by card companies.

Credit loss expenses on financial assets in the total amount of BAM 1.785 thousand (income) is primarily the result of the reduction of exposure at several larger corporate clients classified in Stage 2, and the positive effect that the regular updating of the PD model had on the level of expected credit losses.

Tax on income increased by BAM 904 thousand (from BAM -1.733 thousand in 2022 to BAM -2.677 thousand at the end of 2023) as a direct consequence of the increase in business results.

4.3. Detailed analysis of the statement of financial position

(000)BAM

	31.12.2023	31.12.2022	(abs)	(%)
Cash and cash reserves	263.063	235.261	27.802	11,8%
Loans and receivables	638.454	618.523	19.931	3,2%
Loans and advances to credit institutions	3.008	13.752	-10.744	-78,1%
Loans and advances to customers	635.446	604.771	30.675	5,1%
Investment securities	82.681	82.317	364	0,4%
Tangible assets	20.542	22.632	-2.090	-9,2%
Intangible assets	4.093	4.487	-394	-8,8%
Tax assets	1.997	1.889	108	5,7%
Deferred tax assets	1.997	1.889	108	5,7%
Other assets	1.895	2.433	-538	-22,1%
Total assets	**1.012.725**	**967.542**	**45.183**	**4,7%**

The statement of financial position shows a solid interest-bearing asset structure: 63% of the Bank's total assets are customer loans, most of which belong to the focus area of operations. In addition, a significant part of Bank‘s assets is represented by cash reserves and high-rated state bonds.

Total assets at the end of 2023 amount to BAM 1.012.725 thousand, with an increase of BAM 45.183 thousand or 4,7% compared to 2022 (2022: BAM 967.542 thousand). Total risk, i.e., the total amount of risk-weighted assets including credit, market and operational risk increased to BAM 688.614 thousand (2022: BAM 663.638 thousand) in line with focus portfolio growth.

Cash and cash reserves increased to BAM 263.063 thousand as of December 31, 2023, reflecting a solid liquidity position, which represents 26% of the Bank's total assets (2022: BAM 235.261 thousand).

Loans and advances to credit institutions (net) decreased by BAM 10.744 thousand to BAM 3.008 thousand (2022: BAM 13.752 thousand).

Loans and advances to customers (net) increased by BAM 30.675 thousand to BAM 635.446 thousand (2022: BAM 604.771 thousand). The rate of growth reflects Addiko’s strategy to continue the accelerated run-down of lower yielding Large Corporate, Mortgage and Public Finance lending to change the business composition in favour of higher value-adding lending business in the focus segments: Consumer and SME. As a result of activities initiated under the Transformation Program the gross performing loan book of the focus segments additionally increased by BAM 45.513 thousand to BAM 610.506 thousand (2022: BAM 564.993 thousand), representing 94% of the total gross performing loans to customers (2022: 90%). The non-focus segments decreased as planned.

Investment securities did not record significant changes during 2023, and was slightly increased from BAM 82.317 thousand at the end of 2022 to BAM 82.681 thousand as at December 31, 2023. Due to the good liquidity position Addiko Bank has adjusted its investment strategy in securities, with the aim of investing in long-term high-quality bonds and holding them to maturity in order to increase yield and collect interest income to maturity and in line with the afore-mentioned, investment that Bank had in 2023 was classified through the "Hold to Collect - HTC" business model and measured at amortized cost.

Tax assets increased to BAM 1.997 thousand (2022: BAM 1.889 thousand) due to increase in deferred tax assets.

Other assets were reduced to BAM 1.895 thousand (2022: BAM 2.433 thousand) due to decrease in prepaid expenses and other remaining assets.

	31.12.2023	31.12.2022	(abs)	(000)BAM (%)
Financial liabilities measured at amortised cost	828.711	800.082	28.629	3,6%
Deposits of credit institutions	14.005	15.969	-1.964	-12,3%
Deposits of customers	793.718	752.896	40.822	5,4%
Borrowings	13.905	22.519	-8.614	-38,3%
Other financial liabilities	7.083	8.698	-1.615	-18,6%
Provisions	2.601	1.814	787	43,4%
Tax liabilities	1.768	456	1.312	>100%
Current tax liabilities	1.768	456	1.312	>100%
Other liabilities	4.947	4.641	306	6,6%
Equity	174.698	160.549	14.149	8,8%
Total equity and liabilities	**1.012.725**	**967.542**	**45.183**	**4,7%**

Deposits of credit institutions decreased from BAM 15.969 thousand at the end of 2022 to BAM 14.005 thousand at the end of 2023.

Deposits of customers increased to BAM 793.718 thousand, which they amounted to at the end of 2023 (2022: BAM 752.896 thousand). The given liquidity profile is one of the advantages of both the Bank itself and the entire Group, which causes the Bank's low dependence on market financing conditions. About 36% of deposits are term deposits, mostly denominated in BAM, followed by EUR and US dollars (USD).

Borrowings were reduced from BAM 22.519 thousand at the end of 2022 to BAM 13.905 thousand at the end of 2023 in line with regular repayments of existing credit lines from banks and other financial institutions.

Other financial liabilities decreased from BAM 8.698 thousand at the end of 2022 to BAM 7.083 thousand at the end of 2022, mainly due to the reduction of the liability for advances received mainly due to decrease of leasing liabilities in amount of BAM 555 thousand and decrease of liabilities for received advances in amount of BAM 524 thousand.

Provisions were increased from BAM 1.814 thousand, which they amounted to in 2022, to BAM 2.601 thousand at the end of 2023. This position mainly includes provisions for litigation, provisions for contingent liabilities and guarantees.

Other liabilities increased in the amount of BAM 306 thousand (from BAM 4.641 thousand in 2022 to BAM 4.947 thousand in 2023). This position mainly consists of payroll liabilities, accruals for variable payments to employees, accrued income and temporary/pass-through accounts.

5. Capital and liquidity

According to financial data on December 31, 2023, the Bank meets all regulatory requirements and limits related to capital adequacy and liquidity.
The Bank has a strong capital base to cover the risks to which it is exposed in its operations, that is, a capital base that can support the current Bank's operations as well as any future operations, given the high capital adequacy rates and the financial leverage rate, which are significantly above the prescribed regulatory minimums.
In addition, the Bank fulfills all regulatory requirements regarding liquidity, i.e. requirements related to the maintenance of mandatory reserves within the reserve account at the Central Bank of BH, FX and maturity matching of financial assets and financial liabilities, etc., while the Bank's liquidity indicators (liquidity coverage ratio -LCR, net stable funding ratio-NSFR) are also significantly above the regulatory limits.

Regulatory capital requirements

As of December 31, 2023, the Bank's capital base consisted exclusively of regular core capital (CET1) at a rate of 21,0% (2022: 21,3%), which is significantly above the prescribed minimum. The bank's liquidity position remained strong, meeting all regulatory and internal requirements.

Capital requirement is consisting of:

- SREP Buffer of 2%,
- Capital Buffer of 2,5%

so that the total capital adequacy rate cannot be below 16,5%, the core capital rate below 13,5% and the regular core capital rate below 11,25%.
On December 31, 2023, all three mentioned rates amounted to 21,0%, which is significantly above the minimum prescribed requirement.

The leverage ratio for the Bank, was 13,6% (2022: 13,9%) which is significantly above the minimum prescribed requirement.

The Bank fulfills the MREL requirement in accordance with the defined dynamics.

Liquidity position

The liquidity position of the Bank remained strong, with liquidity indicators high above the regulatory requirements

During the financial year, the Bank recorded a stable level of deposits around BAM 185.801 thousand within LCR calculation. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2024
The main funding base at the Bank predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base. Loan to Deposit ratio (LTD) calculated as the ratio between net loans to customers and deposits from customers at 80,1% (2022: 80,3%) gives the Bank the potential for further customer loan placements

6. Outlook, dividend policy and risk factors

6.1. Outlook

After 2022, which was marked by instability and uncertainty caused by the consequences of the conflict in Ukraine, 2023 carried over most of the risks from the previous year, but with a much lower intensity. The global economy struggled with the effects of higher interest rates and lower external demand, which, along with geopolitical events, had a significant impact on economic growth.

From the point of view of the countries in which Addiko operates, including Bosnia and Herzegovina, the global geopolitical situation is reflected mainly through inflation, although it has stabilized quite a bit in the second half of 2023. After a significant increase in interest rates during 2022 and in the first half of 2023, their stagnation was recorded, which is primarily a consequence of the reduction of inflationary pressures in most EU countries.

Economic growth in Addiko countries has been relatively strong, outperforming most other Eastern European countries and the EU. The expectations are that the Addiko Group's key markets will record GDP growth of 1,9%-2,9% in 2024. According to projections, inflation will be at a significantly lower level, between 3,0% and 5,5%, and unemployment rates will remain without significant fluctuations compared to current levels, in all markets.

In Bosnia and Herzegovina, the economy is expected to grow by 1,9% in 2024, which is still lower than in most other countries of the Western Balkans. It is estimated that public infrastructure projects and private sector investments will be implemented at a slower pace, while a gradual growth in consumption and exports is expected. With a further increase in energy prices, it is predicted that inflation in 2024 will be at the level of 3,2%, which as a result has a negative impact on the standard of living because the increase in salaries and pensions are not aligned with rising market prices.

6.2. Dividend policy

Addiko ability and intention to pay dividends depends on the financial position, operating results, regulatory capital requirements, including capital reserve requirements, MREL objectives, investment alternatives and other factors that the Management Board and the Supervisory Board may consider relevant, and all proposals of the Management Board and the Supervisory Board regarding the payment of dividends will be subject to approval at the General Meeting of Shareholders. The payment of dividends is also subject to the maintenance of relevant thresholds in terms of capital ratios which, among other things, require that the payment of such dividends be consistent with the Bank's long-term and sustainable operations and in accordance with applicable regulatory requirements.

6.3. Risk factors

Given that Addiko is focused on consumer segments and small and medium-sized enterprises, its business is particularly tied to the economic cycle and economic trends.

In addition to the major geopolitical crisis caused by the escalation of the Russian-Ukrainian war, economic risks could be expressed through four main factors that play a decisive role for the local economies: employment, inflation, the pace and extent of monetary policy tightening and economic growth. All of these can have a major impact on domestic demand for loans or the ability of customers to repay outstanding amounts. In situations of rising inflation driven by rising market prices, central banks would be forced to further increase the reference rate, which might not only lead to financial market volatility but could also cause a severe recession.

7. Corporate Governance

The President of the Bank's Management Board is Mr. Srđan Kondić, who was appointed to that position by the Supervisory Board on October 1, 2020. Mr. Kondić is responsible for the CEO area, but also for the Corporate Market area (CCMO). With over 15 years in the banking sector, Mr. Srđan Kondić, brings a wealth of experience, deep knowledge and strategic perspective. With a background in the banking sector as well as regulatory authorities, (he) possesses a unique vantage point, providing him with an unparalleled understanding of the market from different angles which enables him to offer a holistic perspective and customised solutions. His expertise in regulatory affairs, backed by a PhD and MBA in Banking, makes him prepared for any challenge that may arise

Mr. Slađan Stanić is a member of the Management Board responsible for risk and financial management (CFO and CRO). He was appointed to the above position by the Supervisory Board of the Bank on December 18, 2020. Mr. Stanić is an excellent banker with unique experience in risk management in the banking sector of Bosnia and Herzegovina and beyond and has significant experience in financial management.

Since September 1, 2021, Mr. Mile Todorović, as a member of the Bank's Management Board, has been managing the business segment related to Retail sales (CRMO) operations and the management of information technologies (COO) in the Bank. Before being appointed to the Bank's Management Board, Mr. Todorović was managing the Bank's department responsible for doing business with consumers (Retail).

7.1. Corporate governance standards

Addiko Bank Banja Luka applies the Corporate Governance Standards (https://cms.blberza.com/api/files/cms2/docver/20830/files/Stabdardi%20eng..pdf). The standards of corporate management determine in more detail the mechanisms of functioning and protection of interests in the mutual relations of various interest holders (interested parties) in the joint stock company. The standards are established on the basis of the following principles of corporate governance:

1. Ensuring the basis for effective application of principles of management of joint stock companies;
2. Shareholder rights and key ownership functions;
3. Equal treatment of shareholders;
4. The role of interested parties - interest holders in the management of joint stock companies;
5. Publication and publicity of information;
6. Role and responsibilities of the board.

8. Capital, shares, voting and control rights

The Bank's share capital on the reporting date amounts to BAM 153.094.025 and is divided into 153.094.025 voting shares with a nominal value of BAM 1.00 per share. The Company's Statute does not contain any restrictions regarding the right to vote or the transfer of shares, and the Management Board is not aware of any other such provisions. There is no control of voting rights for employees who own shares.
Addiko Bank AG, Vienna, Austria, owns 99,9% of the Bank's share capital.
The Bank's owner is Addiko Bank AG, Vienna, Austria, holding a 99,9% equity interest therein.
No compensation contracts have been concluded between the Bank and members of its Management Board and Supervisory Board or employees in the event of a public takeover bid.

9. Internal Control System for accounting procedures

Addiko Bank has an internal control system (ICS) for accounting procedures, in which appropriate structures and processes are defined and implemented throughout the organisation.

The goal of Addiko Bank's internal control system is to ensure effective and efficient operations, appropriate identification, measurement and mitigation of risks, reasonable business management, reliability of reported financial and non-financial information, internally and externally, and compliance with laws, regulations, regulatory requirements and internal regulations and decisions.
The internal control system consists of a series of rules, procedures and organisational structures aimed to:

- ensure the implementation of the corporate strategy,
- achieve effective and efficient corporate processes;
- preserve the value of corporate assets;
- ensure the reliability and integrity of accounting and management data,
- ensure that business is in compliance with all applicable rules and regulations.

Special goals in relation to Addiko Bank's accounting procedures are that the Internal Control System ensures that all business transactions are recorded immediately, correctly and in a unique way. Implementation of the internal control system in relation to the financial reporting process is also determined by internal rules and regulations.
The Bank's internal control system is built on a process-oriented approach. Addiko Bank manages control activities through process documentation, which includes monitoring and documenting each process, including information on the flow of the process according to internal guidelines for process management.
The overall effectiveness of internal controls is regularly monitored. Monitoring key risks is part of Addiko Bank's daily activities, as well as periodic assessments by business lines, internal control functions, internal audit departments, risk management departments, Compliance and AML departments.
Regular monitoring of the internal control system and timely reporting on the lack of internal control and escalation of problems to interested parties (e.g., boards) has been established. Deficiencies in internal control, whether recognised by the business line, internal audit, or other control functions, are promptly reported to the appropriate level of management for further decision-making and immediately addressed.
Internal audit performs independent and regular checks of business compliance with legal provisions and internal rules.

The internal control system itself is not static, but constantly adapts to the changing environment. The implementation of the internal control system is basically based on the integrity and ethical behavior of employees. The Management Board and management of the Bank actively and consciously accept their role of leading by example by promoting high standards of ethics and integrity and by establishing a culture of risk and control within the organisation that emphasizes and demonstrates to employees at all levels the importance of internal controls.

10. Sustainability

Managing Sustainability in 2023

Bank has recognised the crucial role that financial institutions play in shaping a more sustainable future. With a steadfast commitment to integrating sustainability into its operations, bank diligently embedded environmental, social and governance principles into its core values. Building upon this foundation, the year 2023 marked a significant milestone as bank undertook key initiatives to translate its sustainability vision into impactful actions. Addiko supports the growing importance and relevance of the broad ESG (environmental-social-governance framework) agenda, particularly climate change, for its business and operational environment.

Transparent Reporting

Addiko Group in 2023 on consolidated level, for the first time disclosed its Sustainability Report adhering to the Corporate Sustainability Re-porting Directive (CSRD), showing Addiko's proactive approach to meeting the recently adopted European Sustainability Reporting. Bank aims to provide stakeholders with insights into its environmental, social, and governance performance, reinforcing its commitment to responsible banking practices.

Climate-Related Risk Assessment

Bank recognises the urgency of addressing climate change and its associated risks. In response, bank has undertaken a thorough climate-related and environmental risks assessment, aligning with guidelines from the European Banking Authority (EBA). This evaluation aims to identify potential risk factors and understand their impact on bank's business model. By proactively engaging in this assessment, bank can effectively mitigate climate-related risks, while also identifying opportunities for sustainable growth in line with the market demands.
Furthermore, Addiko is committed to reducing its carbon footprint by closely monitoring energy consumption and greenhouse gas (GHG) emissions. The bank is proactively formulating and implementing initiatives to minimize its environmental impact and transition towards more sustainable practices. In line with these efforts, Addiko is actively pursuing environmental initiatives, including transitioning to an hybrid car fleet and implementing loan restrictions on industries with substantial contributions to climate change. These measures not only help mitigate climate risks but also contribute to fostering a greener and more sustainable future.

ESG strategy

As a major milestone in its sustainable transformation, has adopted the ESG strategy by mid-2023, strategy is closely related to Bank's operations and risk strategy. The ESG strategy will support the inclusion of ESG indicators in governance, credit approval, risk management. The ESG strategy will also determine which climate and environmental (C&E) risks may affect the business strategy and how to reflect those risks in the implementation of the business strategy. Within the ESG strategy, Bank has established specific sustainable development goals in order to demonstrate its commitment to meeting the adopted goals through the execution of 15 initiatives that promote ESG awareness.

ESG Governance and Responsible Practice

Addiko implemented a robust sustainability governance framework, integrating sustainability considerations across various organisational levels. This framework ensures that sustainability receives attention from top decision-makers, while being integrated into daily operations. With clearly defined structures and assigned responsibilities, Addiko established the groundwork for comprehensive sustainability governance throughout its operations.
Bank places great importance on engaging with its stakeholders including customers, employees, shareholders, and regulatory authorities and throughout active interaction with them is promoting sustainability awareness.
In 2024. Bank will continue with firm dedication for improvement process of data collection and increasing readiness to fulfill reporting liabilities.

11. Other disclosures

For requirements on events after the reporting date, see note (74). Additionally, information on the use of financial instruments is presented in note (67) Fair value disclosure.

12. Research & Development

Addiko Bank Banja Luka does not conduct research and development activities

Financial Statements

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

I. Statement of comprehensive income

Statement of profit or loss

(000) BAM

	Note	01.01. - 31.12.2023	01.01. - 31.12.2022
Interest income calculated using the effective interest method		44.158	36.526
Other interest income		2.443	156
Interest expenses		-5.196	-4.968
Net interest income	(28)	**41.405**	**31.714**
Fee and commission income		22.943	21.342
Fee and commission expenses		-4.780	-4.212
Net fee and commission income	(29)	**18.163**	**17.130**
Net result on financial instruments	(30)	-11	-23
Other operating income	(31)	1.340	1.485
Other operating expenses	(31)	-3.341	-3.150
Operating income		**57.556**	**47.156**
Personnel expenses	(32)	-14.825	-13.619
Other administrative expenses	(33)	-14.407	-12.980
Depreciation and amortisation	(34)	-3.033	-3.633
Operating expenses		**-32.265**	**-30.232**
Operating result before impairments and provisions		**25.291**	**16.924**
Other result	(35)	-866	120
Credit loss expenses on financial assets	(36)	1.785	-2.636
Result before tax		**26.210**	**14.408**
Tax on income	(37)	-2.677	-1.773
Result after tax		**23.533**	**12.635**
thereof attributable to equity holders of parent		23.533	12.635

	31.12.2023	31.12.2022
Result after tax attributable to ordinary shareholders (in TBAM)	23.533	12.635
Number of ordinary shares (in units of shares)	153.094.205	153.094.205
Earnings per share (in BAM)	**0,15**	**0,08**

The following notes (1) - (75) are an integral part of these financial statements.

Statement of other comprehensive income

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Result after tax	**23.533**	**12.635**
Other comprehensive income	2.619	**-7.457**
Items that will not be reclassified to profit or loss	**-53**	**-192**
Tangible assets	-121	-294
Actuarial gains or losses on defined benefit plans	-61	10
Fair value reserve - equity instruments	122	12
Net change in fair value	122	12
Income Tax	7	80
Items that may be reclassified to profit or loss	**2.672**	**-7.265**
Fair value reserve - debt instruments	2.672	-7.265
Net change in fair value	2.955	-8.059
Net amount transferred to profit or loss	0	2
Income Tax	-283	792
Total comprehensive income for the year	**26.152**	**5.178**
thereof attributable to equity holders of parent	26.152	5.178

The following notes (1) - (75) are an integral part of these financial statements.

II. Statement of financial position

(000) BAM

	Note	31.12.2023	31.12.2022
Assets			
Cash reserves	(38)	263.063	235.261
Loans and receivables	(39)	638.454	618.523
Loans and advances to credit institutions		3.008	13.752
Loans and advances to customers		635.446	604.771
Investment securities	(40)	82.681	82.317
Tangible assets	(41,43)	20.542	22.632
Property, plant and equipment		19.843	20.656
Investment property		699	1.976
Intangible assets	(42,43)	4.093	4.487
Tax assets	(37)	1.997	1.889
Deferred tax assets		1.997	1.889
Other assets	(44)	1.895	2.433
Total assets		**1.012.725**	**967.542**
Liabilities			
Financial liabilities measured at amortised cost	(45)	828.711	800.082
Deposits of credit institutions		14.005	15.969
Deposits of customers		793.718	752.896
Borrowings		13.905	22.519
Other financial liabilities		7.083	8.698
Provisions	(46)	2.601	1.814
Tax liabilities	(37)	1.768	456
Current tax liabilities		1.768	456
Other liabilities	(47)	4.947	4.641
Total liabilities		**838.027**	**806.993**
Equity	**(48)**		
Share capital		153.094	153.094
Legal reserves		1.009	377
Revaluation reserves		-104	69
Fair value reserve		-3.375	-6.156
Retained earnings		24.074	13.165
Other reserves		0	0
Total equity		**174.698**	**160.549**
Total liabilities and equity		**1.012.725**	**967.542**

1) The comparative figures have been amended. Reference to Note (2) Changes in the presentation of the financial statements for further details.

The following notes (1) - (75) are an integral part of these financial statements.

III. Statement of changes in equity

(000) BAM

31.12.2023	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 31.12.2022	**153.094**	**377**	**69**	**-6.156**	**13.165**	**0**	**160.549**
Adjustements	0	0	0	0	0	0	0
Equity as at 01.01.2023	**153.094**	**377**	**69**	**-6.156**	**13.165**	**0**	**160.549**
Result after tax	0	0		0	23.533		23.533
Other comprehensive income	**0**	**0**	**-173**	**2.781**	**11**	**0**	**2.619**
Actuarial gains or (-) losses on defined benefit pension plans	0	0	-61	0	0	0	-61
Fair value changes (equity instruments)	0	0	0	122	0	0	122
Fair value changes (debt instruments)	0	0	0	2.955	0	0	2.955
Transfer to profit or loss	0	0			0	0	0
Other	0	0	-112	-296	11	0	-397
Total comprehensive income	**0**	**0**	**-173**	**2.781**	**23.544**	**0**	**26.152**
Dividend payment	0	0	0	0	-12.003	0	-12.003
Other changes	0	632	0	0	-632	0	0
Equity as at 31.12.2023	**153.094**	**1.009**	**-104**	**-3.375**	**24.074**	**0**	**174.698**

(000) BAM

31.12.2022	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 31.12.2021	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**
Adjustements	0	0	0	0	0	0	0
Equity as at 01.01.2022	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**
Result after tax	0	0		0	12.635		12.635
Other comprehensive income	**0**	**0**	**-733**	**-7.254**	**530**	**0**	**-7.457**
Actuarial gains or (-) losses on defined benefit pension plans	0	0	10	0	0	0	10
Fair value changes (equity instruments)	0	0	0	12	0	0	12
Fair value changes (debt instruments)	0	0	0	-8.059	0	0	-8.059
Transfer to profit or loss	0	0		2	0	0	2
Other	0	0	-743	791	530	0	578
Total comprehensive income	**0**	**0**	**-733**	**-7.254**	**13.165**	**0**	**5.178**
Dividend payment	0	0	0	0	-2.649	0	-2.649
Other changes	0	377	0	0	-4.888	4.511	0
Equity as at 31.12.2022	**153.094**	**377**	**69**	**-6.156**	**13.165**	**0**	**160.549**

The following notes (1) - (75) are an integral part of these financial statements.

IV. Statement of cash flows

	2023	2022
Cash flows from operating activities:		
Received interest and similar income calculated using the effective interest method	42.854	34.048
Paid interest and similar income calculated using the effective interest method	-4.137	-5.188
Received fees and commissions	22.722	21.127
Paid fees and commissions	-4.179	-4.154
Net outflow from derivative financial instruments	-41	-25
Collection of loans previously written off	5.220	4.705
Cash paid to employees	-13.782	-12.451
Payment of operative expenses	-18.104	-17.120
Other inflow from operating activities	0	1.546
Other outflow from operating activities	-2.847	-1.637
Income taxes paid	-1.366	-403
Cash flows from operating activities before changes on operating assets and liabilities	**26.340**	**20.448**
Net decrease/(increase) of deposits at credit institutions	11.735	-4.832
Net increase of loans and advances to customers	-30.434	-51.602
Net decrease of other assets	1.317	1.737
Net (decrease)/increase of deposits from banks and other financial institutions	-2.889	15.630
Net increase of deposits from customers	40.585	25.099
Net decrease of provisions for liabilities	-1.482	-1.986
Net decrease of other liabilities	-38	-804
Net cash from operating activities	**45.134**	**3.690**
Cash flows from investing activities:		
Investments in debt securities at fair value through other comprehensive income	0	-9.453
Sale of debt securities at fair value through other comprehensive income	23.652	8.939
Investment in other financial instruments at amortised cost	-19.550	0
Purchases of tangible assets	-1.016	-1.370
Sale of tangible assets	25	505
Sale of investment properties	2.117	0
Purchases of intangible assets	-1.189	-950
Dividend received	4	4
Net cash from investing activities	**4.043**	**-2.325**
Cash flows from financing activities:		
Dividend payment	-11.991	-2.646
Paid principal for borrowings from banks	-3.074	-4.471
Paid principal for borrowings from other financial institutions	-5.449	-8.346
Payment of lease liability	-869	-717
Net cash from financing activities	-21.383	-16.180
Net increase/(decrease) in cash and cash equivalents	**27.794**	**-14.815**
Cash and cash equivalents at the beginning of year	**235.746**	**250.523**
Foreign exchange effects	45	38
Cash and cash equivalents at the end of year	**263.585**	**235.746**

The following notes (1) - (75) are an integral part of these financial statements.

V. Notes to the Financial Statements

Company

Addiko Bank a.d. Banja Luka (hereinafter the ''Bank'') is a legal successor of Kristal Banka a.d., Banja Luka which was initially registered as a separate legal entity as at September 30, 1992, and subsequently transformed into a shareholders' company as at May 16, 1997. Prior to its establishment as an independent bank, the Bank operated as a main branch of Jugobanka Jubanka d.d., Sarajevo, a related party of Jugobanka d.d., Beograd.
Under Decision of the district Commercial court of Banja Luka (no. 057-0-Reg-16-002147) dated October 28, 2016, the Bank changed its name to the current legal name.
The Bank is licensed in the Republic of Srpska to perform banking operations related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Srpska banking legislation, it is obligated to operate based on the principles of liquidity, solvency and profitability.
The Bank's registered Head Office is located at no. 13, Aleja Svetog Save St., Banja Luka, Republic of Srpska. As of December 31, 2023, besides the Head Office located in Banja Luka, the Bank had 28 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2022: the Head Office located in Banja Luka and 28 branch offices).
The Bank's owner is Addiko Bank AG, a member of Addiko Group, holding a 99,9% equity interest therein.

Accounting policies

(1) Accounting principles and statement of compliance

The financial statements of the Bank have been prepared in accordance with the accounting regulations applicable to banks in Republika Srpska (RS), which are based on the Law on Accounting and Auditing in RS, Law on Banks of RS, and bylaws of the Banking Agency of RS, passed based on aforementioned laws.

- The Law on Accounting and Auditing in RS stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).
- The Law on Banks of RS stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in RS, this law and bylaws passed based on both laws.
- The Banking Agency of Republic of Srpska (BARS) adopted the Decision on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2020, and which resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision, which are not required by IFRS 9: Financial Instruments (IFRS 9). The Decision has an effect on valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRSs).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of BAM 14.241 thousand compared to the amount calculated by using the Bank's internal methodology in line with the requirements of IFRS 9. This difference as at 31 December 2022 (2022: BAM 15.063 thousand) arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 4.855 thousand (2022: BAM 2.205 thousand),
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 7.527 thousand (2022: BAM 10.593 thousand),
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of BAM 958 thousand (2022: BAM 2.805 thousand), of which the amount of BAM 958 thousand refers to exposures not secured by acceptable collateral, the amount of BAM -65 thousand refers to exposures secured by acceptable collateral. The amount of BAM 268 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets by amount of BAM 0 thousand (2022: BAM 638 thousand) compared to the value of those assets in accordance with IAS 2 (BAM 0 thousand); hence value of the repossessed assets as at 31 December 2023 was BAM 0 thousand (see note 45). In accordance with the Decision, the Bank recorded the acquired tangible assets at net carrying amount of receivables acquired in the process of collection of receivables, so that it does not recognize revenue from acquisition of assets before its actual sale / realisation.

The aforementioned difference arose based on the assets:
- acquired in the last three years in amount BAM 0 (2022: BAM 0 thousand),
- acquired in the period longer then three years in amount of BAM 0 thousand (2022: BAM 638 thousand).

Previously described differences between the statutory accounting regulations applicable to banks in RS and requirements for recognition and measurement under International Financial Reporting Standards have resulted in the following effects:

(000) BAM

	31.December 2023.	31.December 2022.
Total Assets (carrying amount)	**1.012.725**	**967.542**
Diffrence in provisions for loans and advances	13.070	15.102
Diffrence in repossessed assets	0	638
Total Assets	**1.025.795**	**983.282**
Total Liabilities (carrying amount)	**838.027**	806.993
Diffrence in provisions for off-balance	-901	-286
Total Liabilities	**837.126**	**806.707**
Equity (carrying amount)	**174.698**	160.549
Diffrence in provisions for debt secuirites	-271	-216
Diffrence in retained earnings	14.242	16.242
Total Equity	**188.669**	**176.575**
Liabilities and Equity	**1.025.795**	**983.282**

(000) BAM

	Year ended	
	31. December 2023.	31. December 2022.
Result before tax (carrying amount)	**26.210**	**14.408**
Repossessed assets	-638	-40
Diffrence in provisions	-1.362	9.510
Result before tax	**24.210**	**23.878**

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. Generally, the statement of financial position is structured in order from a higher liquidity ratio to a lower one. Amounts expected or achievable within twelve or more months from the reporting date are set out in Note (62) Analysis of Remaining Maturities.

The financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate in the foreseeable future. For estimates and assumptions in accordance with IAS 1, please see Note (5) Use of estimates and assumptions / material uncertainties regarding estimates.

1.1. Basis of presentation

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards, except where the Regulator requires alignment (see Note 1). They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

The figures in the financial statements are generally stated in thousands of convertible marks (ths BAM); the convertible mark (BAM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1,95583). The tables shown may contain rounding differences.

On 6 March 2024, the Management Board of the Bank approved the financial statements as at 31 December 2023 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and it approves the financial statements as at 31 December 2023.

(2) Changes in the presentations of financial statements

For the purpose of better presentation of compliance with the applicable accounting standards, in 2023, in relation to published reports for 2022, the Bank has made reclassifications as follows:
- the amount of BAM 1.378 thousand relates to the cash outflow from the ATM after the cut-off time, was reclassified from Other assets to Loans and receivables from banks
- the amount of BAM 1.687 thousand related to liabilities for variable payments to employees were reclassified from Provisions to Other liabilities.

(3) Application of new standards and amendments

3.1. New standards

New standards, interpretations and their amendments which can be applicable for the Bank are listed below.
The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2023:

Standard	Name	Description	Impact
IFRS 17	IFRS 17 Insurance contracts	New Standard replacing IFRS 4	No impact
IFRS 17	Amendments to IFRS 17 Insurance contracts	Initial application of IFRS 17 and IFRS 9 - Comparative information	No impact
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Disclosure of Accounting policies	No significant changes
IAS 8	Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors	Definition of Accounting Estimates	No significant changes
IAS 12	IAS 12 Income Taxes	Deferred Tax related to Assets and liabilities arising from a Single Transaction	No significant changes
IAS 12	Amendments to IAS 12 Income Taxes	International Tax Reform - Pillar Two Model Rules	No impact

New standard IFRS 17 Insurance contracts replaced IFRS 4 Insurance contracts. It applies to annual reporting periods beginning on or after 1 January 2023. Application of this standard in Republic of Srpska has been prolonged until 2027. Insurance contract is a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
The Bank assessed of the relevant criteria whether the issued contract is an insurance contract and the impact of IFRS 17 Insurance contracts on the Bank in these business areas:

Financial guarantees
Financial guarantee contracts require the issuer to make specified payments, to reimburse the holder for a loss that it incurs because a specified debtor fails to make a payment when due, meet the definition of an insurance contract. They are, however, outside the scope of IFRS 17, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used the accounting guidance applicable to insurance contracts. Bank chose to treat financial guarantees according to IFRS 7, IFRS 9 and IAS 32.

Credit cards and other payment arrangements
Some credit card contracts (or similar contracts that provide credit or payment arrangements) meet the definition of an insurance contract, because they make payments to the card holder in circumstances that meet the definition of insurance risk. Examples include if the holder uses the card to purchase goods or services that turn out to be faulty or are not delivered, or if the holder is 'scammed' into making an invalid payment. Bank´s contract pricing does not reflect an assessment of the individual customer's insurance risk, IFRS 17 does not apply to the contract in its entirety.

Performance guarantees
In The Bank performance guarantees compensate the beneficiary, if Bank's client fails to perform his obligations (i.e. to design, develop, manufacture, construct or produce products or production facilities (and related non-monetary obligations) or to provide services related to any of the foregoing) according to the requirements specified in client's contract with the beneficiary of the guarantee. An adverse affect on the policyholder is a precondition for the payment. Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure (IFRS 17.B13, IFRS 4.B14).
In The Bank the payment of a guarantee is made, when the guarantee is called, independent of whether the specified uncertain event has caused an adverse impact on the beneficiary or not.

The Bank does not have the right to investigate whether the event actually caused an adverse effect and to deny the payment if it is not satisfied that the event caused an adverse effect. This means that a main feature of the definition of insurance contract is not fulfilled. Therefore, the performance guarantees, which are offered by Bank, cannot be considered as insurance contracts that are in scope of IFRS 17.

The Bank does not bear any risk to pay additional amounts, in the cases where the bank has a contractual right to receive back the money that it paid to the beneficiary from its client's account. This means that there is a risk of loss of money, if the customer defaults. There is a regular credit risk whose existence is conditional on occurrence of an event rather than an insurance risk.

Insurance contracts
When Bank offer insurance (e.g. travel insurance), Bank always acts as Agent, not as a Principal (as defined in IFRS 15), therefore there is no transfer of insurance risk.

Death waivers
In case of the death of loan costumer, insurance will cover the outstanding balance of the loan principal determined on the day of death. Bank is a policyholder, therefore there is no transfer of insurance risk and no application of IFRS 17. Provided that no other scope exclusions apply (according to IFRS 17.7), an entity can choose to apply either IFRS 9 or IFRS 17 to contracts which limit the compensation to the amount otherwise required to settle the policyholder's obligation created by the contract. After the assessment the Bank came to the conclusion that the new standard IFRS 17 Insurance contracts and its amendments do not result in an impact and changes within the Bank.

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

The amendments to IAS 8 replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The amendment applies to annual reporting periods beginning on or after 1 January 2023. These amendments do not to result in any significant changes within the Bank.

The amendments to IAS 12 provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Following the amendments to IAS 12, when tax deductions are attributable to the lease liability, temporary differences associated with the lease asset and lease liability arise on initial recognition of the lease, an entity is required to recognise the related deferred tax asset and liability. The amendment applies to annual reporting periods beginning on or after 1 January 2023, applying to transactions that occurred on or after the beginning of the earliest comparative period. There was no impact on the statement of financial position because the of IAS balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change.

The amendments to **IAS 12** create a temporary mandatory exception to the requirements of IAS 12 Income Taxes from recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two income taxes, in case Pillar Two legislation has been enacted in jurisdictions the Group operates. The Amendments also provide for additional disclosure requirements with respect to an entity's exposure to Pillar Two income taxes. Pillar Two model rules generally apply to multinational groups with revenue in their consolidated financial statements exceeding EUR 750 million in at least two of the four preceding fiscal years. The mandatory temporary exception applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. These amendments are not relevant for the Bank

3.2. Further requirements

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

Standard	Name	Description	Impact
IFRS 16	Amendments to IFRS 16 Leases	Lease liability in sale and leaseback	No significant changes
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current	No impact

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

The amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank as assets and liabilities of Bank are presented in decreasing order of liquidity.

The following new standards and interpretations issued by the IASB have not yet been adopted:

Standard	Name	Description	Impact
IAS 7 and IFRS 7	Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures	Supplier Finance Arrangements	No significant changes
IAS 21	Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates	Lack of Exchangeability	No significant changes

The amendments to IAS 7 and IFRS 7 describe the characteristics of an arrangement for which an entity is required to provide the information. The amendments note that arrangements that are solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed are not supplier finance arrangements. Entities will have to disclose in the notes information that enables users of financial statements to assess how supplier finance arrangements affect an entity's liabilities and cash flows and to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it. New disclosure requirements are added. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to IAS 21 introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency. New disclosure requirements are added. The amendment applies to annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

(4) Impact of climate changes on financial statements

The Bank supports the transition to a carbon-neutral economy and will lower its footprint by reducing its direct emissions from own banking operations and indirect through its lending activities (no-go transactions). Regarding own activities through the Environmental, Social and Governance Strategy (ESG Strategy)it is planned significant increase of the share of battery electric vehicles in car fleet, the installation of photovoltaic modules on self-owned buildings, the replacement of fossil fuel heating systems and switch to renewable energy sources used for electricity or heating.

Aware of the ever-increasing impact of climate change, the Bank has taken its impact into account through the Climate and Environmental Factors Management Policy. In accordance with the European Union standard on sustainable business reporting, the Addiko Group publishes a non-financial sustainability report at the consolidated level, while at the local level the Bank follows obligations from the regulatory Guidelines for managing climate risks and risks related to the environment. In preparing the financial report, Bank has considered climate change and the inherent risk on non-financial and financial assets. The impact of climate-related risks were assessed as follows:
- Impairment of assets: ESG strategy and the planned replacement measures were considered in determining the carrying amount of non-current assets (property, plant and equipment and investment properties). Based on the assessment no impairment need was identified.
- Useful lives of assets: The impact of it's sustainability strategy and the planned measures on the useful lives of non-current assets. The assessment did not identify any impact on the consolidated financial statements.
- Expected credit losses (ECL): Based on an assessment of climate-related and other environmental risks (C&E risks) Bank concluded that an impact on the credit risk exists, although there is no immediate material threat given the granularity and diversification of the loan portfolio. As C&E risks already do impact macroeconomic indicators, Bank considered the impact from climate-related transition risks in the macroeconomic financial forecasts used in the calculation of the ECL, thus, directly impacting the risk provisions of the loan book and consequently, the financial statements.

(5) Use of estimates and assumptions/material uncertainties in relation to estimates

The financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experiences and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Bank relate to:

Credit risk provisions
The Bank regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. The model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (14) Financial instruments as well as to the Risk Report under note (55) Development of risk provisions.

Fair value of financial instruments
Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used, or the fair value is determined on the basis of accepted measurement models. The input parameters used are based – whenever available – on observable market data. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely linked markets are taken into account in order to arrive at the best possible market benchmark. To determine the fair value, the Bank uses the comparison to the current fair value of other largely identical financial instruments, the analysis of discounted cash flows and option pricing models.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

For further details regarding the measurement of financial instruments, see note (14) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see notđe (67) 67.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (39) Loans and receivables as well as note (40) Investment securities.

Deferred tax assets

The Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows.

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details regarding provisions for legal cases and uncertainty of estimates are described in note (46) Provisions for pending legal disputes.

Lease contracts
The application of IFRS 16 requires the Bank make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by the Bank comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option If there is a significant event or significant changes in circumstances, the lease terms are reassessed, especially with regards to extension or termination options. Bank does not have lease contracts with indefinite term.

The present value of the lease payments is determined using the incremental borrowing rate (discount rate) representing the risk free rate, adjusted by default swap rates and adjusted by add-on based on mid-to-long credit facilities. The Bank secured interest rate curve reflects a loan-to-value ratio of 60%. In general, the determination of the discount rates is based on an arm’s length pricing principal.

For further details regarding the treatment of leasing contracts please refer to the note (7) Leases.

(6) Foreign currency translation

Foreign currency translation within the Bank follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss. Open forward transactions are translated at forward rates at the reporting date.

Transactions in currencies other than Bosnia and Herzegovina BAM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date.
Non-monetary items carried at fair value that are 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. Profits and losses arising on translation are included in the income statement for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina 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

(7) Leases

7.1. Leases in which the Bank is a lessee

At inception of the Bank assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset through-out the period of use, and whether the Bank has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognised off the statement of financial position and lease ex-penses are accounted on straight-line basis over the remaining lease term.

IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient.

Lease payments generally include fixed payments less lease incentives and variable payments that depend on an index or an interest rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (5) "Use of estimates and assumptions/material uncertainties in relation to es-timates"), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IFRS 16 expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities.
In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.
The Bank also assesses the right of use asset for impairment when such indicators exist. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets.

IFRS 16 requires that a lessee recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor.

7.2. Leases in which the Bank is a lessor

Lessor accounting depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor (as finance or operating lease), the economic effect of the lease contract prevails over the legal ownership of the leased asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

7.3. Presentation in the financial statements

The Bank as a lessee presents the right of use assets in the line item "Property, plant and equipment“ in tangible assets in the statement of financial position. Lease liabilities are presented in the line item "Other financial liabilities" in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities is presented in the line item "Interest expenses" in the statement of profit or loss.

The Bank as a lessor in an operating lease, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well direct operating expenses, are reported under the line item “Other operating income” or "Other operating expense", scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

With regards to the presentation in the Cashflow Statement, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. The Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of operating activities.

(8) Earnings per share

The Bank presents basic earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the bank by weighted average number of shares outstanding during the period.

(9) Net interest income

For all financial instruments measured at amortised cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (with the exception of purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).
Interest income from assets held for trading, as well as interest components of derivatives are presented in “Net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “Net result on financial instruments”.

Negative interest from financial assets and financial liabilities is presented in “Net interest income”.

(10) Net fee and commission income

Fee and commission income and expense (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “Net fee and commission income”. Bank derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

Fees earned for the provision of services over a period of time are accrued over that period.
Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognised upon completion of the underlying transaction. Taking into consideration the Bank product classes the following services are accrued over the period:

- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).
- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bancassurance*, representing commission income and expense from insurance brokerage

The fees generated by the following products are recognised upon completion of the underlying transaction:

- *Transaction services*, representing fee income charged to clients for transactions performed (except credit cards) like payment order, standing order
- *Cards*, representing fee income related to prepaid and credit cards (like monthly membership fees) and acquiring business like membership fees, interchange fees, scheme fees, service fees, etc.
- *FX & DCC*, representing fee income related to foreign exchange transactions like fees from FX spot transaction or Dynamic currency conversions.

Trade finance, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities

Other fee and commission expenses relate mainly to transaction and service fees which are expensed as the services are received.

In the Note 29 Net fee and commission income in the Notes to the statement of profit or loss, the product view is used as a base for presentation.

(11) Net result on financial instruments

Net result on financial instruments held for trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realised gains and losses from derecognition, dividends and foreign exchange gains and losses on monetary assets and liabilities. The Bank has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income and interest expense, which are presented in “Net interest income”.

Net result on financial instruments at fair value through other comprehensive income gains and losses from derecognition and dividends. Financial assets and liabilities at amortised cost includes all gains and losses from dereognition.

(12) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities as restructuring expenses or income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme).

(13) Other result

The other result includes impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups and for non financial assets. In addition, it shows the result from legal provisions and legal income and expense. Furthermore, the insignificant modification gains and losses are presented in this position.

For the purpose of a transparent presentation of expenses connected with operational risk items, the following new line item has been introduced within the note (35) Other result: “Net result from operational risks”. The new position will be used in the future for the presentation of the following Basel II event types: 1 – Internal Fraud, 2 – External Fraud, 3 – Employment practices and workplace safety, 4 – Clients, products and business practices and 7 – Execution, delivery and process management, with the exemption of losses connected with lawsuits (which will be further reported in the line item “Net result from legal cases” and losses connected with credit risk (which will be further reported as part of the “Expected credit loss expenses on financial assets”). The changes in the presentation was triggered by the identification, during the reporting period, of some specific material operational risk cases.

Figures of the comparative year' period were not adapted as no material operational risk items, on an individual or aggregated bases, have been identified, other than the losses related to legal cases which, as previously described, were and will be further reported under the line item “Net result from legal cases”.

(14) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with **IFRS 9** Financial Instruments.

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

14.1. Classification and measurement

Business models

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition, if it belongs to the following category:
- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above, not identified in the Bank.

In the infrequent case that the entity changes its business model for managing certain financial assets, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows in a way that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets and features that modify consideration for the time value of money.

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features.

The SPPI compliance is assessed as follows:
- Unilateral changes of margins and interest rates: passing on costs related to the basic lending agreement, introducing the clauses designed to maintain a stable profit margin, and the changes of the interest rates that reflect the worsening of the credit rating, but are not SPPI harmful.
- Prepayment clauses: are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features: those could be typically side business clauses where the the penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event. Such clauses are not SPPI harmful.
- Project financing: if there is no reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates: if the loan contains contains interest mismatch features (fixation date is before the start of the period, reference rate´s tenor is different to the rate reset frequency, etc.) it has to be assessed whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), and a quantitative benchmark test has to be performed.
- Financial instruments with environmental, social and governance (ESG) features that change contractual cash flows based on the borrower meeting certain contractually specified ESG targets: in case of issuance or acquisition of instruments with ESG feature, Bank policy is first to verify if the effect of the ESG feature could only have a de minimis effect on the contractual cash flows of the loan, then the feature does not affect the classification of the loan. However, if the effect of the ESG feature could be more than de minimis, then the feature will assessed as to whether it is consistent with a basic lending arrangement and meet the SPPI criterion.

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at FVTOCI.

During 2023 and 2022, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

Financial assets
Based on the entity's business model and the contractual cash flow characteristics the Bank classifies financial assets in the following categories:
- A financial asset is measured at amortised cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.

Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a “held to collect” business model.

On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expenses on financial assets". The major volume of financial assets of the Bank is measured at amortised cost. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

Financial assets at fair value through other comprehensive income
A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the new expected credit loss (ECL) model.

Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expense on financial assets ". The difference between fair value and amortised cost is presented in "Fair value reserve" in the consolidated statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Dividend income and gains and losses from derecognition are presented in the line "Net result on financial instruments".

For equity instruments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line "Fair value reserve - equity instruments" in the statement of other comprehensive income without recycling in the statement of profit or loss.

The Bank has designated at FVTOCI investments a small portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

Financial assets at fair value through profit or loss
A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. In addition, the Bank may use option to designate some financial assets as measured at FVTPL. Interest income and dividend income are presented in the line "Other interest income". Dividend income and gains and losses from revaluation and derecognition are presented in the line "Net result on financial instruments". In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model. Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

Equity instruments that are held for trading as well as equity instruments that are not held for trading (and they were not designated at FVTOCI at initial recognition) are measured at FVTPL.

Financial liabilities
Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

When modification or exchange of financial liability measured at amortised cost that does not result in the derecognition of the original financial liability, an entity recognises an adjustment to the amortised cost of the financial liability arising from a modification or an exchange in profit or loss at the date of the modification or exchange.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2023 and 2022.

There were no changes to the Bank´s business model during 2023 and 2022.

The Bank has not designated any hedge accounting relationships in the current or in the previous year.

14.2. Impairment

While applying the forward-looking ECL model, the Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets.

The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

The lifetime ECL is the expected present value of losses that arise if borrowers' default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

The Bank determines an ECL amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures (EAD) and losses in the case of default (LGD) and the conditional probability of default (PD) for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. The Bank calculates in total three outcomes: Base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (see chapter Forward-looking information).

The observed period and the applied parameters within the ECL calculation depend on the maturity of the transaction, the IFRS 9 stage of the transaction and the macro scenario applied. For stage 1 the up to one year expected credit loss has to be considered while for stage 2 and 3 the expected lifetime loss has to be recognised.

The PD (probability of default) parameters reflects the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank internal model development units. In general, models are developed at the market segment level and wherever possible, an internal history of customer behavior is used in development. In exceptional cases, external data obtained from rating agencies were used. Methodology wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

EAD (exposure at default) is an estimate of the exposure including repayments of principal and interest and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time of default while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames).

LGD (loss given default) is an estimate of the economic loss under condition of a default. When calculating expected credit losses during 2023 the Bank applied fixed LGD values defined by the Instruction for the Classification and Valuation of Financial Assets of Banking Agency of Republika Srpska.

As stated in Note (1) Accounting principles and statement of compliance, the Decision on Credit Risk Management and Determination of Expected Credit Losses prescribes minimum rates for the calculation of provisions for credit losses, ie. if the Bank, in accordance with its internal methodology, determines higher amounts of provisions for credit losses in relation to the amounts calculated by applying the Decision, it will apply higher amounts of provisions for credit losses.

Minimum rates of expected credit losses as stipulated by Decision are as follows.

Stage 1

The Bank determines ECL for exposures in Stage 1 at least in the following amounts:
a) for low-risk exposures referred to in Article 18, paragraph (2) of the Decision - 0.1% of exposures,
b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 3 and 4 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 1% of exposures,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 1, 2 or 3 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 0.1% of exposures
d) for other exposures - 0.5% of exposures.
e) exceptionally, if the bank does not have an adequate time series, quantity and/or quality of relevant historical data, and is unable to determine the value of the PD parameter using its model in an adequate and documented manner, the bank cannot determine the expected credit loss for other exposures classified in credit risk level 1 in the amount of less than 1% of the exposure.

Stage 2

The Bank determines ECL for exposures in Stage 2 at least in amount equal 5% of exposure.
Exceptionally, if the bank does not have an adequate time series, quantity and/or quality of relevant historical data, and is unable to determine the value of the PD parameter using its model in an adequate and documented manner, the bank cannot determine the expected credit loss for other exposures classified in the credit level. risk 2 in the amount of less than 8% of the exposure.

Stage 3
The Bank determines ECL for exposures in Stage 3 at least in amounts defined in Table 1 or Table 2 below.

Table 1. Minimum expected credit loss rates for exposures secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	25%
271 - 365 days	40%
366 - 730 days	60%
731 - 1.460 days	80%
Above 1.460 days	100%

Table 2. Minimum expected credit loss rates for exposures not secured by eligible collateral

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	45%
271 - 365 days	75%
366 - 456 days	85%
Above 456 days	100%

Allocation of exposure to credit risk stages

The Bank measures ECL in three stages as the deterioration in credit quality takes place. Namely, for stage 1 up to 12-month ECL is reported and for stage 2 and 3 the full lifetime expected credit loss is recognised.

Stage 1 begins as soon as a financial instrument is originated and up to 12-month ECL are recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated on the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly (Significant increase in credit risk-SICR) compared to initial recognition, assets move into stage 2, referring to Bank's defined criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

For the purposes of determining a significant increase in credit risk, the Bank applies qualitative and quantitative criteria, so that exposures that meet the following criteria are classified as exposures with a significant increase in credit risk:
- delay in repayment of obligations to the Bank in a materially significant amount for more than 30 days
- relative increase of PD value compared to initial recognition by more than 3 times
- restructured exposures: these are exposures for which the Bank took restructuring measures due to the fact that the debtor encountered financial difficulties. Restructuring measures may result in these exposures being classified as performing or non-performing, requiring a classification to stage 2 or 3.
- transfer of the client to the list of exposures that need to be specially monitored (watch list)
- clients whose internal ratings represent the worst internal ratings for performing clients (4D and 4E)

The increase in PD value, i.e. probability of default, is measured based on changes in the 12-month probability of default on the reporting date compared to the first recognition of the exposure, and significance is assessed according to different thresholds of the probability of default depending on the portfolio. These thresholds are regularly analyzed from a qualitative and/or quantitative perspective to ensure that the criteria are realistic (see the "Validation" chapter). The bank has established thresholds for a significant increase in credit risk based on percentage (relative) changes in PD compared to initial recognition.

The quantitative PD threshold used is a relative increase in PD of 300%, whereby the Bank also applies the exemption of low credit risk for all clients who have a PD on the reporting date less than or equal to 0.3%, and for clients from the Bank and Government segment whose current rating is better than or equal to the 1D rating.

Additional qualitative criteria related to watch lists and early warning systems are reflected in the probability of default through the automatic deterioration of the client's rating (which is an integral part of the rating model and process) or act as a trigger for moving to a certain Credit Risk Level, depending on the portfolio.

Both qualitative and quantitative factors used for credit risk stratification are continuously checked and monitored to ensure that they are adequate and applicable at all times (see the "Validation" chapter).

As an additional criterion for classifying the client into Stage 2 during 2023, the Bank used the criterion of a significant increase in credit risk due to a significant increase in interest rates in accordance with the Decision on Temporary Measures to Mitigate the Risk of Interest Rate Increases.

Stage 3 occurs when the credit quality of a exposure deteriorates to the point that credit losses are incurred, which means the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortized cost carrying amount. (i.e. gross carrying amount adjusted for the loss allowance.)
Regulatory default definition according to Decision On Credit Risk Management And Determination Of Expected Credit Losses is applied:

- The borrower is more than 90 days past due on any material credit obligation to the Bank,
- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral

The criteria on the basis of which it is determined whether a financial asset is impaired by credit losses are defined by the Policy for Determination of Default.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production, net export etc. All variables incorporated are at country and portfolio level whenever possible and plausible.

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from both internal and external data source. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect Bank's view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current estimates, assumptions and projections of the Bank as well as currently available public information. For these purposes, the Bank uses the forecasts of the Vienna Institute for International Economic Studies (wiiw). They are not guaranteeing future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements.

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalized upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

The Bank distinguishes between an initial and an ongoing validation:
- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values
- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed).

In addition to the yearly process a close monthly monitoring of model performance via model monitoring reports and meetings is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled. The responsibilities and methodology of the validation process are defined by the Validation Policy for risk models.

Write-offs

When the Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the Bank’s judgment that it is no longer reasonable to expect any recovery of that amount.

An accounting write-off is a transfer of a balance sheet exposure to an off-balance sheet one, whereby the Bank reserves the right to take further measures to collect receivables from debtors.
If, during the debtor's recovery process, the Bank recognizes that financial assets measured at amortized cost will not be repaid, in part or in full, and the conditions for derecognition under IFRS are derecognised, it will re-serve 100% of special risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.
The Bank must perform accounting write-off the balance sheet exposure two years after it has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

After meeting the aforementioned conditions, it is necessary to write off all types of balance sheet receivables (principal, interest, fees) that are written off internally and record them in off-balance sheet records.

The Bank has implemented the functionality related to the automatic implementation of accounting write-offs in accordance with the criteria defined by the Decision on credit risk management and determination of expected credit losses number.

14.3. Derecognition and contract modification

Contract modifications resulting from negotiations with customers can lead to two types of modifications to initially contracted cash flows: significant and insignificant modifications.

A financial asset is derecognised when:
- The contractual rights to receive cash flows from the asset have expired; or
- The Bank transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- And either: (i) it has transferred substantially all risks and rewards connected with ownership of the asset, or (ii) has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows.

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is in default or the modification leads to the derecognition of the original financial asset and to the origination of a new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favourable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:
- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
    - change of debtor
    - currency change
    - change of the purpose of financing
    - SPPI critical features are removed or introduced in the loan contract.

Insignificant modifications not leading to derecognition of financial assets
If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in the derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss is recognised in profit or loss in the line "Other result".

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(15) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.
The Bank did not have repurchase agreement in year 2023. and 2022.

(16) Fiduciary transactions

Fiduciary transactions concluded by the Bank in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(17) Financial guarantees

Financial guarantees are contracts that oblige the Bank to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value including transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount of ECL provision and the amortised balance of initially recognised premium.

(18) Cash reserves

Cash and cash equivalents comprise cash, cash balances at Central bank that are daily due, placements to banks that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

The Minimum Reserve requirement is one of the indirect instruments of monetary policy of Central Bank BiH and the basis for its calculation consists of deposits and borrowed funds. Minimum Reserve requirement is 10% from average deposits and it is calculated every ten-days (3 times a month), also represents minimum amount the Bank is obliged to have with Central Bank, at least in average during mentioned period.

(19) Tangible assets: Property, plant and equipment and Investment properties

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (7) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at at cost less any accumulated depreciation and any accumulated impairment losses. Scheduled depreciation is recorded on a straight-line basis over the expected useful life.

As of 31 December 2019 book value of assets was adjusted to fair value, based on the appraisal performed by certified appraiser.

The following depreciation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for immovable assets (buildings)	up to 1.67%	up to 60 yrs
for movable assets (plant and equipment)	up to 11.1%	up to 9 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are initially carried at cost, at cost less any accumulated depreciation and any accumulated impairment losses according to the cost method admissible under IAS 40, with depreciation on a straight-line basis over the expected useful life.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Bank is reported under Depreciation and amortisation in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under "Other operating income" or "Other operating expenses".

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “Other result”. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years

(20) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation.

Scheduled amortisation is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortisation. The following amortisation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	up to 14.3%	up to 7 yrs

In case there are indications of impairments, an impairment test is conducted in accordance with IAS 36 in order to identify possible impairments. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “Other result”. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

(21) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “Tax assets” and “Tax liabilities”. Income tax expense based on income tax represents the sum of the current tax payable and deferred taxes.

The tax expense is based on taxable income for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 balance sheet date.
Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

(22) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.
Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

(23) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.

Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale and disposal groups are presented in “Other operating income and other operating expense”.

(24) Provisions

24.1. Short-term employee benefits

The Bank performs payment of liabilities in terms of taxes, contributions, and benefits from employment in accordance with positive regulations in RS and Brcko District, as meal allowances, transport, one-time fee. These costs are recognized in the income statement in the same period as the cost of staff salaries.

24.2. Long-term employee benefits: retirement severance payments

In accordance with positive regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the way of employment contract termination and for cases in whichthere is obligation for the Bank to pay termination.
In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 3 (three) average net individual salaries of the employee.
In case of termination by the Bank, after the empyloee worked for at least 2 (two) years in the Bank, with an unlimited contract, the Bank pays severance payments in the amount of 1/3 (one third) of the average net individual salaries of the employee in last three months before termination, for each working year in the Bank, except if otherwise determined by Bank’s decision.

Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the end of each year, an assessment of accuracy of the amounts of provisions for retirement benefits and unused holiday accrual is performed.

In accordance with the Amendments to International Accounting Standard (“IAS”) 19: Employee Benefits”, additional provisions or reversal of such provisions are recognized in the Income statement, under “Personnel expenses”, assuming they are not related to actuarial gains and losses, otherwise they shall be immediately recognized in other comprehensive income.

24.3. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9 and BARS Decision on Credit Risk Management and Determination of Expected Credit Losses.
Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “Credit loss expenses on financial assets”.

24.4. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected. For disclosure of restructuring expenses, see note (31) Other operating income and other operating expenses.

24.5. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(25) Other liabilities

This item includes deferred income and non-financial liabilities that due to their nature could not be classified in specific balance sheet item.

(26) Share-based payments

26.1. Cash-settled share-based payments

Liabilities for share-based payments are recognised as Personnel expenses over the relevant service period. The liabilities are remeasured to fair value at each reporting date until the settlement and are presented as Provisions in the balance sheet. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Changes in the measurement of the liability are reflected in the statement of profit or loss.

26.2. Share-settled share-based payments

The Bank does not have share-based payments settled in equity instruments.

(27) Equity

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Share capital represents the amounts paid in by shareholders in accordance with the articles of association.

Legal reserves represent reserve fund formed in accordance with the Law on Companies.

Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Revaluation reserves represent result of value increase according to IAS 19.

Other reserves were including transferred balance form account Formed reserves for credit losses according to regulatory rules based on Shareholder Assembly decisions.

The retained earnings include the cumulated profits generated by the Bank.

Notes to the profit or loss statement

(28) Net interest income

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Interest income calculated using the effective interest method	**44.158**	**36.526**
Financial assets at fair value through other comprehensive income	1.347	1.431
Financial assets at amortised cost	42.811	35.095
Other interest income	**2.443**	**156**
Other assets	2.443	156
Total interest income	**46.601**	**36.682**
Financial liabilities measured at amortised cost	-5.193	-4.302
o/w lease liabilites	-45	-56
Other liabilities	-1	-1
Negative interest from financial assets	**-2**	-665
Total interest expense	**-5.196**	**-4.968**
Net interest income	**41.405**	**31.714**

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -5.196 thousand (2022: BAM -4.968 thousand) includes expenses of BAM -3.401 thousand (2022: BAM -2.653 thousand) related to deposits from households and non-financial corporations.

Interest income break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Debt securities	**1.833**	**1.431**
Governments	1.634	1.167
Credit institutions	199	264
Loans and advances	42.325	**35.095**
Governments	188	165
Credit institutions	390	163
Other financial corporations	511	450
Non-financial corporations	9.973	7.929
Households	31.263	26.388
Other assets	2.443	**156**
Total	**46.601**	**36.682**

Interest expenses break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Deposits and borrowings	-5.148	**-4.246**
Governments	-156	-29
Credit institutions	-183	-542
Other financial corporations	-1.407	-1.022
Non-financial corporations	-198	-214
Households	-3.204	-2.439
Other financial liabilities	-45	**-56**
Other liabilities	-1	**-1**
Negative interest from financial assets	-2	**-665**
Debt securities	-2	-2
Other assets	0	-663
Central bank	0	-485
Credit institutions	0	-178
Total	**-5.196**	**-4.968**

Out of total interest expense on Deposits and borrowing, BAM -374 thousand refers to interest expense for borrowing (2022: BAM -577 thousand)

(29) Net fee and commission income

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Accounts and Packages	7.117	6.647
Transactions	3.958	3.667
Cards	4.253	3.220
Loans	1.492	1.437
Trade finance	841	750
Securities	0	0
Bancassurance	2.169	2.152
Foreign exchange & Dynamic currency conversion	3.072	3.385
Deposits	0	46
Other	41	38
Fee and commission income	**22.943**	**21.342**
Accounts and Packages	0	0
Transactions	-716	-725
Cards	-3.881	-3.183
Securities	-48	-28
Bancassurance	0	0
Client incentives	-87	-179
Trade finance	0	0
FX changes	-17	-69
Loans	0	-1
Other	-31	-27
Fee and commission expenses	**-4.780**	**-4.212**
Net fee and commission income	**18.163**	**17.130**

Expenses on card fees for the year 2023 includes the amount of BAM 470 thousand related to VAT on fees for services performed by card companies (more details in Note 35).

The nature of fee and comission income and expenses is described in Note (10).

(30) Net result on financial instruments

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Held for trading financial instruments	-15	-25
o/w exchange difference	26	11
o/w gain or losses on financial instruments	-41	-36
Financial assets at fair value through other comprehensive income	0	-2
Dividend income from financial asssets at fair value through other comprehensive income	4	4
Total	**-11**	**-23**

The amount of BAM -2 thousand for year 2022 is related to loss on sale of debt securities.

Result on financial instruments not measured at fair value through profit or loss can be shown:

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Gains or losses on financial assets and liabilites, measured at fair value through other comprehensive income	0	-2
Dividend income from financial asssets at fair value through other comprehensive income	4	4
Total	**4**	**2**

(31) Other operating income and other operating expenses

Other operating income and other operating expenses - net

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Deposit guarantee	-1.802	-1.652
Banking levies and other taxes	-1.191	-1.133
Net result from from sale of non financial assets	760	797
Result from operating lease	196	310
Result from other income and other expenses	36	13
Total	**-2.001**	**-1.665**

Other operating income and other operating expenses - gross

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Other operating income	**1.340**	**1.485**
Gains from sale of non financial assets	766	798
Income from operating lease assets	28	32
Income from Investment property	214	321
Other income in connection with other assets	0	0
Other income	332	334
Other operating expenses	**-3.341**	**-3.150**
Losses from sale of non financial assets	-6	-1
Expense incurred in earning the operating lease assets income	-46	-43
Restructuring expenses	0	0
Deposit guarantee	-1.802	-1.652
Banking levies and other taxes	-1.191	-1.133
Other expenses in connection with other assets	0	0
Other provisions	0	-47
Other expenses	-296	-274
Total	**-2.001**	**-1.665**

Banking levies and other taxes includes expenses of BAM -720 thousand related to fees to Banking Agency RS (2022: BAM -704 thousand).

(32) Personnel expenses

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Wages and salaries	-8.907	-7.998
Social security	-1.679	-1.509
Variable remuneration	-1.734	-1.734
Bonus and sales incentives	-1.421	-1.734
Cash-settled share-based payments	-313	0
Other personal tax expenses	-16	-17
Additional social benefits	-384	-432
Expenses for retirement benefits	-2.459	-2.211
Expenses for severance payments	-8	-17
Income from release of other employee provisions	450	440
Other personnel expenses	-88	-141
Total	**-14.825**	**-13.619**

	31.12.2022	31.12.2022
Employees at closing date (Full Time Equivalent - FTE)	365,00	345,00
Employees average (FTE)	358,50	346,25

(33) Other administrative expenses

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
IT expense	-7.320	-6.998
Premises expenses (rent and other building expenses)	-2.773	-2.475
Legal and advisory costs	-1.279	-916
Advertising costs	-1.695	-1.443
Other administrative expenses	-1.340	-1.148
Total	**-14.407**	**-12.980**

(34) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Property, plant and equipment	-1.449	-1.430
o/w right of use assets	-680	-657
Intangible assets	-1.584	-2.203
Total	**-3.033**	**-3.633**

(35) Other result

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Net result from legal provision and legal income/expense	**83**	**64**
Release of provisions for legal cases from legal cases	19	414
Other income from legal cases	765	598
Allocation of provisions for passive legal cases and legal costs	-115	-536
Other costs from legal cases	-586	-412
Net result from operational risks	**-1.823**	**0**
Reversal of impairment	0	0
Impairment and other operational expenses	-1.823	0
Impairment / reversal of impairment from non financial assets	**874**	**56**
Reversal of impairment	1.265	124
Impairment	-391	-68
Total	**-866**	**120**

The line item “Impairment on non-financial assets” in 2023 continaines of: imapairment of Tangible assets due to change in subsequent valuation model in amount of BAM -385 thousand, reversal of impairment of Tangible assets due to sale in amount of BAM 881 thousand, BAM -6 thousand represents impairment of repossessed assets, BAM 384 thousand represents reversal of impairment of repossessed assets due to sale (2022: BAM -68 thousand includes impairment of repossessed assets and BAM -124 thousand represent represents reversal of impairment of repossessed assets due to sale).

The line item “Net result from operational risk” includes an item resulting from the impact of the decision of the Indirect Tax Administration of Bosnia and Herzegovina to apply VAT to credit card service.

The line item "Other income from legal cases" includes an amount of BAM 765 thousand of direct income based on an out-of-court settlement (2022: BAM 598 thousand).

(36) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Change in CL on financial instruments at FVTOCI	**-61**	**69**
Change in CL on financial instruments at amortised cost	**2.301**	**-3.045**
Net allocation to risk provision	-2.903	-7.733
Proceeds from suspended and written-off loans and receivables	5.220	4.705
Directly recognised impairment losses	-16	-17
Net allocation of provisions for commitments and guarantees given	**-455**	**340**
Total	**1.785**	**-2.636**

(37) Taxes on income

(000) BAM

	01.01. - 31.12.2023	01.01. - 31.12.2022
Current tax	-3.061	-1.258
Deferred tax	384	-515
Total	**-2.677**	**-1.773**

37.1. Reconciliation of effective tax rate

The reconciliation from expected income tax to the effective tax is as follows:

(000) BAM

	31.12.2023	31.12.2022
Operating result before tax	**26.210**	**14.408**
Theoretical income tax expense based on corporate tax rate of 10 %	-2.621	-1.441
Tax effects		
Effects of non-deductible expenses	-808	-278
Effects of non-deductible income	368	461
The change of deferred taxes and temporary differences	384	-515
Actual income tax (effective tax rate: 10,2% (2022: 12,3%))	**-2.677**	**-1.773**

37.2. Movements in deferred tax balances

Deferred tax assets related to temporary difference are recognised since future tax profits that allow utilisation appear highly likely.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and book values with regard to the following items:

(000) BAM

2023	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	492	412	0	904	904	0
Accelerated depreciation for tax purposes	227	-12	0	215	215	0
Revaluation of tangible assets	-13	0	13	0	0	0
Revaluations of equity instruments at FVTOCI	-5	0	-7	-12	0	12
Revaluations of debt instruments at FVTOCI	757	0	-294	463	463	0
Allowances for expected credit losses of investment securities at FVOCI	56	0	6	62	62	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	31	0	6	37	37	0
Other	344	-16	0	328	328	0
Total deferred Tax	**1.889**	**384**	**-276**	**1.997**	**2.009**	**12**

The total change in deferred taxes in the financial statements is BAM 108 thousand (2022: BAM 357 thousand). Of which, BAM 384 thousand is recognized in the profit and loss statement (2022: BAM -515 thousand) and an amount of BAM -276 thousand is shown in other comprehensive income in equity (2022: BAM 872 thousand).

(000) BAM

2022	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	728	-236	0	492	492	0
Accelerated depreciation for tax purposes	548	-321	0	227	227	0
Revaluation of tangible assets	-96	0	83	-13	0	13
Revaluations of equity instruments at FVTOCI	0	0	-5	-5	0	5
Revaluations of debt instruments at FVTOCI	-45	0	802	757	757	0
Allowances for expected credit losses of investment securities at FVOCI	63	0	-7	56	56	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	32	0	-1	31	31	0
Other	302	42	0	344	344	0
Total deferred tax	**1.532**	**-515**	**872**	**1.889**	**1.907**	**18**

The development of deferred taxes in net terms is as follows:

(000) BAM

	2023	2022
Balance at start of period (01.01.)	1.889	**1.532**
Impact of adopting IFRS 9	0	**0**
Tax income/expense recognised in profit or loss	384	-515
Tax income/expense recognised in OCI	-276	872
Fx-difference	0	0
Balance at end of period (31.12.)	**1.997**	**1.889**

(000) BAM

	2023	2022
Deferred tax assets	2.009	1.902
Deferred tax liabilities	-12	-13
Total	**1.997**	**1.889**

Notes to the statement of financial position

(38) Cash reserves

(000) BAM

31.12.2023	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	31.119	0	31.119
Cash balances at central banks	160.728	-161	160.567
Other demand deposits	71.738	-361	71.377
Total	**263.585**	**-522**	**263.063**

[1)]Cash on hand

(000) BAM

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	31.238	0	31.238
Cash balances at central banks	159.970	-160	159.810
Other demand deposits	44.538	-325	44.213
Total	**235.746**	**-485**	**235.261**

[1)]Cash on hand

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held was BAM 80.382 thousand (2022: BAM 78.780 thousand).

38.1. Cash reserves at central banks and other demand deposits - development of gross carrying amount

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**202.224**	**2.286**	**0**	**204.510**
Changes in the gross carrying amount	28.592	0	0	28.592
Transfer between stages	2.285	-2.285	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-635	-1	0	-636
Gross carrying amount at 31.12.2023	**232.466**	**0**	**0**	**232.466**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**212.907**	**796**	**0**	**213.703**
Changes in the gross carrying amount	-11.099	2.083	0	-9.016
Transfer between stages	655	-655	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-239	60	0	-179
Gross carrying amount at 31.12.2022	**202.224**	**2.284**	**0**	**204.508**

38.2. Cash reserves at central banks and other demand deposits - development of ECL allowance

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-371**	**-114**	**0**	**-485**
Changes in the loss allowance	-37	0	0	-37
Transfer between stages	-114	114	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2023	**-522**	**0**	**0**	**-522**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-393**	**-40**	**0**	**-433**
Changes in the loss allowance	55	-100	0	-45
Transfer between stages	-30	30	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-3	-4	0	-7
ECL allowance as at 31.12.2022	**-371**	**-114**	**0**	**-485**

(39) Loans and advances

The Bank measures all loans and advances at amortised cost.

39.1. Loans and advances to credit institutions

(000) BAM

31.12.2023	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	3.009	-1	3.008
Credit institutions	3.009	-1	3.008
Total	**3.009**	**-1**	**3.008**

(000) BAM

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	13.811	-59	13.752
Credit institutions	13.811	-59	13.752
Total	**13.811**	**-59**	**13.752**

Loans and advances to credit institutions includes amount of BAM 2.298 thousand related to cash outflow from ATMs after the cut-off time (2022: BAM 1.378 thousand) which are related:

- BAM 1.367 thousand (2022: BAM 778 thousand) to the Bank's clients who had sufficient funds in their deposit account at the time of the transaction (Note 45.2),
- BAM 250 thousand (2022: BAM 154 thousand) to the Bank's clients who would use the approved overdraft at the time of the transaction,
- BAM 681 thousand (2022: BAM 448 thousand) to clients of other banks.

Loans and advances to credit institutions - development of gross carrying amount

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**13.811**	**0**	**0**	**13.811**
Changes in the gross carrying amount	-11.306	0	0	-11.306
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	504	0	0	504
Gross carrying amount at 31.12.2023	**3.009**	**0**	**0**	**3.009**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**8.531**	**0**	**0**	**8.531**
Changes in the gross carrying amount	4.346	0	0	4.346
Transfer between stages	0	0	0	0
Write-offs	-7	0	0	-7
Foreign exchange and other movements	941	0	0	941
Gross carrying amount at 31.12.2022	**13.811**	**0**	**0**	**13.811**

Loans and advances to credit institutions - development of ECL

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-59**	**0**	**0**	**-59**
Changes in the loss allowance	58	0	0	58
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2023	**-1**	**0**	**0**	**-1**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-35**	**0**	**0**	**-35**
Changes in the loss allowance	-24	0	0	-24
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2022	**-59**	**0**	**0**	**-59**

39.2. Loans and advances to customers

(000) BAM

31.12.2023	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Carrying amount (net)
Loans and advances	**687.134**				**635.446**
Governments	2.126	-40	-17	0	2.069
Other financial corporations	6.784	-80	-895	0	5.809
Non-financial corporations	181.511	-2.114	-2.603	-3.865	172.929
Households	496.713	-5.212	-12.196	-24.666	454.639
Total	**687.134**	**-7.446**	**-15.711**	**-28.531**	**635.446**

(000) BAM

31.12.2022	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Carrying amount (net)
Loans and advances	**659.512**				**604.771**
Governments	3.597	-15	-36	0	3.546
Other financial corporations	11.532	-141	-2.074	0	9.317
Non-financial corporations	199.422	-1.030	-5.566	-2.291	190.535
Households	444.961	-2.961	-14.041	-26.586	401.373
Total	**659.512**	**-4.147**	**-21.717**	**-28.877**	**604.771**

Development of gross carrying amount of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**507.668**	**119.991**	**31.853**	**659.512**
Changes in the gross carrying amount	51.394	-15.875	-2.461	33.058
Transfer between stages	-6.462	-1.032	7.494	0
Write-offs	-11	-2	-5.413	-5.426
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	5	1	-16	-10
Gross carrying amount at 31.12.2023	**552.594**	**103.083**	**31.457**	**687.134**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**413.446**	**164.231**	**42.480**	**620.157**
Changes in the gross carrying amount	89.480	-34.748	-1.760	52.972
Transfer between stages	4.739	-9.482	4.743	0
Write-offs	-1	-10	-13.640	-13.651
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	4	0	30	34
Gross carrying amount at 31.12.2022	**507.668**	**119.991**	**31.853**	**659.512**

Development of ECL allowances of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-4.147**	**-21.717**	**-28.877**	**-54.741**
Changes in the loss allowance	1.008	3.134	-6.684	-2.542
Transfer between stages	-4.307	2.871	1.436	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Changes in models/risk parameters	0	0	0	0
Write-offs	0	1	5.408	5.409
Foreign exchange and other movements	0	0	186	186
Unwinding	0	0	209	209
ECL allowance as at 31.12.2023	**-7.446**	**-15.711**	**-28.531**	**-51.688**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-5.736**	**-17.641**	**-37.598**	**-60.975**
Changes in the loss allowance	4.057	-4.727	-6.994	-7.664
Transfer between stages	-2.467	648	1.819	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Changes in models/risk parameters	0	0	0	0
Write-offs	0	4	13.636	13.640
Foreign exchange and other movements	-1	-1	260	258
Unwinding	0	0	289	289
ECL allowance as at 31.12.2022	**-4.147**	**-21.717**	**-28.877**	**-54.741**

Loans and advances to households

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**339.235**	**76.379**	**29.347**	**444.961**
Changes in the gross carrying amount	70.676	-11.184	-2.576	56.916
Transfer between stages	-14.969	8.965	6.004	0
Write-offs	-1	-2	-5.205	-5.208
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	30	9	5	44
Gross carrying amount at 31.12.2023	**394.971**	**74.167**	**27.575**	**496.713**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**259.606**	**94.589**	**40.400**	**394.595**
Changes in the gross carrying amount	77.213	-11.179	-2.472	63.562
Transfer between stages	2.413	-7.028	4.615	0
Write-offs	-1	-3	-13.226	-13.230
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	4	0	30	34
Gross carrying amount at 31.12.2022	**339.235**	**76.379**	**29.347**	**444.961**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-2.961**	**-14.041**	**-26.586**	**-43.588**
Changes in the loss allowance	308	793	-4.935	-3.834
Transfer between stages	-2.558	1.053	1.505	0
Write-offs	0	1	5.201	5.202
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-1	-2	149	146
Unwinding	0	0	187	187
ECL allowance as at 31.12.2023	**-5.212**	**-12.196**	**-24.666**	**-42.074**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-2.777**	**-10.269**	**-35.834**	**-48.880**
Changes in the loss allowance	1.809	-3.945	-6.033	-8.169
Transfer between stages	-1.992	171	1.821	0
Write-offs	0	3	13.222	13.225
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-1	-1	238	236
Unwinding	0	0	267	267
ECL allowance as at 31.12.2022	**-2.961**	**-14.041**	**-26.586**	**-43.588**

Loans and advances to non-financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**158.536**	**38.379**	**2.507**	**199.422**
Changes in the gross carrying amount	-15.038	-2.682	115	-17.605
Transfer between stages	10.513	-12.003	1.490	0
Write-offs	-10	0	-208	-218
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-57	-10	-21	-88
Gross carrying amount at 31.12.2023	**153.944**	**23.684**	**3.883**	**181.511**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**144.856**	**60.478**	**2.081**	**207.415**
Changes in the gross carrying amount	14.233	-22.517	712	-7.572
Transfer between stages	-553	425	128	0
Write-offs	0	-7	-414	-421
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**158.536**	**38.379**	**2.507**	**199.422**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-1.030**	**-5.566**	**-2.291**	**-8.887**
Changes in the loss allowance	715	1.092	-1.749	58
Transfer between stages	-1.800	1.869	-69	0
Write-offs	0	0	207	207
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	1	2	37	40
Unwinding	0	0	22	22
ECL allowance as at 31.12.2023	**-2.114**	**-2.603**	**-3.865**	**-8.582**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-2.792**	**-5.473**	**-1.764**	**-10.029**
Changes in the loss allowance	2.093	-427	-961	705
Transfer between stages	-331	333	-2	0
Write-offs	0	1	414	415
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	22	22
Unwinding	0	0	22	22
ECL allowance as at 31.12.2022	**-1.030**	**-5.566**	**-2.291**	**-8.887**

Loans and advances to other financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**6.600**	**4.932**	**0**	**11.532**
Changes in the gross carrying amount	-2.933	-1.849	0	-4.782
Transfer between stages	-2.006	2.006	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	32	2	0	34
Gross carrying amount at 31.12.2023	**1.693**	**5.091**	**0**	**6.784**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**6.512**	**5.829**	**0**	**12.341**
Changes in the gross carrying amount	88	-897	0	-809
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**6.600**	**4.932**	**0**	**11.532**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-141**	**-2.074**	**0**	**-2.215**
Changes in the loss allowance	10	1.230	0	1.240
Transfer between stages	51	-51	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2023	**-80**	**-895**	**0**	**-975**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-133**	**-1.732**	**0**	**-1.865**
Changes in the loss allowance	-8	-342	0	-350
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2022	**-141**	**-2.074**	**0**	**-2.215**

Loans and advances to general governments

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2023	**3.297**	**301**	**-1**	**3.597**
Changes in the gross carrying amount	-1.311	-160	0	-1.471
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2023	**1.986**	**141**	**-1**	**2.126**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**2.472**	**3.335**	**-1**	**5.806**
Changes in the gross carrying amount	-2.054	-155	0	-2.209
Transfer between stages	2.879	-2.879	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**3.297**	**301**	**-1**	**3.597**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-15**	**-36**	**0**	**-51**
Changes in the loss allowance	-25	19	0	-6
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2023	**-40**	**-17**	**0**	**-57**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-34**	**-167**	**0**	**-201**
Changes in the loss allowance	163	-13	0	150
Transfer between stages	-144	144	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2022	**-15**	**-36**	**0**	**-51**

(40) Investment securities

(000) BAM

	31.12.2023	31.12.2022
Fair value through other comprehensive income (FVTOCI)	63.027	82.317
At amortised cost	19.654	0
Total	**82.681**	**82.317**

40.1. Fair value through other comprehensive income (FVTOCI)

Investment securities - development of gross carrying amount (Debt Securities)

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2023	**82.598**
Changes in the gross carrying amount	-19.350
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2023	**63.248**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2022	**88.715**
Changes in the gross carrying amount	-6.117
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2022	**82.598**

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2023	**-558**
Changes in the loss allowance	-61
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2023	**-619**

(000) BAM

	Stage 1
ECL allowance as at 01.01.2022	**-627**
Changes in the loss allowance	69
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2022	**-558**

(000) BAM

	31.12.2023	31.12.2022
Debt securities	**62.629**	**82.040**
Governments	40.972	53.930
Credit institutions	21.657	28.110
Equity instruments	**398**	**277**
Other financial corporations	398	277
Total	**63.027**	**82.317**

The following table shows equity investment securities designated to be measured at FVTOCI and their fair values:

(000) BAM

	31.12.2023	31.12.2022
Banja Luka Stock Exchange	175	175
S.W.I.F.T	76	72
Central Register of Securities, Banja Luka	147	30
Total	**398**	**277**

40.2. At amortised cost

Investment securities at amortised cost - development of gross carrying amount

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2023	**0**
Changes in the gross carrying amount	-20.036
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2023	**20.036**

Investment securities at amortised cost - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2023	**0**
Changes in the loss allowance	-382
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2023	**-382**

(41) Tangible assets

(000) BAM

	31.12.2023	31.12.2022
Owned property, plant and equipment	**18.545**	**18.771**
Land and buildings	16.820	17.448
Plant and equipment	1.497	1.053
Plant and equipment - under construction	228	270
Right of use assets	**1.298**	**1.885**
Land and buildings	1.005	1.508
Plant and equipment	293	377
Investment property	**699**	**1.976**
Total	**20.542**	**22.632**

(42) Intangible assets

(000) BAM

	31.12.2023	31.12.2022
Software	2.655	2.843
Intangible assets under development	1.438	1.644
Total	**4.093**	**4.487**

(43) Development of tangible and intangible assets

43.1. Development of cost and carrying amounts

(000) BAM

2023	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Plant and equipment	Plant and equipment - under construction	Land and buildings	Plant and equipment	Investment property	Total
Acquisition cost 01.01	**27.511**	**7.036**	**270**	**3.032**	**1.025**	**5.091**	**43.965**
Reclassification from assets held for sale	0	0	0	0	0	0	0
Additions	532	809	612	4	89	0	2.046
Disposals	-359	-814	-654	0	0	-3.851	-5.678
Other changes	0	0	0	0	0	0	0
Acquisition cost 31.12	**27.684**	**7.031**	**228**	**3.036**	**1.114**	**1.240**	**40.333**
Cumulative depreciation 31.12	-10.864	-5.534	0	-2.031	-821	-541	-19.791
Carrying amount 31.12	**16.820**	**1.497**	**228**	**1.005**	**293**	**699**	**20.542**

(000) BAM

2022	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Plant and equipment	Plant and equipment - under construction	Land and buildings	Plant and equipment	Invesment property	Total
Acquisition cost 01.01	**32.469**	**7.200**	**286**	**1.698**	**977**	**9.790**	**52.420**
Reclassification from assets held for sale	0	0	0	0	0	553	553
Additions	480	395	636	1.334	48	0	2.893
Disposals	-5.438	-559	-652	0	0	-5.252	-11.901
Other changes	0	0	0	0	0	0	0
Acquisition cost 31.12	**27.511**	**7.036**	**270**	**3.032**	**1.025**	**5.091**	**43.965**
Cumulative depreciation 31.12	-10.063	-5.983	0	-1.524	-648	-3.115	-21.333
Carrying amount 31.12	**17.448**	**1.053**	**270**	**1.508**	**377**	**1.976**	**22.632**

(000) BAM

2023	Software	Intangible assets Assets under development	Total
Acquisition cost 01.01	**27.557**	**1.644**	**29.201**
Additions	84	1.106	1.190
Internal development	0	0	0
Disposals	0	0	0
Other changes	1.311	-1.311	0
Acquisition cost 31.12	28.952	1.439	30.391
Cumulative depreciation 31.12	-26.298	0	-26.298
Carrying amount 31.12	**2.654**	**1.439**	**4.093**

(000) BAM

2022	Software	Intangible assets Assets under development	Total
Acquisition cost 01.01	**28.606**	**1.810**	**30.416**
Additions	0	949	949
Internal development	0	0	0
Disposals	-2.164	0	-2.164
Other changes	1.115	-1.115	0
Acquisition cost 31.12	**27.557**	**1.644**	**29.201**
Cumulative depreciation 31.12	-24.714	0	-24.714
Carrying amount 31.12	**2.843**	**1.644**	**4.487**

43.2. Development of depreciation and amortisation

(000) BAM

2023	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Pland and equipment	Plant and equipment - under construction	Land and buildings	Pland and equipment	Invest-ment property	Total
Cumulative depreciation 01.01	**-10.063**	**-5.983**	**0**	**-1.524**	**-648**	**-3.115**	**-21.333**
Reclassification from assets held for sale	0	0	0	0	0	0	0
Disposals	52	796	0	0	0	1.767	2.615
Scheduled depreciation	-422	-347	0	-507	-173	0	-1.449
Impairment	-311	0	0	0	0	-74	-385
Other changes	-120	0	0	0	0	0	-120
Write-ups	0	0	0	0	0	881	881
Cumulative depreciation 31.12	**-10.864**	**-5.534**	**0**	**-2.031**	**-821**	**-541**	**-19.791**

The item Impairment in the amount of BAM 311 thousand and the item Other changes in the amount of BAM 120 thousand refers to change in the model for the subsequent valuation of Tangible Assets.

(000) BAM

2022	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Pland and equip-ment	Plant and equipment - under construction	Land and buildings	Pland and equip-ment	Invest-ment property	Total
Cumulative depreciation 01.01	**-12.345**	**-6.183**	**0**	**-1.038**	**-477**	**-5.947**	**-25.990**
Reclassification from assets held for sale	0	0	0	0	0	-154	-154
Disposals	2.698	557	0	0	0	2.986	6.241
Scheduled depreciation	-416	-357	0	-486	-171	0	-1.430
Impairment	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	**0**
Write-ups	0	0	0	0	0	0	0
Cumulative depreciation 31.12	**-10.063**	**-5.983**	**0**	**-1.524**	**-648**	**-3.115**	**-21.333**

(000) BAM

2023	Software	Intangible assets Assets under development	Total
Cumulative depreciation 01.01	**-24.714**	**0**	**-24.714**
Disposals	0	0	0
Scheduled depreciation	-1.584	0	-1.584
Impairment	0	0	0
Other changes	0	0	0
Write-ups	0	0	0
Cumulative depreciation 31.12	**-26.298**	**0**	**-26.298**

(000) BAM

2022	Software	Intangible assets Assets under development	Total
Cumulative depreciation 01.01	**-24.676**	**0**	**-24.676**
Disposals	2.165	0	2.165
Scheduled depreciation	-2.203	0	-2.203
Impairment	0	0	0
Other changes	0	0	0
Write-ups	0	0	0
Cumulative depreciation 31.12	**-24.714**	**0**	**-24.714**

(44) Other assets

The other assets contain the following main positions:

(000) BAM

	31.12.2023	31.12.2022
Prepayments and accrued income	1.074	1.249
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	0	41
Other remaining assets	821	1.143
Total	**1.895**	**2.433**

(45) Financial liabilities measured at amortised cost

(000) BAM

	31.12.2023	31.12.2022
Deposits and borrowings	821.628	791.384
Deposits of credit institutions	14.005	15.969
Deposits of customers	793.718	752.896
Borrowings	13.905	22.519
Other financial liabilities	7.083	8.698
o/w lease liabilities	1.317	1.872
Total	**828.711**	**800.082**

45.1. Deposits of credit institutions

(000) BAM

	31.12.2023	31.12.2022
Current accounts / overnight deposits	277	200
Deposits with agreed terms	13.728	15.769
Total	**14.005**	**15.969**

45.2. Deposits of customers

(000) BAM

	31.12.2023	31.12.2022
Current accounts / overnight deposits	504.627	**431.096**
Governments	29.347	26.059
Other financial corporations	3.979	7.453
Non-financial corporations	121.302	173.944
Households	349.999	223.640
Deposits with agreed terms	289.091	**321.800**
Governments	10.001	5.508
Other financial corporations	57.858	55.092
Non-financial corporations	11.497	16.380
Households	209.735	244.820
Total	**793.718**	**752.896**

Total mount of Deposits to households includes BAM 1.367 thousand related to cash outflow from ATMs after the cut-off time of Bank's clients who had sufficient funds in their deposit account at the time of the transaction Settlement of these transactions was done in the begging of year 2024.

45.3. Borrowings

(000) BAM

	31.12.2023	31.12.2022
Credit insitutions	1.649	4.805
Other financial institutions	12.256	17.714
Total	**13.905**	**22.519**

Overwiev by client can be show in following table:

(000) BAM

	Interest rates in %	31.12.2023	31.12.2022
EBRD	6,1	1.650	4.805
EFSE		0	1.743
Development and Employment Fund of the RS	from 0,5 - 1,4	5.008	6.494
Housing Fund of the RS	from 0,8 - 1,8	6.656	8.754
Fund for Development of Eastern Region of the RS	from 1,2 - 2,3	591	723
Total		**13.905**	**22.519**

EBRD (European Bank for Reconstruction and Development) approved a long-term loan to the Bank for general long-term financing of micro-sized, small and medium entities. The interest rate was defined as 6-month EURIBOR adjusted for percentage points as the determined minimum interest rate in accordance with the relevant Financing Agreement. The companies that are extended loans from these funds are required to comply with the prescribed environmental and social provisions of the legislation of Bosnia and Herzegovina and the Republic of Srpska.

Development and Employment Fund of the RS, Banja Luka approved a loan to the Bank for financing development projects. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Fund for Development of Eastern Region of the RS – which assist in development projects in the eastern region of the Republic of Srpska – approved a loan to the Bank. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest rate is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities, except for housing loans financing lines where interest rate is fixed.

Housing Fund of the RS, Banja Luka has provided a loan to the Bank for financing the purchase, reconstruction, and extension of homes. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest rate is fixed pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Reconciliation of borrowings and cash flows from financial activities can be shown as follows:

(000) BAM

	2023	2022
Change of cash flows from financial activities		
Balance 01.January	22.519	35.370
Increase of borrowings	0	0
Repayment of borrowings	-8.523	-12.817
Paid interest	-437	-551
Total change of cash flows from financial activities	**13.559**	**22.002**
Other changes related to liabilities		
Interest expense	346	517
Other changes	0	0
Total other changes related to liabilities	**346**	**517**
Balance 31.December	**13.905**	**22.519**

(46) Provisions

(000) BAM

	31.12.2023	31.12.2022
Pending legal disputes	410	332
Commitments and guarantees granted	1.565	1.110
Pensions and other post employment defined benefit obligations	371	309
Provisions for operational risk	199	0
Restructuring measures	0	0
Other provisions	56	63
Total	**2.601**	**1.814**

The item “pending legal disputes” includes provisions for legal risks in connection with customer protection claims. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes. More information see in Note 64- Legal risk.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason final timing could significantly deviate from original estimate.

46.1. Provisions – development of loan commitments, financial guarantee and other commitments given

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Nominal value at 01.01.2023	**122.545**	**15.358**	**0**	**137.903**
Changes in the nominal value	126	5.826	-139	5.813
Transfer between stages	-4.357	4.218	139	0
Write-offs	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Nominal value at 31.12.2023	**118.314**	**25.402**	**0**	**143.716**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Nominal value at 01.01.2022	**130.796**	**9.882**	**1**	**140.679**
Changes in the nominal value	-2.288	-545	-65	-2.898
Transfer between stages	-6.101	6.037	64	0
Write-offs	0	0	0	0
Foreign exchange and other movements	138	-16	0	122
Nominal value at 31.12.2022	**122.545**	**15.358**	**0**	**137.903**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2023	**-432**	**-678**	**0**	**-1.110**
Changes in the loss allowance	-251	-207	3	-455
Transfer between stages	-96	99	-3	0
Write-offs	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2023	**-779**	**-786**	**0**	**-1.565**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-1.201**	**-248**	**0**	**-1.449**
Changes in the loss allowance	770	-430	0	340
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-1	0	0	-1
ECL allowance as at 31.12.2022	**-432**	**-678**	**0**	**-1.110**

46.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2023	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2023
Pensions and other post employment defined benefit obligations	309	69	-7	0	0	371
Restructuring measures	0	0	0	0	0	0
Pending legal disputes	332	115	-18	-19	0	410
Provisions for operational risk	0	199	0	0	0	199
Other	63	0	-7	0	0	56
Total	**704**	**383**	**--32**	**-19**	**0**	**1.036**

(000) BAM

	Carrying amount 01.01.2022	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2022
Pensions and other post employment defined benefit obligations	319	4	-14	0	0	309
Restructuring measures	4	0	-4	0	0	0
Pending legal disputes	980	536	-770	-414		332
Other	16	47	0	0	0	63
Total	**1.319**	**587**	**-788**	**-414**	**0**	**704**

46.3. Provisions - development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarised.

(000) BAM

	2023	2022
Present value of the defined benefit obligations as of 01.01	**309**	**319**
+ Current service cost	8	14
+ Contributions paid to the plan	0	0
+/- Actuarial gains/losses	61	-10
+/- Actuarial gains/losses arising from changes in demographic assumptions	31	-5
+/- Actuarial gains/losses arising from changes in financial assumptions	30	-5
+/- Actuarial gains/losses arising from changes from experience assumptions	0	0
- Payments from the plan	-7	-14
+ Past service cost	0	0
+/- through business combinations and disposals	0	0
+/- Other changes	0	0
Present value of the defined benefit obligations as of 31.12	**371**	**309**

Due to the low amount of personnel provisions for the Bank as at 31 December 2022, further disclosures according to IAS 19 are omitted.

(47) Other liabilities

(000) BAM

	31.12.2023	31.12.2022
Deferred income	204	178
Accruals	1.930	1.763
Other liabilities	2.813	2.700
Total	**4.947**	**4.641**

Accruals and other liabilities include liabilities for services provided and not yet paid as well as salaries and salary compensations not yet paid. Other liablitise includes amount of BAM 1.910 thousand (2022: BAM 1.687 thousand) which relates to liabilities for variable payments of employees.

(48) Equity

(000) BAM

	31.12.2023	31.12.2022
Equity	**174.698**	**160.549**
Share capital	153.094	153.094
Legal reserves	1.009	377
Revaulation reserves	-104	69
Fair value reserve	-3.375	-6.156
Retained earnings	24.074	13.165
Other reserves	0	0
Non-controlling interest	0	**0**

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 153.094 thousand (2022: BAM 153.094 thousand) corresponds to the fully paid in share capital, which is divided into 153.094.205 common stock (ordinary) shares with a par value of BAM 1 per share, which was registered with the District Commercial Court of Banja Luka on January 25, 2017 under Decision no. 057-0-Reg-17-000103.

Legal reserves are created from the net profit in the amount of at least 5% of the profit until it reaches an amount that cannot be less than 10% of the core capital.

The revaluation reserves includes the measurement results – after taking deferred taxes into account – for the tangible and intangible assets measured at fair value model, and actuarial gains and losses for defined plans.
During year 2023, the Bank changed the model of subsequent valuation of Tangible assets from the revaluation model to the cost model, and accordingly the revaluation reserve was reversed with a decrease in the book value of Tangible assets.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Retained earnings represent accumulated net earnings brought forward.

The Bank recorded a profit in the amount of BAM 23.533 thousand in the financial year 2023.

(49) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers.

The cash flow from investing activities includes cash inflows and outflows arising from securities, intangible assets and property, plant and equipment.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Segment Reporting

The Bank's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting. The business segmentation is subdivided into Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes, deposit volumes and belonging KPIs. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Bank by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Bank evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes as management´s consideration of the most relevant items in evaluating the results of the respective segments.

Business Segmentation

The segment reporting comprises the five following business segments:

Consumer: the Bank's Consumer segment serves more then a hundred thousand customers, which includes Private Individuals (excluding mortgage and housing loans) through a network of 28 branches and state of the art digital channels.

SME Business: the Bank offers the full product suite to circa 3,5 thousand active SME clients (companies with annual turnover up to BAM 97.791 thousand). SME business is a main strategic segment of the Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Mortgage: Mortgage and housing loans portfolio

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than BAM 97.791 thousand. The Bank services local and international companies by centralised and specialized local teams.

Public Finance: Public Finance segment is oriented on participation in public tenders for the financing requirements of the key public institutions in countriy as Ministry of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Bank as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation.

(000) BAM

31.12.2023	Focus segments			Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	40.104	13.088	1.152	905	-11	4330	59.568
Net interest income	26.198	9.417	1.152	454	-194	4378	41.405
Net fee and commission income	13.906	3.671	0	451	183	-48	18.163
Net result from financial instruments	0	0	0	0	0	-11	-11
Other operating result	0	0	0	0	0	-2.001	-2.001
Operating income	**40.104**	**13.088**	**1.152**	**905**	**-11**	**2.318**	**57.556**
Operating expenses	**-19.105**	**-4.445**	**-24**	**-1.252**	**-1.038**	**-6.401**	**-32.265**
Operating result before impairments and provisions	**20.999**	**8.643**	**1.128**	**-347**	**-1.049**	**-4.083**	**25.291**
Other result	0	0	0	0	0	-866	-866
Credit loss expenses on financial assets	-121	680	774	871	-352	-67	1.785
Result before tax	**20.878**	**9.323**	**1.902**	**524**	**-1.401**	**-5.016**	**26.210**
Business volume							
Net loans and receivables	425.340	168.021	17.522	22.490	2.073	3.008	638.454
o/w gross performing loans customers	438.301	172.205	17.004	22.741	2.068	0	652.319
Financial liabilities at AC	534.567	134.484	0	79.537	57.386	22.737	828.711

(000) BAM

31.12.2022	Focus segments			Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	35.281	10.309	1.266	1.482	55	451	48.844
Net interest income	22.271	6.821	1.266	940	-63	479	31.714
Net fee and commission income	13.010	3.488	0	542	118	-28	17.130
Net result from financial instruments	0	0	0	0	0	-23	-23
Other operating result	0	0	0	0	0	-1.665	-1.665
Operating income	**35.281**	**10.309**	**1.266**	**1.482**	**55**	**-1.237**	**47.156**
Operating expenses	**-18.489**	**-4.036**	**-30**	**-1.147**	**-910**	**-5.620**	**-30.232**
Operating result before impairments and provisions	**16.792**	**6.273**	**1.236**	**335**	**-855**	**-6.857**	**16.924**
Other result	0	0	0	0	0	120	120
Credit loss expenses on financial assets	-4.487	896	568	99	347	-59	-2.636
Result before tax	**12.305**	**7.169**	**1.804**	**434**	**-508**	**-6.796**	**14.408**
Business volume							
Net loans and receivables	369.494	176.188	21.762	33.779	3.548	13.752	618.523
o/w gross performing loans customers	381.881	183.111	21.768	34.600	3.555	0	624.915
Financial liabilities at AC	456.652	120.836	0	93.227	98.099	31.268	800.082

The relation between net commission income and reportable segments can be seen in the tables below:

(000) BAM

31.12.2023	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	5.400	1.558	125	34	0	7.117
Transactions	2.231	1.370	178	179	0	3.958
Cards	4.110	141	2	0	0	4.253
Loans	1.392	96	4	0	0	1.492
Trade finance	4	666	168	3	0	841
Securities	0	0	0	0	0	0
Bancassurance	2.169	0	0	0	0	2.169
FX & DCC	2.837	227	8	0	0	3.072
Deposits	0	0	0	0	0	0
Other	37	4	0	0	0	41
Fee and commission income	**18.180**	**4.062**	**485**	**216**	**0**	**22.943**
Accounts and Packages	0	0	0	0	0	0
Transactions	-403	-248	-32	-33	0	-716
Cards	-3.751	-128	-2	0	0	-3.881
Securities	0	0	0	0	-48	-48
Bancassurance	0	0	0	0	0	0
Client incentives	-87	0	0	0	0	-87
Trade finance	0	0	0	0	0	0
FX changes	-16	-1	0	0	0	-17
Loans	0	0	0	0	0	0
Other	-17	-14	0	0	0	-31
Fee and commission expenses	**-4.274**	**-391**	**-34**	**-33**	**-48**	**-4.780**
Net fee and commission income	**13.906**	**3.671**	**451**	**183**	**-48**	**18.163**

[1]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

(000) BAM

31.12.2022	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	5.149	1.339	128	31	0	6.647
Transactions	2.113	1.280	170	104	0	3.667
Cards	3.122	97	1	0	0	3.220
Loans	1.190	242	5	0	0	1.437
Trade finance	4	575	167	4	0	750
Securities	0	0	0	0	0	0
Bancassurance	2.152	0	0	0	0	2.152
FX & DCC	2.997	301	87	0	0	3.385
Deposits	0	24	22	0	0	46
Other	34	4	0	0	0	38
Fee and commission income	**16.761**	**3.862**	**580**	**139**	**0**	**21.342**
Accounts and Packages	0	0	0	0	0	0
Transactions	-416	-254	-34	-21	0	-725
Cards	-3.084	-98	-1	0	0	-3.183
Securities	0	0	0	0	-28	-28
Bancassurance	0	0	0	0	0	0
Client incentives	-179	0	0	0	0	-179
Trade finance	0	0	0	0	0	0
FX changes	-61	-7	-1	0	0	-69
Loans	-1	0	0	0	0	-1
Other	-10	-15	-2	0	0	-27
Fee and commission expenses	**-3.751**	**-374**	**-38**	**-21**	**-28**	**-4.212**
Net fee and commission income	**13.010**	**3.488**	**542**	**118**	**-28**	**17.130**

[1]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

Risk Report

(50) Risk control and monitoring

The Bank steers and monitors its risks across all business segments, with the aim of optimising the risk profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors.

The following central principles apply in the Bank to the bank's overall controlling:
- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
- Bank implements appropriate, mutually compatible procedures for identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(51) Risk strategy & Risk Appetite Framework (RAF)

The Bank's risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Company's business strategy and risk orientation. It is also a management tool of the highest level for the purposes of bank's risk steering and as such it provides a framework for controlling, monitoring and limiting risks inherent in the banking business, as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

The Bank's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements.

The Bank has established a Risk Appetite Framework (RAF) which sets the bank's risk appetite while following the bank's business and risk strategy. Furthermore, RAF determines the risks undertaken in relation to its risk capacity and taking into consideration the budget, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(52) Risk organisation

Ensuring adequate risk management structures and processes is in the responsibility of the Chief Risk Officer (CRO). The CRO acts independently of business units.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2023, the following organisational units were operative:

Corporate Risk Management -The bank is responsible for credit risk management for all segments of clients that are segmented as non-retail (corporate clients), and includes clients with the segmentation of Standard, Small, Medium, as well as Large and Public clients (state and sub-state). This includes operational and strategic roles. It operationally covers the analysis and approval of credit requests, while strategically defining policies, procedures, manuals, guidelines and all other documents for the above-mentioned segments of credit risk management.

In addition to the aforementioned activities, Corporate Risk Management includes monitoring of all clients within its jurisdiction and taking preventive measures to prevent the deterioration of credit risk as well as proposing measures to reduce it as well as complete monitoring of problematic NPL loans until collection in full. Strategically defines policies, procedures, manuals, guidelines and other documents for the above segments of monitoring management and restructured risk exposures.

Retail Risk Management - aims to support the profitable growth of the retail portfolio, while ensuring that credit risk is aligned with the bank's budget. It covers portfolio reporting and collection analysis in the retail segment. Monthly meetings on portfolio quality ensure monitoring of portfolio development, identification of problems in the early stages and taking corrective action. Retail Risk Management department is also a key participiant in product approval and the audit process. It ensures that the willingness to take risks of credit products is in line with the Bank's willingness to take risks.
Important goal is implementation and continuously optimize collecttion processes, preventing migration of the portfolio in high categories delays, as well as the reduction of non-performing exposure in line with the strategy and the planned budget. The management of non-performing exposures for retail segment means the process of debt collection from the first day of delay until the final recovery of clients.

Risk controlling department – the risk management control function is organizationally located within the Risk Control Department.It consists of Financial Risks Controlling Team, Nonfinancial Risks Controlling Team and two expert functions: Data Management and Real Estate Valuation.
Financial **Risks** Controlling provides the risk strategy, economic capital management, stress testing and coordination of national bank examinations and coordinates Banks units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of the Bank within the defined risk appetite, and regulatory limitations. Nonfinancial Risks Controlling Team provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience, creates strategic framework and managing key aspects of information security in accordance with all ISO standards relevant to the management of information security system and risks coordinates and supports business continuity management processes and coordinates and support the implementation of the externalization process.

Expert functions Data Management is responsible for data and data quality management in local DWH and relevant group databases.

Expert function Real Estate Valuation is responsible for preparation of valuations, statistical valuations, and control of external real estate valuations, development of an action plan related to valuations, and all types of reports on valuations of collateral and bank assets.

(53) Internal risk management guidelines

The Bank defines risk management guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing guidelines are reviewed yearly to determine whether an update is required. This ensures that the actual and documented processes match.

The Bank has clearly defined responsibilities for all risk guidelines, including preparation, review and update. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

(54) Credit risk

54.1. Definition

According to the Strategy and Business Policy and Risk Management Strategy, credit risk is the most important driver of risk in the Bank. It is divided into different subtypes of risk, of which the counterparty risk (basic; eng. single name risk) is the most important and requires special treatment.

54.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In accordance with the instructions of the competent authorities, as defined by the Management Board and the Supervisory Board, decisions on credit placements are made by the Bank's Credit Committee as well as key personnel in the Corporate Risk Management and Retail Risk Management, depending on the level of exposure of credit placements.
If the credit request leads to the Bank's total exposure of more than 10% of recognized capital to the GoB or to any subsequent increase in that exposure, it is necessary to obtain prior consent for concluding a legal transaction from the Supervisory Board, i.e. the body appointed by the Supervisory Board.
The Bank’s Credit Committee is the permanent committee of the Bank and the highest body for making credit decisions.

54.3. Risk measurement

The Bank uses its own rating procedures to analyse and assess each individual borrower’s credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities of default on a 20-level master rating scale, while non-performing clients have a default probability of 1 (because the default event has already occurred).

54.4. Risk limitation

The steering of total Bank wide commitments with an individual customers or a group of affiliated customers (“group of borrowers”) depends on the respective customer segment or business area.

Any client (legal entity or natural person) who has any credit risk exposure or obligations within the Bank must be connected to other private persons or to groups of connected clients.
When it comes to the assessment/underwriting (assuming credit risk) of an individual client or GoB, which is carried out through defined credit risk assessments, whether for the purpose of new business or review of existing business, it is necessary to consider and analyze all types the connection and influence of the observed client connected to one or more other clients, regardless of whether other clients have credit risk exposure in the Bank or not. The sources of information used are: detailed information on the main customers, suppliers, ownership structure, management structure of the observed company, cash flows of the client and all other aspects of economic interconnection based on control, management or ownership, as well as the Central Credit Registry.

Based on the aforementioned assessment, ie. relationship control and economic dependence, and in accordance with the definition of affiliated clients, two or more clients with exposure in the Bank are treated as one risk.

In order to appropriately assess and mitigate the risk that arises due to different types of business and exposure to banks and when investing in securities, the Bank monitors and limits the aforementioned primarily through a limit establishment system, applying different categories of limits depending on the type of business /exposures and counterparties. Applying for limits, managing exposures, as well as monitoring and reporting, is the responsibility of the relevant local departments and committees, as well as the Group ones. In the event that the limits are exceeded, escalation processes are defined, and measures to mitigate the aforementioned risks are also defined.

54.5. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (on and off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

Breakdown of net exposure within the Bank in accordance with IFRS 7.35M as at 31 December 2023:

(000) BAM

31.12.2023		Performing			Non-Performing				Total
Financial instruments	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net
Cash reserves [1]	232.466	-522	231.944	0	0	0	232.466	-522	231.944
Loans and receivables	658.686	-23.158	635.528	31.457	-28.531	2.926	690.143	-51.689	638.454
of which credit institutions	3.009	-1	3.008	0	0	0	3.009	-1	3.008
of which customer loans	655.677	-23.157	632.520	31.457	-28.531	2.926	687.134	-51.688	635.446
Investment securities	83.284	-1.001	82.283	0	0	0	83.284	-1.001	82.283
On balance total	**974.436**	**-24.681**	**949.755**	**31.457**	**-28.531**	**2.926**	**1.005.893**	**-53.212**	**952.681**
Off balance	143.716	-1.565	142.151	0	0	0	143.716	-1.565	142.151
Total	**1.118.152**	**-26.246**	**1.091.906**	**31.457**	**-28.531**	**2.926**	**1.149.609**	**-54.777**	**1.094.832**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**1.118.152**	**-26.246**	**1.091.906**	**31.457**	**-28.531**	**2.926**	**1.149.609**	**-54.777**	**1.094.832**

[1] The position does not include cash on hand in

[2] Expected credit losses

The following table shows the exposure in accordance with IFRS 7.35M as at 31 December 2022:

(000 BAM)

31.12.2022		Performing			Non-Performing				Total
Financial instruments	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net
Cash reserves [1]	204.508	-485	204.023	0	0	0	204.508	-485	204.023
Loans and receivables	641.470	-25.923	615.547	31.853	-28.877	2.976	673.323	-54.800	618.523
of which credit institutions	13.811	-59	13.752	0	0	0	13.811	-59	13.752
of which customer loans	627.659	-25.864	601.795	31.853	-28.877	2.976	659.512	-54.741	604.771
Investment securities	82.598	-558	82.040	0	0	0	82.598	-558	82.040
On balance total	**928.576**	**-26.966**	**901.610**	**31.853**	**-28.877**	**2.976**	**960.429**	**-55.843**	**904.586**
Off balance	137.903	-1.110	136.793	0	0	0	137.903	-1.110	136.793
Total	**1.066.479**	**-28.076**	**1.038.403**	**31.853**	**-28.877**	**2.976**	**1.098.332**	**-56.953**	**1.041.379**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**1.066.479**	**-28.076**	**1.038.403**	**31.853**	**-28.877**	**2.976**	**1.098.332**	**-56.953**	**1.041.379**

[1] The position does not include cash on hand in

[2] Expected credit losses

54.6. Credit risk exposure by rating class

At 31 December 2023 roughly 27,3% (2022: 26,4%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2023 is mainly influenced by inflow of new NPE and accounting write-off repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2023 by BAM 202 thousand.

The following table shows the on balance and off balance exposure by rating classes and market segment as at 31 December 2023:

(000) BAM

31.12.2023	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	201.721	148.478	61.416	47.715	24.890	3.855	488.075
SME	31.096	125.422	99.463	18.444	3.302	90	277.817
Non-Focus	17.353	40.160	55.297	10.442	3.206	4	126.462
o/w Large Corporate	0	26.258	7.897	8.289	655	1	43.100
o/w Mortgage	369	13.819	897	2.010	2.551	0	19.646
o/w Public Finance	16.984	83	46.503	143	0	3	63.716
Corporate Center[1)]	63.844	28.801	164.610	0	0	0	257.255
Total	314.014	342.861	380.786	76.601	31.398	3.949	1.149.609

[1)]Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

The following table shows the on balance and off balance exposure by rating classes and market segment as at 31 December 2022:

(000) BAM

31.12.2022	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	183.982	128.826	50.165	37.718	24.456	3.235	428.382
SME	27.213	115.344	120.937	19.926	1.884	46	285.350
Non-Focus	30.596	31.630	55.309	15.152	5.450	2	138.139
o/w Large Corporate	0	13.512	29.456	9.500	693	0	53.161
o/w Mortgage	462	18.029	971	2.419	4.757	0	26.638
o/w Public Finance	30.134	89	24.882	3.233	0	2	58.340
Corporate Center[1)]	47.917	34.147	164.397	0	0	0	246.461
Total	**289.708**	**309.947**	**390.808**	**72.796**	**31.790**	**3.283**	**1.098.332**

[1)]Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

The classification of credit assets into risk grades is based on Bank internal ratings. For external reporting, internal rating grades are grouped into the following five risk categories:

- 1A-1E: representing customers with a very low risk, having the best, excellent or very good credit standing;
- 2A-2E: representing customers with a good or moderate credit standing;
- 3A-3E: representing customers with a medium or high credit risk;
- Watch: representing customers with which are on the list of exposures that need to be monitored separately, i.e. clients with increased credit risk identified by the Bank on the basis of internally defined quantitative and qualitative criteria
- NPE (default): one or more of the default criteria under Decision about credit risk management and establishment of expected credit losses are met: payments have been overdue for more than 90 days in material significant amount or the bank considers that the debtor will not fully settle his obligations to the bank „Unlikeliness to pay-UTP" (i.e. significantly doubts the customer's credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated).

As at the reporting date, exposures with "No rating" can be identified, which are related to newly originated clients which first month after placement do not have calculated behavioural rating or clients that left the "default" status, and which will be assigned a rating in the following monthly rating calculation cycle.

Default status (Stage 3) is applied at the client level which means if an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

(000) BAM

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	191.539	5.393	0	196.932
2A-2E	236.434	23.749	25	260.208
3A-3E	113.014	19.969	0	132.983
Watch	7.855	53.951	36	61.842
NPE	0	0	31.399	31.399
No rating	3.750	20	0	3.770
Total gross carrying amount	**552.592**	**103.082**	**31.460**	**687.134**
Loss allowance	-7.446	-15.711	-28.531	-51.688
Carrying amount	**545.146**	**87.371**	**2.929**	**635.446**

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	178.997	1.427	0	180.424
2A-2E	204.136	20.058	38	224.232
3A-3E	115.223	42.891	0	158.114
Watch	6.432	55.338	25	61.795
NPE	0	0	31.792	31.792
No rating	2.878	277	0	3.155
Total gross carrying amount	**507.666**	**119.991**	**31.855**	**659.512**
Loss allowance	-4.147	-21.717	-28.877	-54.741
Carrying amount	**503.519**	**98.274**	**2.978**	**604.771**

Loans and advances to banks at amortised cost:

(000) BAM

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	0	0	0	0
2A-2E	0	0	0	0
3A-3E	3.009	0	0	3.009
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**3.009**	**0**	**0**	**3.009**
Loss allowance	-1	0	0	-1
Carrying amount	**3.008**	**0**	**0**	**3.008**

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	0	0	0	0
2A-2E	11.744	0	0	11.744
3A-3E	2.067	0	0	2.067
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**13.811**	**0**	**0**	**13.811**
Loss allowance	-59	0	0	-59
Carrying amount	**13.752**	**0**	**0**	**13.752**

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	38.762	0	0	38.762
2A-2E	0	0	0	0
3A-3E	24.486	0	0	24.486
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**63.248**	**0**	**0**	**63.248**
Loss allowance	-619	0	0	-619
Carrying amount	**62.629**	**0**	**0**	**62.629**

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	58.275	0	0	58.275
2A-2E	0	0	0	0
3A-3E	24.323	0	0	24.323
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**82.598**	**0**	**0**	**82.598**
Loss allowance	-558	0	0	-558
Carrying amount	**82.040**	**0**	**0**	**82.040**

Debt instruments measured at amortised cost:

(000) BAM

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	0	0	0	0
2A-2E	0	0	0	0
3A-3E	20.036	0	0	20.036
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**20.036**	**0**	**0**	**20.036**
Loss allowance	-382	0	0	-382
Carrying amount	**19.654**	**0**	**0**	**19.654**

Commitments and financial guarantees given:

(000) BAM

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	36.220	35	0	36.255
2A-2E	47.077	6.776	0	53.853
3A-3E	34.651	4.020	0	38.671
Watch	187	14.571	0	14.758
NPE	0	0	0	0
No rating	179	0	0	179
Total gross carrying amount	**118.314**	**25.402**	**0**	**143.716**
Loss allowance	-691	-873	0	-1.564
Carrying amount	**117.623**	**24.529**	**0**	**142.152**

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	31.202	32	0	31.234
2A-2E	51.084	484	0	51.568
3A-3E	39.429	4.546	0	43.975
Watch	703	10.296	0	10.999
NPE	0	0	0	0
No rating	127	0	0	127
Total gross carrying amount	**122.545**	**15.358**	**0**	**137.903**
Loss allowance	-344	-765	0	-1.109
Carrying amount	**122.201**	**14.593**	**0**	**136.794**

54.7. Exposure by business sector

The following tables present the on balance exposure of non-financial corporations by industry based on the "NACE Code 2.0".

(000) BAM

31.12.2023	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	2.752	-83
B Mining and quarrying	2.219	-75
C Manufacturing	57.283	-1.298
D Electricity, gas, steam and air conditioning supply	24.387	-1.062
E Water supply	1.424	-19
F Construction	24.331	-574
G Wholesale and retail trade	43.379	-3.275
H Transport and storage	12.862	-1.206
I Accommodation and food service activities	4.512	-149
J Information and communication	3.051	-38
K Financial and insurance activities	0	0
L Real estate activities	0	0
M Professional, scientific and technical activities	4.701	-787
N Administrative and support service activities	224	-5
O Public administration and defence, compulsory social security	0	0
P Education	44	-2
Q Human health services and social work activities	272	-5
R Arts, entertainment and recreation	2	-1
S Other services	68	-3
Loans and advances	**181.511**	**-8.582**

(000) BAM

31.12.2022	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	5.026	-171
B Mining and quarrying	5.243	-67
C Manufacturing	57.772	-1.010
D Electricity, gas, steam and air conditioning supply	27.722	-2.208
E Water supply	1.128	-11
F Construction	25.904	-874
G Wholesale and retail trade	49.558	-1.757
H Transport and storage	10.015	-860
I Accommodation and food service activities	7.212	-1.419
J Information and communication	4.045	-32
K Financial and insurance activities	0	0
L Real estate activities	73	-1
M Professional, scientific and technical activities	4.941	-372
N Administrative and support service activities	498	-98
O Public administration and defence, compulsory social security	0	0
P Education	11	0
Q Human health services and social work activities	221	-1
R Arts, entertainment and recreation	3	-1
S Other services	50	-5
Loans and advances	**199.422**	**-8.887**

54.8. Presentation of exposure by overdue days

(000) BAM

31.12.2023	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	450.797	14.209	2.108	1.381	19.580	488.075
SME	268.335	6.499	280	855	1.848	277.817
Non-Focus	123.339	839	34	221	2.029	126.462
o/w Large Corporate	42.445	0	0	0	655	43.100
o/w Mortgage	17.178	839	34	221	1.374	19.646
o/w Public Finance	63.716	0	0	0	0	63.716
Corporate Center	257.255	0	0	0	0	257.255
Total	1.099.726	21.547	2.422	2.457	23.457	1.149.609

(000) BAM

31.12.2022	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	393.061	12.077	2.041	1.096	20.107	428.382
SME	282.709	1.214	0	31	1.396	285.350
Non-Focus	133.495	1.113	305	44	3.182	138.139
o/w Large Corporate	53.161	0	0	0	0	53.161
o/w Mortgage	21.994	1.113	305	44	3.182	26.638
o/w Public Finance	58.340	0	0	0	0	58.340
Corporate Center	246.461	0	0	0	0	246.461
Total	**1.055.726**	**14.404**	**2.346**	**1.171**	**24.685**	**1.098.332**

54.9. Breakdown of financial assets by degree of impairment

Overdue but not impaired financial assets:

(000) BAM

		31.12.2023		31.12.2022
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	20.396	5.239	13.700	738
- overdue 31 to 60 days	2.016	34	1.816	74
- overdue 61 to 90 days	1.376	0	1.053	31
- overdue 91 to 180 days	0	0	0	0
- overdue 181 to 365 days	0	0	0	0
- overdue over 1 year	0	0	0	0
Total	**23.788**	**5.273**	**16.569**	**843**

Impaired financial instruments:

(000) BAM

Loans and advances to customers (on- and off-balance)	31.12.2023	31.12.2022
Exposure	31.457	31.855
Provisions	28.531	28.877
Collateral	2.941	5.844

Forbearance (restructuring)

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). They represent changes to the original terms and conditions of the contract in order to help the client overcome temporary financial difficulties. The Corporate Risk Management and Retail Risk Management are responsible for the identification of forbearance measures, which is defined by the Bank's Forbearance Policy..
Additionally, approval of forbearance measures represent a trigger event in order to perform impairment tests in accordance with IFRS requirements.

The following tables provides an overview of the forbearance status at the Bank in the course of the financial year 2023 and 2022

(000) BAM

	1.1.2023	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2023
General governments	0	0	0	0	0	0	0
Non-financial corporations	6.599	0	-6.599	0	0	0	0
Households	6.525	436	-3.058	0	0	0	3.903
Loans and advances	**13.124**	**436**	**-9.657**	**0**	**0**	**0**	**3.903**

(000) BAM

	1.1.2022	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2022
General governments	2.879	0	-2.879	0	0	0	0
Non-financial corporations	11.276	0	-4.677	0	0	0	6.599
Households	8.731	803	-3.009	0	0	0	6.525
Loans and advances	**22.886**	**803**	**-10.565**	**0**	**0**	**0**	**13.124**

The forbearance exposure was as follows in 2023 and 2022:

(000) BAM

2023	Closing Balance 31.12.2023	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments	0	0	0	0	0
Non-financial corporations	0	0	0	0	0
Households	3.903	1.612	239	2.052	154
Loans and advances	**3.903**	**1.612**	**239**	**2.052**	**154**

(000) BAM

2022	Closing Balance 31.12.2022	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments	0	0	0	0	0
Non-financial corporations	6.599	6.585	0	14	349
Households	6.525	3.276	619	2.630	233
Loans and advances	**13.124**	**9.861**	**619**	**2.644**	**582**

Carrying amounts of inventories (incl. Repossessed collaterals)

In the financial year 2023, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 0 thousand (2022: BAM 41 thousand). Inventories (incl. rescue acquisitions) mainly consist of collateral acquired by the Bank due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

(55) Development of risk provisions

55.1. Method of calculating risk provisions

Provisions are calculated in line with the international accounting standard for financial instruments (IFRS 9). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelve-month expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures. For the part of the non performing portfolio where the exposure at default (EAD) on group of borrowers level is below a certain materiality threshold defined by local regulations, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach).Collective assessment is done based on calculated parameters od credit risk on portfolio/segment level, ie that is, a homogeneous group that represents a group of exposures with similar credit risk characteristics.

Individual assessment, or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a borroower’s operating business (primary cash flows) and from the utilisation of collaterals and guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from potential repossession of available collaterals (primarily real estates), the Bank bases its assumptions on the collateral’s market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

Model timeseries (under the same methodology used in the preparation of the prevoius financial statements) were prolonged taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

The risk provisions also include expectations of future economic circumstances ("forward-looking") in accordance with the IFRS 9 standard and local regulations. For these purposes, the Bank uses the forecasts of the Vienna Institute for International Economic Studies (wiiw). In the following, we present the key items from the current report "Analysis of macro and financial scenarios for the countries in which Addiko operates" from October 2023, which the Vienna Institute prepared for the needs of the Addiko Group.

The following table shows the realized and forecasted key macroeconomic parameters for the period 2021-2028 for Bosnia and Herzegovina.

Macroeconomic parameter	2021	2022	2023	2024	2025	2026	2027	2028
BDP%, yearly rate	7.4	3.9	1.7	1.9	2.1	2.1	2.1	2.1
Unemployment %	17.4	15.4	13.8	13.5	13.2	13.0	12.8	12.6
Inflation, % yearly rate	2.0	14.0	7.5	3.0	2.5	2.5	2.1	2.1
Budget balance % of BDP	-0.3	-0.4	-0.5	0.5	0.5	0.5	0.5	0.5
Foreign trade % of BDP	-2.4	-4.5	-3.9	-3.6	-4.0	-3.3	-2.9	-3.0

Last year was marked by instability and uncertainty caused by the war in Ukraine. As commodity trade has been disrupted by war, insecurity and mutual sanctions, inflation in Europe has reached its highest levels in decades. Although Adiko countries are not directly exposed to the conflict zone, inflation has risen everywhere and economic sentiment has plummeted. The current year still carries most of the risks of the previous one, although their magnitude has declined: some of them – such as persistent inflation and energy supply shocks – have materialized while others – such as recessions in major economies – have not.

For Bosnia and Herzegovina, the year started with rather slow economic growth due to a drop in household consumption and net exports, with inflation in declineIn addition progress was made in meeting EU requirements for progress towards the accession of BiH, and the sovereign rating of the country S&P was increased in August 2023 under the explanation of the country's resilience.

Scenario probabilities[1]	Baseline case	Optimistic case	Pesimistic case
October 2022 wiiw forecast report	45%	5%	50%
October 2023 wiiw forecast report	60%	5%	35%

[1] wiiw calibrates also adverse scenario that reflects extreme severity of calibrated shocks, used for static and dynamic stress testing purposes.

When defining each of the scenarios, it starts from two narratives: the economic narrative and the climate change narrative.
The economic narrative refers to assumptions about economic and political developments in the future.

In Wiiw report, the most important assumptions are reduced to three main points:
- The length and intensity of the war between Russia and Ukraine
- Inflation resistance
- Scope and impact of sanctions against Russia
- The quality of the credit portfolio of financial institutions.

The Climate Change Narrative is a new section that describes how the effects of climate change will affect economies over the forecast horizon. The narrative of these assumptions focuses on the consequences of political actions – should world leaders agree on climate change policies – or on the consequences of inaction materializing through increased likelihood of natural disasters and productivity losses due to rising temperatures.

Basic assumptions of each scenarios are:
- Baseline: Data for the first quarter of 2023 indicate slow economic growth and only small improvements are expected in the rest of the year. The GDP growth rate continues to decline from 2021, reaching 1.1% in the first quarter of 2023. This is the result of a decrease in household consumption and net exports due to high inflation rates at the beginning of the year and weaker demand growth from the European Union. However, real wages are on the rise in the first six months (4.9% on average compared to the same period last year), so certain improvements in household consumption can be expected in the second quarter of the year. Industrial production is in decline (4.5% in the first six months of 2023 compared to the same period last year), while retail trade is on the rise. Tourism and investments continued their positive trends and contributed to GDP growth. GDP growth of 1.7% is forecast for 2023 and is expected to improve somewhat in the coming years.Unemployment is decreasing significantly, but mostly due to large emigration. According to the Labor Force Survey, the unemployment rate fell in the first two quarters to 13.3% and 13.1%, respectively, compared to 15.5% in 2022.
  This is mainly the result of high emigration from BiH, and partly due to the increase in employment in the service sector: primarily in tourism and the IT sector. The emigration of labor and skilled people leads to labor shortages, especially in construction, transport, catering and tourism. Work permits for foreign workers are on the rise.Inflation is decreasing, currently at 8.6% for the first seven months, while interest rates are still at a low level. The Central Bank of BiH cannot influence the interest rates of commercial banks because it acts as a currency board. Since banks in BiH currently rely almost entirely on domestic sources of financing, which are not linked to reference interest rates from the international market, the increase in interest rates is significantly lower compared to commercial banks in the Eurozone. Although interest rates have remained quite low, the inflation rate is rapidly decreasing, from 14.1% in January to 4% in July, the lowest level in the last two years, so the inflation forecast for 2023 has been reduced to 7.5%.

In 2022, the state budget recorded a deficit of 1% of GDP. This is not very common for Bosnia and Herzegovina, which traditionally has a budget surplus. The 2023 budget was adopted in March and is larger than last year's and a small deficit of 0.5% of GDP is expected in 2023. Moderate fiscal consolidation is expected in the coming years, with a budget surplus of around 0.5% of GDP. Public debt also decreased in 2022 and is expected to decrease further in the coming years.
Although remittances increased by 17% and the number of tourist arrivals by 50% in 2022, the current account deficit increased significantly, due to high energy and food prices in 2022. Specifically, the current account deficit increased from 2.5% of GDP in 2021 to 4.5% of GDP in 2022 due to lower EU demand caused by the war in Ukraine and rising global energy and food prices. A similar situation continued in early 2023. The current account deficit for 2023 is forecast to fall to 3.9% of GDP, as global energy and food prices have stabilized in recent months and will continue to fall in the coming years, but at a very low pace .
Due to the increased incidence of natural disasters in recent years and the importance of the agriculture and forestry sectors, Bosnia and Herzegovina is sensitive to climate change. The frequency and intensity of natural hazards, such as floods, landslides, droughts, heat waves and forest fires, have been increasing in the last two decades. The agriculture, forestry and fishing sectors contributed 5.7% to Bosnia and Herzegovina's GDP in 2021, but employ almost 20% of its workforce and are key to rural development. In the future, Bosnia and Herzegovina will be more exposed to natural hazards because temperatures are expected to increase by 1% by 2030 and more intense precipitation will negatively affect agriculture, forests and hydropower, which will consequently affect GDP. Since Bosnia and Herzegovina has great potential for winter tourism, climate change could have a negative impact on tourism as well. The problems of climate change have not been in focus in Bosnia and Herzegovina until today. In March 2021, Bosnia and Herzegovina undertook to reduce greenhouse gas emissions by a third by 2030 and by almost two thirds by 2050, compared to 1990 levels. years..

- Optimistic: The probability for this scenario is set at a very low level for two main reasons. First, it assumes an immediate strengthening of greenhouse gas ambitions and the implementation of those policies by the largest CO2 emitters, which is inconsistent with current trends and activities in this area. Second, the scenario also assumes that active warfare in Ukraine ends in Q4 2024. This, however, does not seem like a plausible outcome. The scenario also assumes the abolition of trade restrictions, which leads to the easing of price pressures with a corresponding disinflationary impact, then the recovery of the strongest economies beyond expectations and the preservation of the quality of credit portfolios of financial institutions despite the rise in interest rates..
- Pessimistic: The probability for this scenario is set at 35%, which is lower than the previous estimate because some of the risks have already materialized (high and persistent inflation), while others have not (recession in major economies). Three basic risks have been identified at the moment that contribute to the realization of negative outcomes. First, there is great uncertainty about the path of inflation in the coming months. Although Wiiw sees the inflationary shock peaking in 2022 and abating in 2023, it is possible that monetary policy transmission is not effective in anchoring expectations. Second, the increase in risk among financial institutions and businesses due to the increase in interest rates. The negative impact of bank failures in the United States and Switzerland has so far been limited, but there is uncertainty about future developments given the years of exposure built up during the quantitative easing era. Third, interstate tensions between Russia and China on the one hand and the US and the EU on the other could lead to further fragmentation of trade, which would lead to another round of inflation and macro-financial instability. Considering the climate risks, there is a strong chance that global leaders cannot coordinate the implementation of climate action programs beyond nationally determined contributions. Although major CO2-emitting countries have submitted more ambitious targets, it remains open whether or not domestic policies in countries will change to unconditionally support climate change policies in the coming decades.

The following table shows how the ECL allowance for stage 1 and stage 2 for each economic scenario and probability-weighted ECL allowance continues to reflect a 60 per cent weighting of base case, optimistic a 5 per cent weighting and pessimistic case a 35 per cent weighting.
Final ECL is further adjusted by the post-model update adjustment (PMA) and minimum coverage rates are applied to the same according to minimal coverage prescribed by Banking Agency of Republika Srpska Decision on Credit Risk Management and Determination of Expected Credit Losses and Decision On Temporary Measures To Mitigate The Risk Of An Interest Rate Increase.

(000) BAM

31.12.2023	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	376	370	374	381
PI Other	13.616	13.400	13.507	13.833
Financial Institutions Model	427	311	401	487
Countries	308	259	295	337
Municipalities	9	9	9	9
Corporate Model	109	98	104	119
SCPI	1.194	1.180	1.188	1.205
Total (Stage 1 and 2)	16.039	15.627	15.878	16.371

(000) BAM

31.12.2022	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	358	230	279	461
PI Other	15.582	11.926	13.398	18.414
Financial Institutions Model	40	11	29	54
Countries	191	59	130	273
Municipalities	6	5	5	6
Corporate Model	6.679	4.942	5.648	8.017
SCPI	279	151	198	382
Total (Stage 1 and 2)	**23.135**	**17.324**	**19.687**	**27.607**

55.2. Development of risk provisions

Main drivers of risk cost development in 2023 were: update of internal PD model which led to a significant effect in the form of a reduction in expected credit losses , application of changed regulatory Decision on temporary mitigation measures the risk of rising interest rates, and application of higher minimal coverage rates prescribed by Decision on Credit Risk Management and Determination of Expected Credit Losses. In addition to the above, a significant impact on the amount of expected credit losses was also a more favorable trend in the part of non-performing exposures compared to planned values (smaller inflow of NPLs, higher recovery and higher payments), and a significant reduction in exposures of corporate cleints classified in Stage 2, which had high coverage ratio.

55.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates of internal ECL models are performed regularly to make sure that the latest available information is considered (FLI component). In 2023 PD model was updated for all segments. Updating the PD model included extending the time series with the latest available data used to calculate the PD, as well as using the latest available macroeconomic data provided by the Vienna Institute for International Economic Studies (wiiw). The Bank also developed new LGD model according to local regulations but it has not been implemented, considering that its implementation requires the prior consent of the regulator. Accordingly, during 2023, the minimum prescribed LGD rates were used in accordance with the Instruction for the Classification and Valuation of Financial Assets.
Updating of the PD model resulted in a significant reduction in the level of expected credit losses amounting to 2.6 million BAM, due to lower PD values compared to the previous year and changes in the amount of post model adjustment (PMA). In addition, a part of the effect of the PD model update from 2022 in the amount of 3.1 million BAM was transferred to 2023 due to the regulatory minimum client recovery period of 3 months before moving from Stage 2 to Stage 1.

In December 2023, the bank recalculated the amount of post model adjustment (PMA), according to the same methodology as the previous year, and based on this, the amount of PMA was reduced by 0.84 million BAM, so that the new amount of PMA is 0.76 million BAM. The specified amount was obtained as the difference between the amount of expected credit losses obtained using the TTC matrices and the amount obtained using the PIT matrices. The stated amount of PMA is added every month to the calculated amount of expected credit losses according to the internal model.

55.4. Development of the coverage ratio

The coverage ratio 1 shows the coverage of NPE exposure by provisions, is at the same level as the previous year, while coverage ratio 2, which in addition to provisions also includes collateral, is lower than the previous year by 9 percentage points due to the gradual reduction of NPE exposures secured by mortgages in the household segment (repayments, agreements on payment, repossessed assets, write-offs).

The following tables show the NPE and coverage ratios at YE23 and YE22:

(000) BAM

31.12.2023	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (Balance exposure)	Coverage Ratio 1	Coverage Ratio 3
Consumer	488.075	24.942	22.473	354	5,1%	5,4%	90,1%	91,5%
SME	277.817	3.309	3.281	27	1,2%	1,9%	99,1%	100,0%
Non Focus	126.462	3.206	2.777	2.560	2,5%	3,0%	86,6%	166,5%
o/w Large Corporate	43.101	655	655	82	1,5%	2,8%	100,0%	112,5%
o/w Mortgage	19.645	2.551	2.122	2.478	13,0%	13,0%	83,2%	180,3%
o/w Public Finance	63.716	0	0	0	0,0%	0,0%	0,0%	0,0%
Corporate Center	257.255	0	0	0	0,0%	0,0%	0,0%	0,0%
Total	**1.149.609**	**31.457**	**28.531**	**2.941**	**2,7%**	**3,1%**	**90,7%**	**100,0%**

(000) BAM

31.12.2022	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (Balance exposure)	Coverage Ratio 1	Coverage Ratio 3
Consumer	428.383	24.497	22.328	958	5,7%	6,0%	91,1%	95,1%
SME	285.349	1.883	1.666	300	0,7%	1,0%	88,5%	104,4%
Non-Focus	138.139	5.475	4.883	4.587	4,0%	1,3%	89,2%	173,0%
o/w Large Corporate	53.162	694	694	98	1,3%	2,0%	100,0%	114,1%
o/w Mortgage	26.638	4.781	4.189	4.489	17,9%	18,0%	87,6%	181,5%
o/w Public Finance	58.339	0	0	0	0,0%	0,0%	0,0%	0,0%
Corporate Center	246.461	0	0	0	0,0%	0,0%	0,0%	0,0%
Total	**1.098.332**	**31.855**	**28.877**	**5.845**	**2,9%**	**2,4%**	**90,7%**	**109,0%**

(56) Measurement of real estate collateral and other collateral

Pursuant to the Bank Collateral Management Policy and also the Bank Real Estate Valuation Policy, all real estate is regularly monitored and its value regularly re-assessed, annually for all commercial real-estate, and at least once in three years for residential real estate and real estates which are collateral for NPE.
The valuation of all commercial and residential real estate is performed on an individual level if the market value is above BAM 1,956 thousand for CRE, and above BAM 782 thousand for other RRE. The market value of the ones with smaller value is re-assessed using certain statistical methods and tools.

The internal collateral values (ICV) are shown in the following table for 31 December 2023 as well as 31 December 2022:

(000) BAM

Collateral Distribution	31.12.2023	31.12.2022
Exposure	1.149.609	1.098.332
Internal Collateral Value (ICV)	64.044	95.520
thereof CRE	28.223	54.348
thereof RRE	18.510	24.911
thereof financial collateral	1.582	3.319
thereof guarantees	0	0
thereof other	15.729	12.942
ICV coverage rate	5,6%	8,7%

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). Compared to the previous year, there was a decrease in the internally accepted value of collateral, mostly due to a significant reduction in the exposure of several corporate entities that were secured by high-value collateral, and due to a gradual decrease in the portfolio of loans secured by mortgages, as the Bank has not placed these loans for several years. The aforementioned also resulted in a decrease in collateral coverage, which is expected given the Bank's focus on consumer loans and loans to small and medium-sized enterprises.

However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

(000) BAM

2023	Gross Carrying amount	Fair value of collateral held under the base case scenario Securi-ties	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	**31.457**	**0**	**0**	**428**	**0**	**0**	**0**	**428**	**31.029**	**-28.531**
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	3.964	0	0	0	0	0	0	0	3.964	-3.936
Households	27.493	0	0	428	0	0	0	428	27.065	-24.595
Commitments and financial guarantees	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0
Loan commitments given	0	0	0	0	0	0	0	0	0	0

(000) BAM

2022	Gross Carrying amount	Fair value of collateral held under the base case scenario Securi-ties	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	31.855	**0**	**0**	**720**	**0**	**0**	**0**	**720**	**31.135**	**-28.877**
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	2.507	0	0	88	0	0	0	88	2.419	-2.291
Households	29.348	0	0	632	0	0	0	632	28.716	-26.586
Commitments and financial guarantees	1	0	0	0	0	0	0	0	1	0
Loan commitments given	1	0	0	0	0	0	0	0	1	0

(57) Market risk

57.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Bank structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Bank carries out the following activities in the market risk management process: identifying, measuring, analysing and monitoring of market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities

57.2. Risk measurement

The Bank daily calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99.0% VaR number used by the bank reflects the 99% probability that the daily loss should not exceed the reported VaR. The VaR methodology employed to estimate daily risk numbers is a Monte Carlo simulation with 10,000 runs, or a simulation under Variance-Covariance method. While the latter method is used to estimate interest rate risk for non-trading activities, the Monte Carlo approach is then used to estimate potential losses of other market risk types. The bank uses VaR to capture potential losses arising from changes in the risk free rates, security issuers' credit margins, foreign exchange rates, equity prices and commodity prices. All VaR methods in place rest on assumption of exponentially weighted moving averages and correlations in the market risk factors collected for the historical series of 250 days.

57.3. Overview – market price risk

INTEREST RATE RISK

The value at risk of the economic interest rate risk for the Bank per 31 December 2023 is BAM 476 thousand (31 December 2022: BAM 973 thousand).
The interest rate gap profile for the Bank contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures, as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20% of Tier 1 capital.

The change in present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2023 amounts to BAM 33 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2022 was BAM 50 thousand.

FOREIGN EXCHANGE RISK

The database for determining the value at risk for foreign exchange risks is based on the figures in the regulatory report as well as positions arising from participations, and contains operational business activities. Foreign exchange risk thereby covers the entire FX risk of the Bank. The main foreign exchange risk drivers are the DKK and RSD currencies. The total volume of open currency positions as at 31 December 2023 is roughly BAM 133 thousand (volume per 31 December 2022 of approx. BAM 812 thousand), with the majority attributed to the EUR currency. The value at risk for foreign exchange risk was approximately BAM 2,8 thousand per day as at 31 December 2023 (value at risk as at 31 December 2022: BAM 2 thousand), at a confidence interval of 99%. The limit of BAM 31.293 thousand was adhered to as at 31 December 2022.

The Bank didi not have significant exposure to foreign exchange risk at 31 December 2023 and 31 December 2022 The EUR was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

EQUITY RISK

Bank held only insignificant amounts of stock in its portfolio. The value at risk for the equity risk at the Bank amounted to BAM 0 thousand as at 31 December 2023 (value at risk as at 31 December 2022: BAM 0 thousand) with a one-day holding period and a confidence level of 99%.

CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 66 thousand at 31 December 2023 with a one-day value at risk and a confidence level of 99% (31 December 2022: BAM 131 thousand). The limit of BAM 469 thousand was adhered to as at 31 December 2023. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

The following table shows the estimated values of market risks, which Bank uses for internal risk management:

(000) BAM

	31.12.2023	31.12.2022
Interest Rate Risk (Banking and Trading Book)	8.893	18.174
Credit Spread Risk	1.226	2.450
Foreign Exchange Risk	52	37

The decline in overall market risk exposure can be seen in general as an effect of increased instability and volatility in financial markets in the 2023, compared to 2022 which was characterized by unbalanced financial markets as a consequence of the Russian-Ukrainian war, as well as a consequence of the crisis caused by the Covid-19.

(58) Liquidity risk

58.1. Definition

The Bank defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

58.2. General requirements

At the Bank, liquidity management at Bank level are the responsibility of Balance Sheet Management & Treasury and controlling under Risk controlling.

The Bank has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

58.3. Risk control

The liquidity reserve ensures the Bank's solvency at all times, even during crisis situations. These liquidity reserve is subject to different stress scenarios in order to maintain an overview of available liquidity resources even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

In 2023, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 264% in May 2023 and its peak of 620% in December 2023

The counterbalancing capacity at the Bank was structured as follows:

(000) BAM

Counterbalancing Capacity	31.12.2023	31.12.2022
Coins and bank notes	31.119	31.238
Withdrawable central bank reserves	80.317	81.189
Level 1 tradable assets	59.639	52.848
Total Counterbalancing Capacity	**171.075**	**165.275**

Liquidity Controlling for the Bank is carried out at a local level on the one hand as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

Any occurring gaps in pre-defined time buckets are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for the proper liquidity management. The liquidity reserves are subjected to a regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured that general regulatory requirements are adhered as well.

58.4. Overview – liquidity situation

The liquidity situation of the Bank in 2023 was stable, any capital market activities were therefore not necessary.

During the financial year, the Bank recorded a stable level of deposits around BAM 185.801 thousand within LCR calculation. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2024.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding is BAM and EUR. Both, products and currencies are tracked through different time buckets and time frames.

In addition, the Bank is monitoring the impact of customers with high volume business: the biggest ten counterparties which are compared with the volume of total financial liabilities.

Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Bank.

(000)BAM

31.12.2023	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	828.711	835.608	512.680	46.867	156.169	118.278	1.614
Deposits of customers	793.718	797.841	506.431	45.007	151.798	94.600	5
Deposits of credit institutions	14.005	16.236	227	310	837	14.862	0
Borrowings	13.905	14.448	255	1.399	3.080	8.105	1.609
Other financial liabilities	7.083	7.083	5.767	151	454	711	
Derivatives	0	0	0	0	0	0	0
Loan commitments	86.419	86.419	86.419	0	0	0	0
Financial guarantees	12.027	12.027	12.027	0	0	0	0
Other commitments	45.270	45.270	45.270	0	0	0	0
Total	**972.427**	**979.324**	**656.396**	**46.867**	**156.169**	**118.278**	**1.614**

(000)BAM

31.12.2022	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	800.082	803.150	511.020	67.987	109.321	111.570	3.252
Deposits of customers	752.896	755.193	503.698	48.881	103.936	98.600	78
Deposits of credit institutions	15.969	15.969	204	15.765	0	0	0
Borrowings	22.519	23.290	291	3.185	4.919	11.721	3.174
Other financial liabilities	8.698	8.698	6.827	156	466	1.249	0
Derivatives	0	0	0	0	0	0	0
Loan commitments	85.398	85.398	85.398	0	0	0	0
Financial guarantees	8.778	8.778	8.778	0	0	0	0
Other commitments	43.727	43.727	43.727	0	0	0	0
Total	**937.985**	**941.053**	**648.923**	**67.987**	**109.321**	**111.570**	**3.252**

(59) Operational risk

59.1. Definition

The Bank defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

59.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture.

A robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk provides a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored for risk mitigation actions.

Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

59.3. Risk monitoring

Nonfinancial risk control team reports regulary to relevant committies (on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Management Board, Supervisory Board, Audit Committee, Risk Committee and OpRisk Committee) in order to provide an overview of the operational risk situation to the management to enable the adequate risk steering and to integrate the operational risk management into the bank processes.

59.4. Exposure & capital overview

Operational risk, in its cyclical process, shows changes in loss realisation thus impacting operational risk management which is visible through the loss collection and risk and control self-assessment processes, the two most important tools in operational risk management.

The operational risk with regard to the Pillar 1 capital requirement is calculated using the Basic Indicator Approach, the so-called BIA, in accordance with Decision on the calculation of the capital of banks (using relevant indicator). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes legal risk and other sub-types which the Bank considers material under Pillar 2.

(60) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk
- Macro-economic risks/ Systemic risks
- Business risk/Strategic risk
- Profitability risk
- Compliance/Regulatory risk

For material “Other risks”, economic capital is considered in the risk bearing capacity calculation.

Environmental, Social and Governance (ESG) Risks
ESG risks include all risks arising from potential negative impacts, direct or indirect, on the environment, people and communities and more generally all stakeholders, in addition to those arising from corporate governance. ESG risk could affect profitability, reputation and credit quality and could lead to legal consequences.

The Bank primarily focuses on environmental risk management. Due to the granularity and diversification of the loan portfolio, there is no immediate material threat to the quality of the Assets, while the potential impact on the macroeconomics means that the Bank will be mainly affected through macroeconomic transmission channels.
Acute and chronic climate and environmental risks already affect macroeconomic indicators, and the severity of this impact in the medium and long term largely depends on the measures taken to combat climate change.
Although no immediate danger has been identified for the Bank, the uncertainty of ESG risks requires continuous monitoring.

The Bank has already identified industries that are and could be affected by climate and environmental risks in the future, but at the end of 2022 the loan portfolio does not show any concentration in those industries, and measures are being introduced to monitor and limit such exposures.
As part of the operational loan approval process, the Bank has defined measures to recognize the potential impact of climate and environmental risk on the quality of clients' assets in the affected industries. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.
After aspects above being analysed and in case that transaction is being supported adequate mitigating and monitoring system is implemented/established which will ensure the control over the transaction.

(61) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 5.798 active legal disputes with a total value of BAM 82.353 thousand led by Retail Risk Management Department.

61.1. Passive legal disputes

As at 31 December 2023, there were 68 open court proceedings against the Bank, with total nominal value of BAM 17.242 thousand, excluding contingent penalty interest. This amount includes 2 claims with nominal value of BAM 279 thousand according to which the claims have been already paid in previous periods, hence they do not represent an additional risk of losses but are in the state of open court proceedings based on legal remedy. In addition, this amount includes 5 claims with nominal value of BAM 215 thousand, which are, in accordance with contracts on ced-ing receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk trans-ferred to transferee) are not recorded in accounting records.
The overall number and value of passive legal disputes significantly decreased in 2023.
In 2023, the Bank did not have significant unplanned costs related to passive litigation.
The Bank estimates the amount of provisions for court costs. The estimate is based on the estimated probability of future cash flows arising from past legal or other resulting liabilities. As at 31 December 2023, the Bank set aside funds in the amount of BAM 410 thousand for court proceedings and receivables, which the Management Board considers sufficient for risk of loose legal disputes.
During 2023, the Bank continued to intensify its litigation and related legal risk management activities. The Bank's strategies in court proceedings are regularly established, and adequate legal representation and coordination of the Bank's defense is established, as well as the out-of-court dispute resolution procedure, recording and reporting on litigation and claims. This resulted in these and other court decisions in favor of the Bank, and the termination of certain proceedings with significant decrease of total value of proceedings.

The following is overview of court proceedings as of 31.12.2022

(000) BAM

Type of case	Number of cases	Value of cases	Provisions
Compensation for damadges	8	13.943	100
Unfair enrichment	3	85	6
Labor dispute	9	68	221
Old foreign currency savings	3	215	66
Determination	34	2.771	0
Currency clause / margin	10	152	17
Debt payment	1	7	0
Total	**68**	**17.241**	**410**

61.2. Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles. Accordingly, no legal provision is required to be set up if the Bank is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk.

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on new legal. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Bank is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Supplementary information required to be disclosed

(62) Analysis of remaining maturities

(000) BAM

Analysis of remaining maturity as at 31.12.2023	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	182.681	80.382	0	0	0	263.063	0	263.063
Financial assets at fair value through other comprehensive income	63.027	0	0	0	0	63.027	0	63.027
Financial assets at amortised cost	12.054	67.205	130.156	305.647	143.046	209.415	448.693	658.108
Tangible assets	20.542	0	0	0	0	20.542	0	20.542
Intangible assets	4.093	0	0	0	0	4.093	0	4.093
Tax assets	1.997	0	0	0	0	1.997	0	1.997
Current tax assets	0	0	0	0	0	0	0	0
Deferred tax assets	1.997	0	0	0	0	1.997	0	1.997
Other assets	1.834	0	0	61	0	1.834	61	1.895
Total	**286.228**	**147.587**	**130.156**	**305.708**	**143.046**	**563.971**	**448.754**	**1.012.725**
Financial liabilities measured at amortised cost	512.615	46.378	152.452	115.688	1.578	711.445	117.266	828.711
Provisions	637	116	656	1.164	28	1.409	1.192	2.601
Tax liabilities	1.768	0	0	0	0	1.768	0	1.768
Current tax liabilities	1.768	0	0	0	0	1.768	0	1.768
Deferred tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2.935	1.910	0	102	0	4.845	102	4.947
Total	**517.955**	**48.404**	**153.108**	**116.954**	**1.606**	**719.467**	**118.560**	**838.027**

(000) BAM

Analysis of remaining maturity as at 31.12.2022	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	156.481	78.780	0	0	0	235.261	0	235.261
Financial assets at fair value through other comprehensive income	82.317	0	0	0	0	82.317	0	82.317
Financial assets at amortised cost	22.140	45.973	126.439	287.720	136.251	194.552	423.971	618.523
Tangible assets	22.632	0	0	0	0	22.632	0	22.632
Intangible assets	4.487	0	0	0	0	4.487	0	4.487
Tax assets	1.889	0	0	0	0	1.889	0	1.889
Current tax assets	0	0	0	0	0	0	0	0
Deferred tax assets	1.889	0	0	0	0	1.889	0	1.889
Other assets	2.340	0	0	93	0	2.340	93	2.433
Total	**292.286**	**124.753**	**126.439**	**287.813**	**136.251**	**543.478**	**424.064**	**967.542**
Financial liabilities measured at amortised cost	511.020	67.222	108.564	110.094	3.182	686.806	113.276	800.082
Provisions	73	133	348	1.060	200	554	1.260	1.814
Tax liabilities	456	0	0	0	0	456	0	456
Current tax liabilities	456	0	0	0	0	456	0	456
Deferred tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	4.565	0	0	76	0	4.565	76	4.641
Total	**516.114**	**67.355**	**108.912**	**111.230**	**3.382**	**692.381**	**114.612**	**806.993**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. An analysis regarding recovery or settlement up to 1 year after the reporting date and over 1 year after the reporting date, as requested in IAS 1, is presented. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(63) Leases from the view of the Bank as lessee

The Bank leases the majority of its offices and branches under various rental agreements. The Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods. Extension and termination options are included in a number of property and equipment leases. Several lease contracts have indefinite lease term and several contracts contain insignificant residual value guarantees. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate. For further details regarding lease contracts please refer to note (7) Leases and to note (5) Use of estimates and assumptions/material uncertainties in relation to estimates.

The lease agreements do not include any clauses that impose any restrictions on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The Bank had total cash outflows for leases of BAM 1.265 thousand in (2022: BAM 1.351 thousand).

(000) BAM

	31.12.2023	31.12.2022
Payments for principal portion of lease liability	-653	-688
Payments for interest portion of lease liability	-45	-56
Payments for short-term, low value assets and variable lease payments not included in the measurement of the lease liability	-567	-607
Total	**-1.265**	**-1.351**

Undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2023	31.12.2022
up to 1 year	653	667
from 1 year to 5 years	1.228	1.275
more than 5 years	0	0
Total undiscounted lease liabilities	**1.881**	**1.942**

The expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2023	31.12.2022
Short-term leases	112	109
Leases of low value assets	455	498
Total	**567**	**607**

(64) Leases from the view of the Bank as lessor

The future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2023	31.12.2022
up to 1 year	0	84
from 1 year to 5 years	0	0
more than 5 years	0	0
Total	**0**	**84**

Lease income in business year 2023 for the Bank amounts to BAM 242 thousand (2022: BAM 353 thousand).

(65) Assets/liabilities denominated in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

(000) BAM

	31.12.2023	31.12.2022
Assets	**1.012.725**	**967.542**
of which: EUR	292.541	340.406
of which: USD	12.426	12.043
of which: CHF	10.942	8.863
of which: BAM	694.476	603.807
of which: RSD	39	135
of which: HRK	0	0
of which: other currencies	2.301	2.288
Liabilities	**838.027**	**806.993**
of which: EUR	332.943	314.440
of which: USD	12.438	11.867
of which: CHF	10.871	8.837
of which: BAM	479.634	469.729
of which: RSD	0	0
of which: HRK	0	0
of which: other currencies	2.141	2.120

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency. The majority of the differences between the respective sums is hedged through foreign exchange swaps (FX swaps) and forward exchange transactions.

(66) Contingent liabilities and other liabilities not included in the statement of financial position

The following gross commitments not included in the statement of financial position existed at the reporting date:

(000) BAM

	31.12.2023	31.12.2022
Loan commitments, given	86.419	85.398
Financial guarantees, given	12.027	8.778
Other commitments, given	45.270	43.727
Total	**143.716**	**137.903**

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

Bank faces a number of passive legal cases, where customers filed claims against Bank seeking compensation for damages, mainly related to FX and unilateral interest change clauses. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes.

(67) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Bank uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of the Bank. This hierarchy gives the highest priority to observable inputs when available and the lowest priority to unobservable inputs. Bank considers relevant and observable inputs in its valuations, where possible.

The fair value hierarchy comprises the following levels:

- **Level 1 -** Quoted prices in active markets: The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- **Level 2 -** Value determined using observable parameters: If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.
- **Level 3 -** Value determined using non-observable parameters: This category includes financial instruments for which there are no observable market rates or prices.

The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

Valuation models are regularly reviewed, validated and calibrated. All valuations are performed independently of the trading departments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement model; they are reported under level II or level III depending on the input factors used.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques whereby expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

67.1. Fair value of assets carried at fair value

The table below shows the allocation of assets carried at fair value to their level in the fair value hierarchy.

(000) BAM

31.12.2023	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Investment securities at FVTOCI	38.622	24.083	322	63.027
Equity instruments	0	77	322	399
Debt securities	38.622	24.006	0	62.628
Total	**38.622**	**24.083**	**322**	**63.027**

(000) BAM

31.12.2022	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Investment securities at FVTOCI	82.040	72	205	82.317
Equity instruments	0	72	205	277
Debt securities	82.040	0	0	82.040
Total	**82.040**	**72**	**205**	**82.317**

Transfers between level I and level II

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the financial instrument does no longer meet the criteria described above for the categorisation in the respective level.
In the current and the previous reporting period no transfer of debt securities at FVTOCI took place..

The reconciliation of the assets reported under level III as at 31 December 2023 was as follows:

(000) BAM

2023	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	205	0	117	0	0	0	322
Equity instruments	205	0	117	0	0	0	322
Total	**205**	**0**	**117**	**0**	**0**	**0**	**322**

The reconciliation of the assets reported under level III as at 31 December 2022 was as follows:

(000) BAM

2022	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	205	0	0	0	0	0	205
Equity instruments	205	0	0	0	0	0	205
Total	**205**	**0**	**0**	**0**	**0**	**0**	**205**

Measurement methods used to determine the fair value of level II and level III items
The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

The following measurement techniques are applied to items that are measured internally based on models:
- Present value of the future cash flows (discounted cash flow method) -Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.
- Option measurement models -The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items:
- Volatilities and correlations -Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.
- Risk premiums - Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.
- Loss given default - The loss given default is a parameter that is never directly observable before an entity defaults.
- Probability of default - Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments
Credit value adjustment (CVA) and debt value adjustment (DVA)
Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves available; and are composed of country-specific curves and an internal rating.

OIS discounting

The Bank measures derivatives taking into account base spread influences by applying various interest curves to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

67.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognised financial instruments not carried at fair value are compared to the respective fair values below:

(000) BAM

31.12.2023	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	263.063	263.046	-17	0	0	263.046
Financial assets at amortised cost	638.454	656.713	18.259	0	0	656.713
Loans and receivables	638.454	656.713	18.259	0	0	656.713
Total	**901.517**	**919.759**	**18.242**	**0**	**0**	**919.759**
Liabilities						
Financial liabilities measured at amortised cost	828.711	822.511	-6.200	0	0	822.511
Deposits	807.723	802.027	-5.696	0	0	802.027
Borrowings	13.905	13.401	-504	0	0	13.401
Other financial liabilities	7.083	7.083	0	0	0	7.083
Total	**828.711**	**822.511**	**-6.200**	**0**	**0**	**822.511**

(000) BAM

31.12.2022	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	235.261	235.214	-47	0	0	235.214
Financial assets at amortised cost	618.523	650.642	32.119	0	0	650.642
Loans and receivables	618.523	650.642	32.119	0	0	650.642
Total	**853.784**	**885.856**	**32.072**	**0**	**0**	**885.856**
Liabilities						
Financial liabilities measured at amortised cost	800.082	793.741	-6.341	0	0	793.741
Deposits	768.865	763.156	-5.709	0	0	763.156
Borrowings	22.519	21.887	-632	0	0	21.887
Other financial liabilities	8.698	8.698	0	0	0	8.698
Total	**800.082**	**793.741**	**-6.341**	**0**	**0**	**793.741**

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no debt issues of the Bank are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in CSEE whose markets and estimated credit standing is as similar to that of the Bank as possible. For the covered liabilities, the curve of the weighted credit spread of the available bonds covered by the reference value from the peer group was used. Due to the existing uncertainties, a broad range exists for the fair values to be determined.

The management assessed that the fair value of cash positions approximately correspond to their carrying amounts largely due to the short term maturities of these instruments.

(68) Derivative financial instruments

68.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

(000) BAM

	Nominal amount	
	31.12.2023	31.12.2022
Foreign exchange and gold		
OTC other	7.823	44.984

(000) BAM

	31.12.2023			31.12.2022		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
Foreign exchange and gold						
OTC-products	**7.823**	**0**	**0**	**44.984**	**0**	**0**
OTC other	7.823	0	0	44.984	0	0

Trading book volume can be shown as follows:

(000) BAM

	31.12.2023	31.12.2022
Derivatives in trading book (nominal)	7.823	44.984
Debt securities (carrying amount)	0	0
Trading book volume	**7.823**	**44.984**

(69) Related party disclosures

In accordance with the International Accounting Standard ("IAS") 24: "Related Party Disclosures", related parties are parties or entities that represent:

a) enterprises that directly, or indirectly through one or more intermediaries, control the reporting company or are under its control, i.e. which the reporting entity controls together with other entities (including holding companies, subsidiaries and fellow subsidiaries);
b) associated persons - companies in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
c) individuals who directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or be influenced by the relating individual in their dealings with the Bank;
d) executives in key positions, i.e. individuals having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and members of their immediate families; and
e) companies in which any person described in (c) or (d) has a substantial interest in the voting rights or which is directly or indirectly owned by the mentioned individuals, or where the same may have a significant impact. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in both their company and in a same or similar positions at the Bank.

In considering each possible related party transaction, attention is directed to the essence of the relationship, not merely the legal form.

Business relations with related parties are as follows at the respective reporting date:

(000) BAM

31.12.2023	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Financial assets							
Loan and advances	0	0	0	0	0	18	319
Placements	28.517	374	1.051	140	0	865	0
Derivatives	0	0	0	0	0	0	0
Other assets	43	0	0	0	0	0	0
Financial liabilities							
Derivatives							
Deposits	13.825	0	0	11	58	0	4.808
Other financial liabilities	87	0	89	143	0	131	0
Other liabilities	0	0	0	0	0	0	0
Loan commitments given	0	0	0	0	0	0	73
Commitments and guarantees given	0	0	0	0	0	0	0

(000) BAM

31.12.2022	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Financial assets							
Loan and advances	11.685	0	0	0	0	671	242
Placements	12.332	601	1.928	293	0	2.245	0
Derivatives	0	0	0	0	0	0	0
Other assets	45	0	0	0	0	0	0
Financial liabilities							
Derivatives	0	0	0	0	0	0	0
Deposits	11.861	0	2	12	24	0	1.882
Other financial liabilities	105	0	73	215	0	102	0
Other liabilities	0	0	0	0	0	0	0
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**61**
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(000) BAM

31.12.2023	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Interest and similar income	912	0	0	0	0	0	14
Interest expenses	-39	0	0	0	0	0	-45
Fee and commission income	0	0	0	0	0	0	14
Fee and commission expenses	-8	-1	-63	-2	0	0	0
Other administrative expenses	-40	0	-537	-245	0	0	0
Gains on derecognition of financial assets FVOCI	0	0	0	0	0	0	0
Other operating income	0	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0	0
Credit loss expenses on financial assets	-23	1	4	1	0	107	-1
Total	**802**	**0**	**-596**	**-246**	**0**	**107**	**-18**

(000) BAM

31.12.2022	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Interest and similar income	73	0	10	0	0	0	11
Interest expenses	-185	0	0	0	0	0	-10
Fee and commission income	0	0	0	0	0	0	10
Fee and commission expenses	-10	-1	-50	-2	0	0	0
Other administrative expenses	-233	0	-368	-215	0	-1	0
Gains on derecognition of financial assets FVOCI	0	0	0	0	0	0	0
Other operating income	0	0	0	0	0	5	0
Other operating expense	0	0	0	0	0	-3	0
Credit loss expenses on financial assets	-29	-3	-8	-1	0	-71	-1
Total	**-384**	**-4**	**-416**	**-218**	**0**	**-70**	**10**

The following table shows the total remuneration of the members of the Management and Supervisory Board according to IAS 24.17. Expenses according to IAS 24 are recognized on an accrual basis in accordance with the relevant rules of the basic standards IAS 19 and IFRS 2. The disclosed amounts correspond to the estimated payment on the reporting date and may deviate from those that will be finally paid::

(000) BAM

	31.12.2023	31.12.2022
Short term employee benefits	1.001	981
Other long term benefits	0	0
Termination benefits	0	0
Total	**1.001**	**981**

(70) Share-based payments

In 2021 the Bank established, in addition to the annual bonus, a Performance Acceleration Incentive Framework (PAIF) based on which the Bank granted to management board variable remuneration components based on value of shares. The program is intended to closely align the interests of the participants with those of the shareholders. The structure of the Framework was revised during 2023, and was defined for a three-year time period, 2023-2025. year, and includes long-term and annual components. The program is activated if pre-defined criteria (knock-out) are met, which depend on capital adequacy, LCR, NPE, profit after tax, but also individual performance.

PAIF is accounted in accordance with IFRS 2.

Share-based payments: Under the Bank's PAIF scheme for 2023, Management Board members and B-1 choosen directors receive an additional variable remuneration which value depends on the total shareholder return (TSR). Target TSR values/amounts for the long-term component are determined at the beginning of the three-year period, and target TSRs for the annual components before the start of each year of the three-year cycle. The TSR target value for the long-term component of the PAIF cycle 2023-2025 and the TSR target value for the annual component in 2023 were calculated in relation to the VWAP of ADKO shares in the fourth quarter of 2022, which was equal to BAM 21.8859 (EUR 11.1901) ..

For the total carrying amount of liabilities arising from cash-settled share based payments, see the Note (49) and for expense see the Note (32). During 2023 The Bank made settlements for results achived in 2022, but also deferred payments for results achived in 2021.

All share-based payments (cash-settled, equity-settled) can only be paid out if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a pre-defined timeframe.

(71) Capital management

71.1. Own funds and capital management

In accordance with the Law on Banks (Official Gazette of RS no. 04/17, 19/18, 54/19) the minimum amount of a bank's paid-in capital and the lowest level of the capital a bank has to maintain, cannot be lower than BAM 15.000 thousand. The Bank's subscribed capital amounted to BAM 153.094 thousand is in line with these provisions.
Regulatory capital represents the sum of Common Equity Tier 1 and Tier 2 capital, after regulatory adjustments.
Tier 1 of the bank shall represent the sum of Common Equity Tier 1, after regulatory adjustments and Additional Tier 1 after regulatory adjustments.

Items of ordinary core capital of the Bank consist of equity instruments, premiums on shares, retained earnings, accumulated other comprehensive income and other reserves. The Bank deducts from ordinary capital items loss of current financial year, losses from previous years, intangible assets, insufficient regulatory reserves, deferred tax assets etc. The additional core capital of the Bank consists of items of additional capital after regulatory adjustments. The items of additional capital are equity instruments and instrument-related premium accounts.
Tier 2 capital consists of the Tier 2 capital items after deductions for regulatory adjustments. Tier 2 capital cannot be more than one third of the core capital.

With regard to capital risk management, the Bank aims to:
- provide compliance with the Banking Agency requirements,
- provide compliance with Addiko Group standards,
- provide possibilities of long-term business operation while providing profit for shareholders.

In terms of the calculation of risk weighted assets (RWA) for regulatory reporting, the following approaches are applied:
- Standardised Approach for credit risk (SA-CR)and
- Simplified Approach (BIA) for operational risk.

The capital management is fully integrated into the Bank's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

In addition to the minimum capital ratios required by the regulators, the Bank defines early warning and recovery levels in the Bank's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures.

Additionally, the Bank tracks all new regulatory changes, e.g. new regulatory decisions about capital management. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

71.2. Implementation of new regulatory decision

In June 2019, the Banking Agency published the final version of new regulatory Decision about credit risk management and determining expected credit losses, which is mandatory for reporting periods beginning on 1 January 2020. The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum tresholds are prescribed. The effects of implementation of new regulatory decision are recognized in initial equity as at 1 January 2020 on position Other reserves in the amount of BAM 4.511 thousand.

71.3. Own funds and capital requirements

Own funds according to the Banking Agency decisions consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2023 and 31 December 2022 amount to:

			31.12.2023			31.12.2022
	CET1	T1	TCR	CET1	T1	TCR
Minimum capital requirement	6,75%	9,00%	12,00%	6,75%	9,00%	12,00%
Capital Buffer	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%
SREP requirement	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%
Overall Capital Requirement (OCR)	**11,25%**	**13,50%**	**16,50%**	**11,25%**	**13,50%**	**16,50%**

The Bank is under obligation to maintain capital adequacy at the minimum of 16,5%, i.e. to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on calculation of bank capital and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Repulica Srspka.

The Bank's Management monitors adequacy ratios and other business indicators on a regular basis. Reports on indicators are submitted to the Banking Agency quarterly in the prescribed form.

	31.12.2023	31.12.2022
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	153.094	153.094
Retained earnings	0	0
Statutory reserves	1.009	377
Accumulated other comprehensive income (and other reserves)	-3.479	-5.771
CET1 capital before regulatory adjustments	**150.624**	**147.700**
CET1 capital: regulatory adjustments		
Intangible assets	-4.093	-4.487
Other deductions from common equity	-1.998	-1.904
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-6.091**	**-6.391**
Common Equity Tier 1 (CET1) capital	**144.533**	**141.309**
Tier 2 (T2) capital:		
Tier 2 (T2) capital	0	**0**
Total capital (TC = T1 + T2)	**144.533**	**141.309**
Amount of exposure weighted for credit risk / Total risk-weighted assets	625.257	606.000
Total amount of exposure for position, currency and merchandise risk	0	4.432
Weighted operating risk	63.357	53.206
Total risk weighted assets	**688.614**	**663.638**
Capital ratios and buffers %		
CET1 ratio	21,0%	21,3%
TC ratio	21,0%	21,3%

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with BARS regulations.

Total capital is higher for BAM 3.224 thousand comparing to last year..

The capital requirements in force during the year, including a sufficient buffer, were met at all times.

Capital requirements (risk-weighted assets)

Credit risk, operational risk, and market risk are in the scope of regulatory risks for RWA calculation. RWAs increased by BAM 24.796 thousand during the reporting period.
The increase of RWAs for credit risk by BAM 19.257 thousand. RWAs for market risk decreased by BAM -4.432 thousand and RWA for operating risks increased by BAM 10.151 thousand.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the BARS Decision on Minimum Standards for Bank Capital Management, was 13,6% at 31 December 2023, compared to 13,9% at 31 December 2022. The fall was driven by increase in the total leverage exposure.

(000) BAM

	31.12.2023	31.12.2022
Tier 1 capital	144.533	141.255
Total leverage ratio exposure	1.063.582	1.017.455
Leverage ratio %	**13,6%**	**13,9%**

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with BARS regulations.

71.4. MREL requirements

The Banking Agency regulation stipulates that banks are required to meet the minimum amount of regulatory capital and acceptable liabilities that provide sufficient amounts of instruments that can be written off or converted into capital in case of losses, after which further uninterrupted operations would be enabled.
The bank fulfills the MREL requirement in accordance with the defined dynamics

(72) Assets pledged as collateral

As of 31. December 2023, the Bank had pledge in favor to funds of Republic of Srpska Investment-Development Bank, ie a pledge is established on the Bank's loan portfolio with the RS Housing Fund, the RS Development Fund and the RS Development and Employment Fund with which the Bank concluded individual loan agreements, with the balance of prinicpal on the aforementioned credit lines as of 31. December 2023 in amount of BAM 12.243 thousand (2022: BAM 15.954 thousand)
Pledged assets as of 31. December 2023 of the Bank consists of loans given to customers.
The pledged assets is registered in the BiH Pledge Register kept by the Ministry of Justice of Bosnia and Herzegovina.

(73) Auditing expenses

Ugovoreni troškovi revizije mogu se prikazati kako slijedi:

(000) BAM

	31.12.2023	31.12.2022
Audit of year end financial statements	128	112
Audit of information system	9	7
Total	**137**	**119**

In accordance with a contract to audit the 2023 annual report, Group reporting package and regulatory reports for Banking Agency of Republic of Srpska the bank m KPMG B-H d.o.o. the amount of BAM 128 thousand without VAT and expenses (2022: BAM 112 thousand without VAT and expenses).

In accordance with a contract for auditing of the information system for 2023 (obligatory reporting to Banking Agency of Republic of Srpska) the bank contracted with KPMG B-H d.o.o. the amount of BAM 9 thousand without VAT and expenses (2022: BAM 7 thousand without VAT and expenses).

The total amount spent on auditing and other assurance services in 2023 amounted to BAM 137 thousand without VAT and expenses (2022: BAM 119 thousand without VAT and expenses).

(74) Events after the reporting date

Until the date of issuance of these financial statements, there were no events after the balance sheet date that would significantly affect the Bank's financial statements, and that would require additional disclosures or corrections.

(75) Boards and Officers of the Company

1 January to 31 December 2023

Supervisory Board

Chairman of the Supervisory Board:
Tadej Krašovec (from 26.11.2021 - today)

Deputy Chairman of the Supervisory Board:
Petra Hildegard Zirhan-Wagner (from 26.11.2021 - today)

Members of the Supervisory Board:
Mark Potočnik (from 23.12.2020 – 24.07.2023)
Stevo Pucar (from 23.12.2020 - today)
Radomir Savić (from 23.12.2020 - today)
Biljana Vujović (from 24.07.2023 – today)

Management Board
Srđan Kondić, Chairman (from 01.10.2020 - today)
Slađan Stanić, Member (from 18.12.2020 - today)
Mile Todorović, Member (from 26.08.2021 - today)

Audit Committee
Đorđe Lazović, Chairman (from 16.05.2019 - today)
Siniša Radonjić, Member (from 16.05.2019 - today)
Ines Krnić, Member (from 25.05.2022 - today)

Banja Luka, 6 March 2024
Addiko Bank a.d. Banja Luka

MANAGEMENT BOARD

Srđan Kondić
Chairman

Slađan Stanić
Memeber of the Management Board

Mile Todorović
Memeber of the Management Board

Statement of all legal representatives

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently, making judgements and estimates that are reasonable and prudent, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

Banja Luka, 6 March 2024
Addiko Bank a.d. Banja Luka

MANAGEMENT BOARD

Srđan Kondić
Chairman

Slađan Stanić
Memeber of the Management Board

ADDIKO BANK AD
1
BANJA LUKA

Mile Todorović
Memeber of the Management Board

Independent Auditors' report
To the shareholders of Addiko Bank a.d. Banja Luka

Opinion

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

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

Basis for Opinion

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

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

Independent Auditors' report
To the shareholders of Addiko Bank a.d. Banja Luka *(continued)*

Key Audit Matters

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

Impairment of loans and advances to customers

As at 31 December 2023, gross loans and advances to customers: BAM 687 million, related impairment allowance: BAM 52 million and, for the year then ended, impairment release recognised in the profit or loss: BAM 2.3 million (31 December 2022: gross loans and advances to customers: BAM 660 million, related impairment allowance: BAM 55 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 3.0 million).

Refer to Accounting policies, Note 5 Use of estimates and assumptions/material uncertainties in relation to estimates, Note 39 Loans and advances, and Note 54 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and advances to customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions. The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Republic of Srpska ("ABRS"), which combines the requirements of IFRS 9 "Financial Instruments" with the ABRS-prescribed minimum requirements for provisioning. The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below BAM 50 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information (together, "collective impairment allowance").	Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management ("FRM") and information technology (IT) specialists included, among others: • Inspecting the Bank's ECL methods and assessing their compliance with the relevant requirements of the regulatory and financial reporting frameworks. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors; • Making relevant inquiries of the Bank's credit risk management, finance and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also assessing and testing of the Bank's IT control environment for data security and access; • Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances.

Key Audit Matters (continued)

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above BAM 50 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the realization of the related collateral and the minimum period for collateral disposal. Incorporated into both the collective and individual assessment are also specific rules of the ABRS regarding various minimum provisioning rates. While the credit environment in 2023 reflected tightening conditions, with rising interest rates to combat inflation and economies experiencing slower economic growth putting pressure on borrowers, the outlook for 2024 remains uncertain. In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	• For loss allowances calculated on a collective basis: — Challenging the key risk parameters (PD, EAD and LGD) applied in the collective ECL model, by reference to the Bank's data on historical defaults, realized losses on those defaults, and loan amortization; — Obtaining the relevant forward-looking information and macro-economic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available sources; — Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of the industry and our understanding of the current macro-economic situation; • For impairment allowances calculated individually: — For a sample of exposures, taking into account customer's business, market conditions and debt service; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3; • For loan exposures in totality: — Assessing the adequacy of the recognized ECLs against various minimum provisioning requirements prescribed by the ABRS; — Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposure and the non-performing loans provision coverage. — Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Independent Auditors' report
To the shareholders of Addiko Bank a.d. Banja Luka *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Key data, Letter from the CEO and Management report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the statutory accounting requirements applicable to banks in the Republic of Srpska, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' report
To the shareholders of Addiko Bank a.d. Banja Luka *(continued)*

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

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

KPMG B-H d.o.o. za reviziju
Branch office Banja Luka
Registered Auditors
Svetozara Markovića 5
78000 Banja Luka
Bosnia and Herzegovina

6 March 2024

KPMG

D.O.O. ZA REVIZIJU KPMG B-H PODRUŽNICA BANJA LUKA

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits defined within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures
CRB	Credit Risk Bearing
Credit institutions	Any institution undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions

General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)

Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss

Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund, presented in % of the total risk according to Decision about capital management
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2).
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans
DWH	Data warehouse
CRE	Commercial Real Estate Collaterals
RRE	Residential Real Estate Collaterals
TTC	Through-the-cycle
PIT	Point-in-time
C&E	Climate and environmental risks

Imprint

Publisher of the Financial Report and responsible for the content:
Addiko Bank a.d
Aleja Svetog Save 13
78 000 Banja Luka
Tel. +387 (51) 336-510
www.addiko-rs.ba

We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The Report was produced in-house using the software of firesys GmbH.