Financial statements for the Year ended 31 December 2022 prepared in accordance with IFRS and Independent Auditor's Report

MF Banka a.d.

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Independent Auditor's Report

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To the Supervisory Board and Shareholders of MF banka a.d. Banja Luka

Opinion

We have audited the accompanying financial statements of the joint stock company "MF banka a.d." Banja Luka (hereinafter: "the Bank"), which comprise of the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code as well as in accordance with the ethical requirements relevant to our audit of the Bank's financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

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

Key audit matter Impairment of loans and trade receivables - expected credit losses	**Audit approach**
As stated in Note 16, the value of loans to customers is stated in the gross amount of BAM 528.852 thousand, that is, the net value in the amount of BAM 483.039 thousand and the impairment for expected credit losses in the amount of BAM 45.813 thousand (Note 11). As of 1 January 2020, the Bank applies the Methodology for calculating allowance for expected credit losses in accordance with the requirements of IFRS 9 and the Decision on credit risk management and determination of expected credit losses (hereinafter "the Methodology") as described in Note 3. Given that the calculation of impairment for expected credit losses per loans and receivables requires the use of complex models and assessment of the Bank's Management, the process of determining expected credit losses may be exposed to subjective assessment of the Bank's Management. Due to the complexity of the calculation of expected credit losses and exposure to the subjective assessment of the Bank's Management, the calculation of impairment of loans and receivables was selected as a key audit matter in the audit of financial statements for the year ended 31 December 2022. The Bank's Management has provided more information in Notes 3.7. - Financial instruments, 11 - Impairment and provisions, 16 - Loans to customers and 29.4. - Credit risk.	We have gained an understanding of the control environment and internal controls established by the Bank's Management in the process of measuring impairment for expected credit losses, including used applications and information system and related internal controls. We evaluated and tested the design, implementation and operational efficiency of key controls for identifying the exposures with significant increase of the credit risk. We assessed and tested the criteria for Stages which include exposures with increased credit risk, from the moment of approval to the moment of reporting. Based on the risk assessment, based on the sample, we tested the calculation of expected credit losses and the application of the Methodology, as well as the assumptions used to develop the Methodology. Based on the sample, the compliance of the Methodology with the requirements of IFRS 9 was reviewed. Based on the sample, we tested the calculation the Bank made for expected credit losses for loans which have been impaired on a group-level basis. Based on the sample, we tested individually material credit exposures in order to estimate the provision for expected credit losses where an individual allowance was made. We verified the criteria which were the basis for determining whether the impairment incurred and whether conditions existed for the calculation on an individual basis. We considered the assumptions of the Management, including the estimation of future cash flows, the valuation of belonging collateral and the estimation of their recoverability. We evaluated the models used, the reasonableness of assumptions, as well as the completeness and accuracy of data used by the Bank in order to estimate the allowance for loan values which have similar characteristics in terms of credit risk.

Responsibilities of Management and Supervisory Board for the Financial Statements

The Bank’s Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard and for such internal control as the Bank’s 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.

The Supervisory Board is responsible for overseeing the Bank’s financial reporting process.

Auditor's Responsibility for the Audit of Financial Statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

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

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

We communicate with the Supervisory Board 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 the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter that has not otherwise been publicly disclosed should not be communicated in our report in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nevena Milnković, certified auditor.

Grant Thornton d.o.o. Banja Luka
Banja Luka, 24 April 2023

Isidora Džombić
Managing Partner – Director
Grant Thornton d.o.o. Banja Luka

Nevena Milinković
Certified Auditor
Grant Thornton d.o.o. Banja Luka

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022
(In BAM thousand)

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Interest income	5	43.578	37.772
Interest expenses	6	(8.270)	(8.034)
Net interest income		35.308	29.738
Fee and commission income	7	11.602	9.037
Fee and commission expenses	8	(2.793)	(2.281)
Net fee and commission income		8.809	6.756
Other operating income	9	2.755	2.227
Other operating expenses	10	(23.306)	(19.181)
Exchange rate differences, net		25	43
Impairment and provisions (net provisions)	11	(10.757)	(9.812)
Profit from operations before taxes		**12.834**	**9.771**
Income tax	12	(1.519)	(1.160)
Net profit of the current year		11.315	8.611
Other comprehensive income		170	223
Changes in the fair value of debt instruments that are measured at fair value through OSD		170	223
Total comprehensive income for the accounting period		11.485	8.834
Earnings per share:			
- Basic earnings per share (in BAM)	24	22,13	16,84

Notes in the following pages form an integral part of these financial statements.

The accompanying financial statements were adopted by the Bank's Management Board on 24 April 2023.

Signed on behalf of MF banka a.d. Banja Luka:

Bojan Luburić
President of the Management Board

Nikolina Vujkovac Pađen
Head of the Accounting and Financial Reporting Department

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(In BAM thousand)

	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash funds held with the Central Bank	13	143.135	106.732
Funds with other banks	14	21.470	12.268
Securities	15	47.852	49.521
Loans to customers	16	483.039	412.892
Property and equipment	17	3.896	2.640
Intangible assets	17	275	191
Investment property	17.1	4.442	4.505
Leased business premises	17.2	7.106	6.879
Other assets	18	2.943	4.666
Total assets		**714.158**	**600.294**
LIABILITIES AND EQUITY			
Liabilities			
Deposits to banks	19	7.586	10.056
Deposits to customers	19	513.977	448.825
Liabilities per loan	20	80.403	43.227
Subordinated debt	21	6.867	6.964
Other liabilities and equity	22	14.972	12.647
Provisions for Contingent liabilities and commitments	11 a), b)	948	654
Total liabilities		**624.753**	**522.373**
Equity			
Share capital	23	51.141	51.141
Share premium		1.307	1.307
Equity reserves	23	2.441	1.840
Accumulated profit/(loss)		23.201	15.022
Profit of the current period		11.315	8.611
Total equity		**89.405**	**77.921**
Total liabilities and equity		**714.158**	**600.294**
Contingent liabilities and commitments	25	116.352	87.545

Notes in the following pages form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022
(In BAM thousand)

	Share Capital	Share Premium	Equity Reserves	Accumulated profit/(loss)	Total
Balance, 1 January 2021	**51.141**	**1.307**	**1.402**	**15.237**	**69.087**
Allocation of reserves debited to accumulated profit	-	-	215	(215)	-
Total transactions with owners	***-***	***-***	***215***	***(215)***	***-***
Net profit of the current period	-	-	-	8.611	8.611
Revaluation reserves based on securities	-	-	223	-	223
Comprehensive income for the accounting period	***-***	***-***	***223***	***8.611***	***8.834***
Balance, 31 December 2021	**51.141**	**1.307**	**1.840**	**23.633**	**77.921**
Allocation of reserves debited to accumulated profit	-	-	431	(431)	-
Total transactions with owners	***-***	***-***	***431***	***(431)***	***-***
Net profit of the current period	-	-	-	11.315	11.315
Revaluation reserves based on securities	-	-	170	-	170
Comprehensive income for the accounting period	***-***	***-***	***170***	***11.315***	***11.485***
Balance, 31 December 2022	**51.141**	**1.307**	**2.441**	**34.516**	**89.405**

Notes in the following pages form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2022
(In BAM thousand)

	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities:		
Interest receipts	40.949	35.141
Fee and commission receipts	10.813	8.795
Interest paid	(7.302)	(5.815)
Fee and commission paid	(3.049)	(2.462)
Collection of written-off receivables	952	815
Payments to employees and suppliers	(18.205)	(15.993)
Net cash from operating activities	24.158	20.481
Changes in operating assets and liabilities:		
Net increase in loans due from customers	(77.263)	(74.616)
Investments in banks	-	-
Income tax paid	(1.403)	(821)
Net increase in bank deposits	-	2.516
Net increase in deposits due to customers	63.282	65.478
Net cash from/(used in) operating activities	8.774	13.038
Cash flows from investing activities:		
Interest receipts	1.429	985
Purchase of intangible assets	(129)	(10)
Purchase of fixed assets	(1.043)	(352)
Purchase of other investments	1.394	(13.437)
Net cash (used in) investing activities	1.651	(12.814)
Cash flows from financing activities:		
Commitments per loans	57.614	17.077
Repayments per loans	(22.411)	(12.447)
Net cash from/(used in) financing activities	35.203	4.630
Net increase in cash funds	45.628	4.854
Effects of exchange rate changes	27	42
Effects of value adjustment change	(50)	5
Cash funds, beginning of the year	119.000	114.099
Cash funds, end of the year	164.605	119.000
Cash funds comprise of the following items:		
- Cash and cash funds held with the Central Bank	143.135	106.732
- Cash funds held with other banks	21.470	12.268
	164.605	**119.000**

Notes in the following pages form an integral part of these financial statements.

1. ESTABLISHMENT AND BUSINESS POLICY OF THE BANK

MF banka a.d. Banja Luka (hereinafter: the "Bank") was established on 12 June 2007 under the name IEFK banka a.d. Banja Luka.

In the process of the Bank's registration with respect to the principal banking activities, all requirements defined by the regulatory authorities were fulfilled. In accordance with its Decision no. 03-231-11/2007 dated 11 May 2007, the Banking Agency of the Republic of Srpska (hereinafter: "BARS" or the "Agency") issued an operating license to the Bank, and pursuant to Decision no. 03-657-4/2007 dated 12 July 2007, the Agency issued to the Bank a license to conduct interbanking payment transactions.

At the Shareholders Assembly meeting held on 6 April 2010, the previous shareholders of the Bank enacted a decision to sell 100% of the Bank's equity (note 24) so an Agreement on the Purchase and Sale of Equity was signed on 8 July 2010 making MKD Mikrofin d.o.o. Banja Luka the Bank's major shareholder, taking over the management and control over the Bank as of that date. MKD Mikrofin d.o.o., Banja Luka is the parent company of the Bank as at 31 December 2021 and 31 December 2022.

Based on the decision enacted by the new shareholders of the Bank, and the decision of the competent court in Banja Luka as of 26 November 2010, the Bank changed its name to MF banka a.d., Banja Luka.

In the Republic of Srpska, the Bank is licensed to perform payment transactions, crediting and depositary operations in the country and abroad, and as in accordance with regulations in the Republic of Srpska, the Bank is obligated to operate on the principles of liquidity, solvency and profitability.

The Bank's headquarters is in Banja Luka, Aleja Svetog Save street 61. As at 31 December 2022, the Bank operates in its headquarters in Banja Luka, Aleja Svetog Save street 61 and in affiliates in Banja Luka, Prijedor, Bijeljina, Derventa, Doboj, East Sarajevo, Tuzla, Cazin, Gradačac, Ilidža, Zenica, Trebinje as well as in branch offices in Prnjavor, Teslić, Novi Grad, Zvornik, Pale, Laktaši, Gračanica, Živinice, Banja Luka, Novi Grad Sarajevo, Bugojno, Brčko, Bihać, Srebrenik, Gradiška, Velika Kladuša, Sarajevo center and via counter in Nova Topola, Omarska, Petrovo, Kostajnica and Trn.

As at 31 December 2022, the Bank had 293 employees (31 December 2021: 261 employees).

The management and supervisory bodies of the Bank are: Assembly, Supervisory Board and Management Board. The members of the Supervisory Board are appointed by the Assembly of the Bank. The Bank is represented by the chairperson of the Management Board. The Bank formed Credit Boards and the Board for the Management of Assets and Liabilities as well as various Commissions.

As at 31 December 2022, the management bodies of the Bank consist of the following:

Supervisory Board as of 16 December 2022:

- Aleksandar Kremenović, chairperson
- Darko Radić, member
- Dželila Huremović, member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

Supervisory Board until 16 December 2022:

- Aleksandar Kremenović, chairperson
- Milijana Čavić, member
- Dželila Huremović, member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

Supervisory Board until 23 June 2022:

- Aleksandar Kremenović, chairperson
- Mladen Bosnić, member
- Dželila Huremović, member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

1. ESTABLISHMENT AND BUSINESS POLICY OF THE BANK (continued)

Management Board as of 18 February 2022:

- Bojan Luburić, chairperson
- Saša Sekulić, member
- Dragan Đurić, member

Management Board until 18 February 2022:

- Bojan Luburić, chairperson
- Sandra Lonco, member

Dragan Đurić, member

Audit Board as of 29 April 2022:

- Đurđica Dragojević, chairperson, independent member
- Milena Haneš, member
- Sanja Brkić, member
- Mira Cvijan, member
- Željko Pena, member

Audit Board until 29 April 2022:

- Đurđica Dragojević, chairperson, independent member
- Radmila Bjeljac, member
- Sanja Brkić, member
- Mira Cvijan, member
- Željko Pena, member

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD

2.1. Statement of compliance

The accompanying financial statements represent the Bank's separate financial statements prepared in accordance with International Financial Reporting Standards („IFRS") in terms of the Law on Accounting and Auditing and the regulations of the Banking Agency of the Republic of Srpska which regulate the financial reporting of banks.

The Law on Accounting and Auditing of the Republic of Srpska prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

The Banking Agency of the Republic of Srpska has passed the Decision on credit risk management and determination of expected credit losses (hereinafter the Decision), which has been applied as of 1 January 2020. The implementation of the Decision resulted in differences arising from the calculation of value adjustments for credit losses due to the application of minimum rates prescribed by the Decision, which are not required by International Financial Reporting Standard 9 (IFRS 9).

In accordance with the Decision, the Bank formed larger value adjustments for credit losses and other assets in the amount of BAM 1.351 thousand in relation to the amount obtained by calculation which is the result from the internal model of the Bank which was in use until 31 December 2019 in accordance with requirements of IFRS 9. Differences as at 31.12.2022 and 31.12.2021 are as follows:

	(In BAM thousand) 31 December 2022	2021
- Application of minimum rates of impairment prescribed in Article 23. of the Decision for credit risk exposures 1 – Stage 1	159	670
- Application of minimum rates of impairment prescribed in Article 24. of the Decision for credit risk exposures 2 – Stage 2	1.038	938
- Application of minimum rates of impairment prescribed in Article 25. of the Decision for credit risk exposures 3 – Stage 3	368	1.068
- Application of minimum rates of impairment prescribed in Article 26. of the Decision on exposures to trade receivables, receivables from factoring and financial leasing and other receivables	(214)	(123)

2.2. Measurement basis and preparation of financial statements

The financial statements of the Bank have been prepared at cost (historical cost) principle, except for securities at fair value through other comprehensive income, as further described in the accounting policies.
Historical cost is generally based on the fair value of compensation paid in exchange for goods and services.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using other valuation techniques. Upon estimating the fair value of assets or liabilities, the Bank considers those characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.
Upon preparation of the cash flow statements, the Bank used direct method of reporting on cash flows.

2.3. Functional and presentation currency

The amounts in the accompanying financial statements have been stated in Convertible Marks (BAM), which represents the official functional and reporting currency in Republic of Srpska and Bosnia and Herzegovina.

2.4. Going concern principle

The Bank 's Management has assessed the Bank' s ability to continue as a going concern, including the impact of the COVID-19 pandemic and the impact of the consequences on the global economy caused by the conflict in Ukraine in early 2022, and is satisfied that the Bank has the resources to continue in the foreseeable future. In addition, Management is not aware of any material uncertainties that could cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements have been prepared in accordance with the going concern basis, which means that the Bank will continue to operate indefinitely for the foreseeable future.

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

2.5. Impact and application of new and revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS")

The following new standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board were effective for the current reporting period:

Application of new and amendments to existing standards which became effective

The following new standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board were effective for the current reporting period:

- Reference to the Conceptual Framework (Amendments to IFRS 3);
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements (2018-2020 Cycle): – Subsidiary as a First-time Adopter (Amendments to IFRS 1) – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9);
- Lease Incentives (Amendments to IFRS 16);
- Taxation in Fair Value Measurements (Amendments to IAS 41).

Adopting these standards, amendments to existing standards and interpretations had no significant impact on the Company's financial statements.

New Standards and amendments to existing Standards issued but not yet effective

At the approval date of these financial statements, the following new Standards, amendments to existing Standards and interpretations have been issued, but are not yet effective:

- IFRS 17 "Insurance Contracts";
- Amendments to IFRS 17 "Insurance Contracts" (amendments to IFRS 17 and IFRS 4);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS practice statement 2);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Bank has chosen not to adopt these standards, amendments and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments and interpretations will have no material impact on the financial statements of the Bank.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (continued)

2.6. Impact of the Covid-19 pandemic

After two years of intense impact of the effects caused by the viral disease COVID-19, a milder impact was evident during 2022, and it was reflected, among other things, on the economy, and therefore also on the financial or banking system in the Republic of Srpska and Bosnia and Herzegovina, and beyond.

In accordance with the Decision on temporary measures for banks to mitigate the negative economic consequences caused by the COVID-19 viral disease by the Banking Agency of the Republic of Srpska, the Bank adopted a Program of special measures for clients affected by the crisis situation with a set of measures, which include a temporary moratorium and special (appropriate) modalities (moratorium, grace period, extension, additional exposure and other measures in order to facilitate regular payment of client obligations. and business maintenance) and the same were applied, both in previous years and during 2022.

The overview below provides data on the number of measures and the amount of balance exposures:

(In BAM thousand)

„Covid measures“	**Active measures/ gross credit**		**Expired measures/ gross credit**		**Total**	
31.12.2022	**Number of measures**	**Amount**	**Number of measures**	**Amount**	**Number of measures**	**Amount**
Legal entities	150	20.314	180	20.757	330	41.071
Retail	142	8.253	565	13.770	707	22.023
Total	**292**	**28.567**	**745**	**34.527**	**1.037**	**63.094**

(In BAM thousand)

„Covid measures“ 31.12.2022	**Stage 1 as at approval of „Covid measures“ Gross loan**	**Stage 2 as at approval of „Covid measures“ Gross loan**	**Stage 3 as at approval of „Covid measures“ Gross loan**	**Total**
Legal entities	30.637	10.257	177	41.071
Retail	15.363	5.930	730	22.023
Total	**46.000**	**16.187**	**907**	**63.094**

By approving these measures, the Bank sought to grant relief to clients directly or indirectly affected by the negative effects of the pandemic, through which it will be able to establish a sustainable business model in the coming period and properly settle credit obligations to the Bank. At the same time, the Bank continues to actively, intensively and with special care identify risks, especially credit, liquidity risk and funding sources from the aspect of the pandemic impact.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and expenses from interest and fees

Interest income and expenses for all financial instruments, except for financial instruments classified as available for sale or carried at fair value through profit or loss, are stated at fair value of assets received or paid, and are presented as interest income or expenses, and fee and commission income or expenses in the statement of profit or loss.

Interest income is deferred and recognized using the effective interest method, which represents the rate that exactly discounts (reduces) the estimated future cash inflows over the expected life of financial instruments to the net carrying amount of such assets upon initial recognition.

Loan approval fees are deferred and amortized over the loan repayment period by applying the effective interest rate method and are presented within interest income.

Interest income is recognized exclusively based on performing loans and other investments where there are no problems in collection, i.e., based on loans and investments that do not represent bad (impaired) assets. Calculations of interest receivables from non-performing loans and other investments, i.e. loans and investments that represent bad (impaired) assets as there are problems in collection thereof, are recorded within off-balance sheet items and recognized as income only if collected.

3.2. Foreign exchange translation

Transactions denominated in foreign currencies are translated into Convertible Marks at the official exchange rates prevailing at the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into Convertible Marks at the statement of financial position date by applying the official rates of exchange in effect on that date. Contingent liabilities denominated in foreign currencies are translated into Convertible Marks at the official exchange rates prevailing at the statement of financial position date. Foreign exchange gains or losses arising upon translation are credited or debited to expenses.

3.3. Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost net of any accumulated depreciation and amortization, and any accumulated impairment losses. Cost represents the prices billed by suppliers, increased by all acquisition related costs and all costs incurred in bringing the assets to the location and condition necessary for their intended use.

Depreciation and amortization are calculated on a straight-line basis at the following prescribed annual rates in order to write off the assets over their estimated useful lives:

	Rate (%)	**Useful Life (years)**
Buildings	1,3%	77
Automobiles	15,5%	6,5
Computer equipment	25%	4
Telephone switchboards	7%-10%	10-14,3
Furniture	10%-12,5%	8-10
Intangible assets	20%	5

The Bank’s management believes that the amortization and depreciation rates applied realistically reflect the expected patterns of future consumption of economic benefits from equipment and intangible assets.

The depreciation and amortization of assets commence when the assets are available for use and placed at the location and in condition necessary for them to operate in a manner intended by the Bank’s management.

If the useful life of an item of equipment is under a year, it is treated as tools or fixtures and is fully written-off once placed into use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Investment property

Investment property is property the Bank as the owner or as user of financial lease holds for the purpose of profit earning from renting the property and/or for the purpose of capital increase, but not for the purpose of use for service provisions or for administrative purposes.

The initial recognition of the investment property is made at cost increased for related costs. The subsequent measurement of the investment property is made in the amount of the purchase value minus the total amount of calculated depreciation and amortization and accumulated impairment losses.

Depreciation is calculated equally at cost, using the following annual rates in order to completely write the assets off within their useful life:

	Rate (%)	Useful life (years)
Buildings	1,3%	77

3.5. Leased business premises

The Bank has opted to apply IFRS 16 “Leases” from the effective date of its lease, that is from 1 January 2019 by using a cumulative catch-up approach.
At the beginning of the use of contract, the lessee should assess whether the contract, or part of the contract, represents a lease. The contract or part of the contract represents a lease if the contract regulates the assignment of the right to control the use of the identified asset in a given period in exchange for compensation. The control is assigned when the lessee is entitled to manage the use of the identified asset and to effect economic benefits by using this asset.
The Bank, as the lessee, uses the lease exemption in the case of short-term and leases for low value assets.
In accordance with IFRS 16, the Bank, as the lessee, recognizes the right-of-use asset and the lease liability at the effective date of the lease. The start date of the lease is the date on which the lessor makes the underlying asset (that is, the lease asset) available to the lessee.
The Bank, as the lessee, recognizes the depreciation of the right-of-use asset, the interest on the lease obligations and the tax liability as an expense.
In calculating depreciation of a right-of-use asset, the Bank uses the proportional method of calculation over the lease term.
As the interest rate on the lease obligations, the Bank applies an incremental borrowing rate, which is defined as the interest rate that the Bank, as the lessee, would have to borrow over a similar period and with similar guarantees to acquire funds needed to acquire an asset of similar value as an eligible asset in similar economic environment.

3.6. Impairment of non-current assets

At each date of the statement of financial position, the Bank reviews the carrying amounts of its non-current assets in order to determine whether there are indications that there has been a loss due to the impairment of the said asset. If such indications exist, the recoverable amount of the asset is estimated to determine any impairment loss.

If it is not possible to estimate the recoverable amount of an asset, the Bank assesses the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the net selling price or value in use, whichever is higher. For the purposes of estimating value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset. If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than the carrying amount, then the carrying amount of that asset (or cash-generating unit) is reduced to the recoverable amount. Impairment losses are recognized immediately as an expense.

In the event of a subsequent reversal of the impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of that asset, where the higher carrying amount does not exceed the carrying amount that would have been established if in previous years there were no recognized losses on that asset (cash-generating unit) due to impairment. Reversal of impairment losses is recognized immediately as income, unless the asset is stated at the estimated value, in which case the reversal of impairment loss is recognized as an increase due to revaluation.

As at 31 December 2022 and 2021, based on the estimation of the management of the Bank, there are no indication of impairment of equipment, intangible assets and investment property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Financial instruments

A financial instrument is considered to be any contract that creates a financial asset or a financial liability of the Bank, while creating a financial liability or a financial asset of third parties.

The classification of financial assets is as follows, respectively:

- it is measured at amortized cost if the following two conditions are met:

  a) financial assets are held within a business model aimed at holding financial assets in order to collect contractual cash flows.

  b) if the contractual terms of the financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.

- it is measured at fair value through other comprehensive income if both of the following conditions are met:

  a) financial assets are held within a business model aimed at collecting contractual cash flows and selling the financial asset.
  b) contractual terms of financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.
- it is measured at fair value through profit or loss unless measured at amortized cost or at fair value through other comprehensive income.

Financial liabilities are classified as liabilities at fair value through profit or loss or amortized cost. If they are held for trading, they are classified as liabilities at fair value through profit or loss.

Financial assets

Loans and receivables

Loans and receivables comprise investments with banks and investments with customers, with no intention of continuing to trade. The Bank measures loans and receivables as financial assets at amortized cost if both of the following conditions are met:

a) financial assets are held within a business model aimed at holding financial assets in order to collect contractual cash flows.

b) if the contractual terms of the financial assets generate cash flows at a specific date that are only principal and interest payments outstanding.

Initial measurement of loans and receivables is carried at fair value. Subsequent valuation of loans and receivables is carried out using the amortized cost method using the effective interest rate.
The effective interest rate includes fees that are directly attributable to the loan and the investment.
At each balance sheet date, the Bank assesses the imparity, that is whether there is evidence that a loan / investment or group of loans / investments is impaired.
The criteria that the Bank uses to determine whether there is objective evidence of impairment include the following:

- delay in payment of contractual repayment of principal and interest,
- cash flow difficulties (decline in net profit ratios, sales revenue, capital adequacy),
- not fulfilling contractual obligations,
- initiating bankruptcy proceedings,
- decrease in the value of collateral.

If any of the above evidence exists, the recoverable amount of the asset (value that can be recovered) must be estimated, and if it is less than the carrying amount of the asset, the impairment loss should be recognized in the statement of profit or loss and the carrying amount of the asset should be written off to the lower recoverable amount in the statement of financial position.
In the case of loans and receivables, impairment arises if there is objective evidence that the total amount of payment determined by the contract in respect of the principal of the debt and interest will not be realized.
Impairment loss is the difference between the carrying amount of a loan and its estimated recoverable amount.
The recoverable amount is equal to the present value of expected future cash inflows per loan discounted at the effective interest rate.
Impairment is assessed individually, primarily for loans that are individually significant or on a group-level basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Financial instruments (continued)

Interest calculations of the current period for non-performing assets are treated with suspended interest, which means that further interest calculation is recorded in off-balance sheet records.
Impairment loss is debited to the statement of profit or loss. Amounts for which the loan / investment value is reduced by the loss are accounted for through the allowance account.
If the amount of the loss is reduced due to events occurring after its initial recognition, the reversal of the loss is credited to the statement of profit or loss as a gain, but the reversal of the loss, that is the gain cannot be in excess of the amortized cost that would have been at the date of derecognition had the loss not been recognized.

The provisioning policy based on credit loss is explained in detail in the “Methodology for allowance estimate and provision calculation” (Note 4).

Debt instruments at fair value through other comprehensive income

As financial assets measured at fair value through other comprehensive income, the Bank defines the category of debt instruments that are measured at fair value through other comprehensive income if the following conditions are met:

a) financial assets are held within a business model aimed at collecting contractual cash flows and selling the financial asset.
b) contractual terms of financial assets generate at a specific date cash flows that are only principal and interest payments outstanding.

Debt instruments at fair value through other comprehensive income are measured at fair value with recognition of gains and losses resulting from changes in fair value in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in the statement of profit or loss in the same way as financial assets carried at amortized cost. Upon derecognition, cumulative gains or losses recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.
Initial measurement is carried at fair value plus transaction costs directly attributable to their purchase / acquisition / issue.
Subsequent measurement is carried out at fair value. Fair value is determined in an active market (stock exchange) and represents the quoted price of the stock exchange on the day of the financial asset valuation or, in the absence of an active market, based on the Bank's best estimate of the fair value of those investments, using cash flow discounting methods or relying on the opinion of an independent expert. Short - term changes in fair value are included in equity (increase and decrease).
If the Bank determines a long-term decline in the fair value of these assets, all cumulative losses recognized directly in equity are transferred from equity to profit or loss, even though the asset is not written-off.
The Bank accepts trading dates as a method of calculating debt instruments that are measured at fair value through other comprehensive income.
Expected credit losses on debt instruments carried at fair value through other comprehensive income do not reduce the carrying amount of financial assets in the statement of financial position. An amount equal to the provision that would arise if the assets were measured at amortized cost is recognized in other comprehensive income as the accumulated impairment loss with related recognition in the statement of profit or loss. The accumulated amount recognized in other comprehensive income is reclassified to profit or loss after derecognition.

Financial liabilities

Financial liabilities comprise long-term and short-term trade payables and other liabilities, that is, they represent financing instruments as a financial liability or as equity depending on the contractual terms.
Financial liabilities are initially recognized at the amounts received. Subsequent to the initial recognition, financial liabilities are measured at the initially recognized amounts net of principal repayment and increased by capitalized interest less any write-off granted by the creditor. Financial liabilities are stated at amortized cost using the effective interest rate. Interest payable, dividends, gains and losses on financial liabilities are recorded at the expense of financial expenses in the period to which they relate and are presented within other current liabilities.
Financial liabilities are derecognized when the Bank's obligations are discharged, cancelled or they have expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Financial instruments (continued)

Impairment measurement and allowance

For impairment measurement, the Bank applies the concept of expected credit loss. At the end of each month, the Bank calculates and records allowance for credit losses in an amount equal to the expected credit losses, applying the following methodology: “Methodology for allowance estimate and provision calculation in accordance with IFRS 9 and the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska“.

3.8. Taxes and contributions

Current income tax

Current income tax relates to the amount payable in accordance with the Law on Income Tax. Current income tax is payable at the rate of 10% applied to the tax base determined in the taxa balance and reported in the annual corporate income tax return, being the amount of profit before taxation net of income and expense adjustment effects pursuant to the tax regulations of the Republic of Srpska.

Tax regulations in the Republic of Srpska allow for the reduction of the tax base for the amounts used in investments in property, plant and equipment for performing registered activities and for the amounts of the payroll taxes and contributions for over 30 newly employed workers with permanent employment contracts at the end of the business year.

Tax regulations in the Republic of Srpska do not envisage that any tax losses of the current period be used to refund taxes paid in previous period. However, current period tax losses stated in the tax balance may be used to reduce the tax base of future accounting periods, but no longer than five years.

Deferred income tax

Deferred income tax is calculated using the method of determining liabilities according to the statement of financial position for temporary differences arising between the tax base of receivables and liabilities in the statement of financial position and their carrying values. The currently enacted tax rates at or the substantively enacted rates after the statement of financial position date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of tax losses and tax loans, which are available for carryforward to subsequent fiscal periods, to the extent that it is likely to be taxable profit from which the tax loss and loans carried forward can be reduced.

Indirect taxes and contributions

Indirect taxes and contributions include payroll contributions charged to the employer, property taxes, and various other taxes and contributions, included in other operating expenses.

3.9. Employee benefits

In accordance with domestic regulations, the Bank is obligated to pay contributions to government social security funds and pension funds that are calculated by applying specific, legally prescribed rates. These obligations involve the payment of taxes and contributions on behalf of employees, by the employer, in an amount calculated in accordance with the statutory regulations. The Bank is also obliged to withhold part of the taxes and contributions from the gross salaries of employees, and to pay it on behalf of employees to the account of public funds. These contributions are debited to expenses in the period to which they relate.

In accordance with the requirements of IAS 19 “Employee Benefits,” the Bank performs the actuarial valuation of provisions in order to determine the present value of accumulated employee retirement benefits. Upon retirement, the Bank’s employees become entitled to retirement benefits in an amount equal to three monthly salaries earned by the employee.

Expenses of retirement benefits are determined using the projected unit credit method for actuarial valuation as of the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Leases

The Bank as a Lessor

A lease is classified as a finance lease in all cases where the Bank is the lessor and when the lease, to the lessee, is transferred to the fullest extent all the risks and rewards of ownership of the assets. Every other lease is classified as an operating lease.

Operating lease income (rental income) is recognized using the straight-line method over the lease term. The indirect costs incurred in negotiating and contracting an operating lease are added to the carrying amount of the leased asset and are recognized on a pro rata basis over the lease term.

The Bank as a Lessee

The Bank, as a lessee, calculates the lease in accordance with IFRS 16, except in the case of short-term and leases of low value assets.
The Bank recognizes depreciation of the right-of-use asset, interest on lease obligations, tax liability as an expense of the period, and in the case of short-term leases and leases with low value assets, the Bank recognizes the expense on a straight-line basis over the term of the lease.

3.11. Provisions

In accordance with IAS 37, a provision arises and is recognized when:

- the obligation arose as a result of a past event (legal, legal or derivative),
- it is probable that an outflow of resources will be required to settle the obligation,
- the amount of the liability can be estimated reliably.

The Bank makes provisions to cover liabilities (legal, actual and derivative). Provisions for expenses are monitored by type, and their reduction or reversal is credited to income.

The provision is reviewed as at each reporting date and adjusted in order to reflect the best current estimate. If it is no longer probable that an outflow of resources representing economic benefits will be required to settle the obligation, the provision is reversed.
The Bank estimates the amounts of provisions that need to be recognized in the event of litigation and all other cases where there is a current liability at the reporting date as a result of a past event.
In accordance with IAS 19, the Bank establishes provisions for employee severance pay based on an actuarial calculation.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the financial statements requires the management to use best possible estimates and reasonable assumptions, which have an effect on the presented values of assets and liabilities and disclosure of contingent receivables and liabilities at the date of preparation of the financial statements, as well as income and expenses during the reporting period. These estimates and assumptions are based on information available at the date of preparation of the financial statements. Actual future results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

The basic assumptions regarding future events and other key sources of uncertainty in making an estimate at the statement of financial position date, which carry a risk with a possible outcome in material adjustments to the present value of assets and liabilities in the next financial year are presented below:

Estimated useful life of equipment, intangible assets and investment property

Determining the useful life of equipment, intangible assets and investment property is based on historical experiences with similar assets, as well as anticipated technological improvements and adjustments of economic and industrial factors. The adequacy of estimated remaining useful life of property, equipment and intangible assets is analyzed annually or wherever there are indications of significant adjustments of certain assumptions.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Impairment of assets

At each statement of financial position date, the Bank's management analyzes the value of stated in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

Allowance for receivables

The methodology for calculating allowance for expected losses according to the requirements of International Accounting Standard 9 and the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska defines the methods and techniques used in order to calculate individual and group-level (portfolio) allowance of balance sheet and off-balance sheet items of the Bank.

The Methodology defines the criteria for determining the type of financial assets, the criteria for identifying the receivables that need to be individually assessed, as well as the criteria for assessing the receivables that are the subject to a group-level assessment, and the same are applied on the Bank´s level in a systematic manner and consistently throughout the time. The consistent application of the Methodology allows the timely determination of expected credit losses that arise from failure to meet contractual obligations by clients or a significant increase in credit risk, all in order of protecting the capital of the Bank in the period when the loss is identified and realized. The Methodology is based on the requirements defined by the International Financial Reporting Standard (IFRS) 9 the Decision on credit risk management and determination of expected credit losses by the Banking Agency of the Republic of Srpska.

Historic data used in the calculations are available for the last three years. Considering, where applicable, the Methodology is based on rules and historic data, includes objective criteria of business in local market (use of real discount rate upon making estimates on the expected cash flows, collateral marketability and the time needed for realization, effective legal regulations and court practice in their implementation, current economic conditions and other relevant factors that influence the debtor's financial performance) and establishes the obligation of the Bank to estimate the current economic conditions in surroundings in which it is operating and to adjust the allowance related to the expectation on future information.

The methodology defines the following:

1) Type of financial assets, that is, is the asset purchased or credit impaired;
2) Determining the level of credit risk (stage) in which the financial assets are located;
3) Material significance limit for individual exposures;
4) Identification of exposures to be estimated/classified on an individual and group-level (portfolio) basis;
5) Individual allowance;
6) Group-level allowance (at portfolio level).

The Methodology also includes the following:

1) Identification of receivables that are classified on an individual or group-level basis, and criteria for classifying receivables into homogeneous groups with similar characteristics (type of client / segmentation, type of loan product, debt security instrument, regularity in settlement of liabilities, sectoral and geographical structure, etc.);
2) established methods and techniques for classification on an individual or group-level basis, including the method of estimating the expected collection time and percentage of the value of the insurance instrument of receivables from which the collection will be made (taking into account all activation and collection costs) and the factors used in determining time intervals for estimation of losses based on data from previous periods;
3) analyzes, assessments and other procedures used in calculating the allowance for impairment or provisions should be precisely explained and adequately documented in written form;
4) providing accurate and up-to-date information that are taken into account when assessing the collectability of receivables;
5) clearly defined organizational units in charge for the mentioned assessment and conditions under which an assessment based on prior experiences can be made.

First, the Bank estimates whether there is an objective proof of impairment individually for financial assets considered individually significant, and individually or collectively for financial assets not considered as financially significant. If the Bank determines there are no objective evidence of individual impairment for the financial asset, whether significant or not, that asset is included in a group of assets with similar credit risk characteristics and the impairment is assessed on portfolio level.

Individually significant exposure is an exposure that is considered significant for risk management or financial reporting based on its value or characteristics. The Bank defines that individually significant exposures are those that exceed a certain threshold or are below the threshold, but have a specific risk profile (in terms of potential credit loss).

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Allowance for receivables (continued)

The method of calculating allowance depends on whether the exposure is treated as individually significant or not.

The Bank is obliged to determine on an individual basis the expected credit losses for individually significant exposures allocated to the level of credit risk 3, that is which are greater than:

- BAM 30.000, if its net assets amount to BAM 500 million,
- BAM 50.000, if its net assets amount from BAM 500 million up to BAM one billion,
- BAM 100.000, if its net assets amount over BAM one billion.

During 2022, the Bank applied a more conservative approach and kept the materiality threshold at BAM 30.000.

The Bank's exposures representing other receivables are subject to individual assessment due to the specificity of each individual receivable. The impairment assessment procedure is performed for all receivables that are defined as material by the Internal Methodology. Materially significant amount means amounts greater than:

- for individuals greater than BAM 200 and 1% of the debtor's total balance exposures,
- for legal entities greater than BAM 1.000 BAM and 1% of the debtor's total balance exposures.

The Bank determines the default status when one or both of the following conditions are met:

- the debtor is late with the repayment to the bank for more than 90 days in a materially significant amount,
- The Bank considers it certain that the debtor will not fully settle its obligations to the bank, not taking into account the possibility of collection from collateral.

The Bank determines the default status of legal entities at the level of total receivables from that entity.
In the case of individuals, the bank determines the default status at the level of individual exposure. If the gross book value of the exposure to an individual in the default status exceeds 20% of the total gross book value of the exposure to that individual, it is considered that the default status of all exposures to that individual has occurred.
The calculation of allowance and provisions for losses on individual material exposures for which an objective impairment event has been identified is performed through individual allowance.
Individual allowance involves estimating expected credit losses, analyzing expected future cash flows in several different collection scenarios with specific probabilities of each scenario, and calculating their present value.
Individual allowance is calculated as the difference between the client's total balance exposure per loan (due principal, undue principal, interest) and the sum of the net present value of estimated future cash flows (from regular repayment and from activated collateral) of that loan. For each transaction individually, future cash flows will be determined individually, separately for principal and separately for interest.
Group-level allowance involves the calculation of allowance through portfolio. Allowance is performed for the following types of exposures:

- For exposures that are not materially significant in stage 3;
- For all exposures in stage 1 and stage 2, with the exception of exposures for which the Bank has identified a significant increase in credit risk, for which the calculation on a group basis does not reflect the identified level of client risk.

The methodology defines the types of collateral and parameters related to collateral that are used when calculating value adjustments on an individual and portfolio basis.

The basis for the portfolio of impairment calculations is the total exposure (balance sheet exposure and off-balance sheet exposure previously adjusted with the credit conversion factor - CCF).

By applying the defined parameters by individual types of collateral for the purpose of calculating individual allowance on individually materially significant exposures provided by these types of collateral, the expected cash flow is reduced by discounting to present value. Procedures and methods that describe in more detail the activities related to collateral (classification of collateral, relevant valuation methods, certified appraisers, etc.) are prescribed by the Policy of eligible collateral.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Fair value

It is the business policy of the Bank to disclose information on fair values of those asset and liability components for which published market information is available, and for which their fair value is materially different from the carrying amounts. In the Republic of Srpska, there are no sufficient market experiences, nor stability and liquidity for the acquisition and sale of receivables and other financial assets or liabilities, since official market information are not available at all times. Therefore, the fair value cannot be reliably determined in the absence of an active market.
The Bank's management assesses its risk exposure and, in cases in which it is estimated that the value of assets stated in the books will not be realized, an allowance is made. As per the Bank's management, amounts expressed in these financial statements reflect the fair value which is most reliable and useful under the current circumstances.

Employee benefits

The Bank engages a certified actuary to calculate the present value of employees' accumulated severance pay rights on behalf of the Bank. When calculating the stated present value of the accumulated rights of employees to severance pay, the certified actuary uses the following assumptions: projected salary growth, length of service for retirement, projected employee turnover based on data on the historical movement of employees in the previous period, officially published mortality rates from the environment, as well as other conditions necessary for exercising the right to severance pay. In the opinion of the Bank's management, the amounts in the financial statements reflect the fair value that is the most reliable and useful for reporting purposes in the circumstances.

5. INTEREST INCOME

	(In BAM thousand) Period ended 31 December 2022	2021
Interest income from:		
Banks and banking group	2	-
Enterprises	26.596	22.009
Retail	16.017	14.802
Public sector	894	902
Non-profit organizations	60	57
Other	9	2
Total:	**43.578**	**37.772**

6. INTEREST EXPENSES

	(In BAM thousand) Period ended 31 December 2022	2021
Interest expenses from:		
Retail	5.424	6.095
Public sector	77	125
Non-banking financial institutions	448	437
Interest on subordinated debt	423	430
Interest on loans	1.619	708
Enterprises	207	150
Non-profit organizations	39	35
Banks and bank institutions	30	43
Other	3	11
Total:	**8.270**	**8.034**

7. FEE AND COMMISSION INCOME

	(In BAM thousand) Period ended 31 December 2022	2021
Fee and commission income from domestic and international payment transactions	7.473	5.774
Income from foreign change transactions	2.027	1.481
Fees and commissions per loans	808	699
Fees and commissions per off-balance transactions	1.294	1.083
Total:	**11.602**	**9.037**

8. FEE AND COMMISSION EXPENSES

	(In BAM thousand) Period ended 31 December 2022	2021
Central Bank fees based on domestic payment transaction services	1.138	986
Fees based on card transactions	805	703
Fees based on sale and purchase of foreign exchanges	314	204
Fees for international payment transaction services	361	274
Fees based on loan processing	136	71
Other fees and commissions	39	43
Total:	**2.793**	**2.281**

9. OTHER OPERATING INCOME

(In BAM thousand)

	Period ended 31 December 2022	2021
Collection of written-off suspended interest	1.055	1.005
Other income	1.700	1.222
Total:	**2.755**	**2.227**

10. OTHER OPERATING EXPENSES

(In BAM thousand)

	Period ended 31 December 2022	2021
Gross personal income	10.274	8.860
Remunerations to members of the Supervisory Board, Audit Committee, employees help	279	131
Professional education of employees	69	43
Materials and services	821	695
Business trips	61	26
Telecommunication and postage services	729	702
Equipment/software maintenance	681	638
Marketing and advertising	556	553
Leases	442	407
Membership fees	182	165
Representation	410	247
Assets' security services	1.158	935
Depreciation/Amortization (Note 17)	2.666	2.380
Taxes and contributions	166	111
Fees	900	712
Write-off of uncollectable receivables	149	209
Fees for third party engagements	302	153
Other	3.461	2.214
Total:	**23.306**	**19.181**

Gross personal income	Period ended 31 December 2022	2021
Net salaries	6.304	5.491
Taxes and contributions on salaries	3.970	3.369
Total gross personal income:	**10.274**	**8.860**

11. IMPAIRMENT AND PROVISIONS

a) Debited to expenses

(In BAM thousand)

	Period ended 31 December 2022	2021
Cash funds and cash with other banks	(270)	(267)
Loans due from customers	(77.207)	(41.850)
Other assets and securities	(4.886)	(1.657)
Contingent liabilities and commitments	(3.504)	(1.600)
Total:	**(85.867)**	**(45.374)**

11. IMPAIRMENT AND PROVISIONS (continued)

b) Reversal of provisions credited to income

(In BAM thousand)

	Period ended 31 December 2022	**2021**
Cash funds and cash with other banks	220	272
Loans due from customers	70.656	32.829
Other assets and securities	1.024	833
Contingent liabilities and commitments	3.210	1.628
Total:	**75.110**	**35.562**
Net provisions	**(10.757)**	**(9.812)**

c) Movements during the period for long-term provisions for potential losses and commitments

(In BAM thousand)

	Cash funds and cash held at other banks (Note 13 and 14)	**Loans due from customers (Note 16)**	**Other assets (Note 18)**	**Securities (Note 15)**	**Contingent liabilities and commitments**	**Total**
Balance, 31 December 2020	**162**	**37.944**	**2.654**	**36**	**682**	**41.478**
Provisions during the year	267	41.850	1.637	-	1.600	45.354
Reversal of provisions	(272)	(32.829)	(827)	-	(1.628)	(35.556)
Provisions based on securities stated at fair value through other comprehensive income	-	-	-	20	-	20
Reversals based on securities stated at fair value through other comprehensive income	-	-	-	(6)	-	(6)
Accounting written-off receivables	-	(2.996)	-	-	-	(2.996)
Balance, 31 December 2021	**157**	**43.969**	**3.464**	**50**	**654**	**48.294**
Provisions during the year	270	77.207	4.879	-	3.504	85.860
Reversal of provisions	(220)	(70.656)	(1.015)	-	(3.210)	(75.101)
Provisions based on securities stated at fair value through other comprehensive income	-	-	-	7	-	7
Reversals based on securities stated at fair value through other comprehensive income	-	-	-	(9)	-	(9)
Accounting written-off receivables	-	(4.707)	(5)	-	-	(4.712)
Balance, 31 December 2022	**207**	**45.813**	**7.323**	**48**	**948**	**54.339**

12. INCOME TAX

The income tax expense can be reconciled with the profit stated in statement of profit or loss as follows:

(In BAM thousand)

	Period ended 31 December 2022	**2021**
Profit before taxes	12.834	9.771
Income tax calculated at the rate of 10%	1.283	977
Tax reduction for tax exempt income	(3.082)	1.085
Expenses not recognized for tax purposes – impairment of loans and other assets	3.192	(1.478)
Other expenses not recognized for tax purposes	122	65
Not recognized tax credit	4	511
Total income tax	1.519	1.160
Income tax RS	963	487
Income tax realized in the branch office in Brčko District	497	606
Income tax realized in the branch offices in FBiH	59	67
Total income tax	1.519	1.160
Effective income tax rate	11,84%	11,87%

For the business year 2022, the Bank paid monthly income tax advances for the Republic of Srpska, Brčko District and the Federation of Bosnia and Herzegovina in the amount of 1/12 of the calculated income tax for 2021.

Tax liabilities are stated in the Bank's tax returns and accepted as such but may be subject to control by the tax authorities for a period of five years after their acceptance. The Bank's management is not aware of any circumstances that could give rise to potential material liability in this regard or challenge the income tax returns.

13. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

(In BAM thousand)

	31 December 2022	**31 December 2021**
Cash funds:		
- in BAM	8.413	6.815
- in foreign currencies	8.399	5.105
	16.812	**11.920**
Funds at the Central Bank of BiH in BAM:		
- Gyro account	66.371	41.679
- Foreign cash funds	2.855	3.124
	69.226	**44.803**
Gross value	**86.038**	**56.723**
Allowance for cash funds	(127)	(95)
Total:	**85.911**	**56.628**
Obligatory reserve	57.224	50.104
Total:	**143.135**	**106.732**

In accordance with the Decision of the Central Bank of Bosnia and Herzegovina on the determination and maintenance of obligatory reserves, the Bank is obliged to maintain and calculate the obligatory reserve for deposits (which form the basis for the calculation of required reserves) according to the balances at the end of each business day within ten calendar days which precede the maintenance period. The obligatory reserve rate applied by the Central Bank to the principal for the calculation of the obligatory reserves represents 10% of the sum of total deposits. The principal for calculating the obligatory reserves includes accrued interest, fees and commissions that are due.

14. FUNDS WITH OTHER BANKS

(In BAM thousand)

	31 December 2022	31 December 2021
Funds with other banks:		
- domestic banks	2.707	11.208
- foreign banks	18.843	1.122
	21.550	**12.330**
Allowance for cash funds	(80)	(62)
Total:	**21.470**	**12.268**

15. SECURITIES

(In BAM thousand)

	31 December 2022	31 December 2021
Securities - war damage stated at fair value through other comprehensive income	1.599	1.796
Securities – Republic of Srpska government bonds, stated at fair value through other comprehensive income	45.504	46.903
Accrued interest	749	822
Total:	**47.852**	**49.521**

Debt securities as at 31 December 2022 in the amount of BAM 47.852 thousand are classified in accordance with the business model holding for collection or sale and are measured through other comprehensive income (note 3.7).

The following table provides an overview of debt securities classified at fair value through other comprehensive income by internal rating and impairment:

(In BAM thousand)

				31 December 2022
Securities	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities stated at fair value through other comprehensive income	-	47.852	-	47.852
Total:	**-**	**47.852**	**-**	**47.852**

15. SECURITIES (continued)

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2022	-	**49.521**	-	**49.521**
Purchased principle instruments	-	5.889	-	**5.889**
Purchased interest instruments	-	-	-	**-**
Repaid principle instruments	-	(7.195)	-	**(7.195)**
Repaid interest instruments	-	(1.429)	-	**(1.429)**
Accrued interest	-	894	-	**894**
Change in fair value of principle	-	(208)	-	**(208)**
Change in fair value based on discount / premium depreciation	-	380	-	**380**
Fair value as at 31 December 2022	**-**	**47.852**	**-**	**47.852**

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2021	-	**35.939**	-	**35.939**
Purchased principle instruments	-	23.347	-	**23.347**
Purchased interest instruments	-	143	-	**143**
Repaid principle instruments	-	(10.012)	-	**(10.012)**
Repaid interest instruments	-	(985)	-	**(985)**
Accrued interest	-	880	-	**880**
Change in fair value of principle	-	(102)	-	**(102)**
Change in fair value based on discount / premium depreciation	-	311	-	**311**
Fair value as at 31 December 2021	**-**	**49.521**	**-**	**49.521**

Movements in provisions for debt securities per expected loss level:

	Level 1	Level 2	Level 3	Total
Allowance as at 1 January 2021		**36**	**-**	**36**
Provision during the year	-	20	-	20
Reversal during the year	-	(6)	-	(6)
Allowance as at 31 December 2021	**-**	**50**	**-**	**50**
Allowance as at 1 January 2022	**-**	**50**	**-**	**50**
Provision during the year	-	7	-	7
Reversal during the year	-	(9)	-	(9)
Allowance as at 31 December 2022	**-**	**48**	**-**	**48**

16. LOANS TO CUSTOMERS

(In BAM thousand)

	31 December 2022	**31 December 2021**
Short-term loans in BAM	80.230	72.061
Long-term loans in BAM	338.377	289.387
Long-term loans in foreign currencies	38	30
Guarantees paid	1.148	949
Current portion of long-term loans	109.059	94.434
	528.852	**456.861**
Less: Allowance for loans due from customers	(45.813)	(43.969)
Total:	**483.039**	**412.892**

During 2022, an accounting write-off of loans in the amount of BAM 4.712 thousand was carried out, that is, the transfer of their balance exposures after the Bank had recorded the expected credit losses in the amount of 100% of gross book value, and declared them fully due on off-balance sheet records, in accordance with the Decision on credit risk management and determination of expected credit losses of the Banking Agency of the Republic of Srpska.

Until 31 December 2022, the Bank issued mostly long-term loans, an in smaller amount short-term loans, at annual interest rates ranging from 2,99%-15,49%. Loans with annual interest rate ranging from 2,99%-4,99% are long-term loans approved from the funds of the Investment and Development Bank of the Republic of Srpska, MF housing loans, or are loans ensured/covered partially or fully with purpose-specific term deposits. As security for approved loans, the Bank took deposits, pledges over movable and immovable property, guarantees of guarantee funds, guarantees of the Government of the Republic of Srpska, co-indebtedness/guarantee of legal entities, co-indebtedness/guarantee of natural persons, securities, administrative prohibitions, bills of exchange and transfer orders. The organizational risk department of the Bank is continuously monitoring the market value of insurance instruments.

Most of the loans with a period of over one-year in local currency as at 31 December 2022 were issued to enterprises and population with an annual interest rate ranging from 5,99% do 15,49%, plus 6-month EURIBOR, for periods of 5 years up to the maximum of 10 years. Interest rates higher than 15,79% relate to long-term loans assumed from MKD Mikrofin d.o.o. Banja Luka.

The largest portion of long-term investments approved to population included general consumer loans, housing loans, construction and adaptation loans, investments of individuals, while the loans given to legal entities include long-term loans intended for financing non-current assets, investments and permanent current assets.

As at 31 December 2022, the geographic concentration of loans approved to customers as included in the Bank's loan portfolio mostly comprises customers from the regions of the City of Banja Luka (ca. 14,65% of the total portfolio of the Bank), City of Bijeljina (ca. 6,10%), City of Sarajevo (5,55%), City of Prijedor (ca. 4,70%), and Municipality of Laktaši (4,4%).

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(In BAM thousand)

	Leasehold improve-ments	Buildings	Equipment	Equipment in preparation	Total property and equipment	Intangible assets
Balance,1 January 2021	**1.090**	**-**	**4.915**	**136**	**6.141**	**1.407**
Acquisitions in the period	-	-	-	882	882	9
Transfers from/to	129	-	828	(957)	-	-
Sale	-	-	(21)	-	(21)	-
Disposals	-	-	(20)	-	(20)	-
Balance, 31 December 2021	**1.219**	**-**	**5.702**	**61**	**6.982**	**1.416**
Acquisitions in the period	-	-	-	2.133	2.133	128
Transfers from/to	371	-	1.163	(1.534)	-	-
Sale	-	-	(22)	-	(22)	-
Disposals	-	-	(19)	-	(19)	-
Balance, 31 December 2022	**1.590**	**-**	**6.824**	**660**	**9.074**	**1.544**
Accumulated depreciation/amortization						
Balance,1 January 2021	**601**	**-**	**2.723**	**-**	**3.666**	**1.137**
Depreciation/amortization	180	-	536	-	716	88
Sale	-	-	(21)	-	(21)	-
Disposals	-	-	(19)	-	(19)	-
Balance, 31 December 2021	**781**	**-**	**3.561**	**-**	**4.342**	**1.225**
Depreciation/amortization	209	-	665	-	874	44
Sale	-	-	(21)	-	(21)	-
Disposals	-	-	(17)	-	(17)	-
Balance, 31 December 2022	**990**	**-**	**4.188**	**-**	**5.178**	**1.269**
31 December 2021	**438**	**-**	**2.141**	**61**	**2.640**	**191**
31 December 2022	**600**	**-**	**2.636**	**660**	**3.896**	**275**

As at 31 December 2022 equipment and property are secured from general risks and the Bank is not charged and has no pledge on property, equipment and intangible investments.

17.1. INVESTMENT PROPERTY

(In BAM thousand)

Investment property	
Cost	
Balance, 1 January 2021	**4.856**
Acquisitions in the period	-
Transfer	-
Balance, 31 December 2021	**4.856**
Acquisitions in the period	-
Transfer	-
Balance, 31.decembra 2022	**4.856**
Accumulated depreciation	
Balance, 1 January 2021	**288**
Depreciation	63
Balance, 31 December 2021	**351**
Depreciation	63
Balance, 31 December 2022	**414**
31 December 2021	**4.505**
31 December 2022	**4.442**

The property in Vase Pelagića street no. 22 is classified in investment property in the stated amount of BAM 4.856 thousand in accordance with IAS 40. Investment property shall be measured at cost method. As at 31 December 2022, the court expert for constructions assessed the property and the estimated value amounts to BAM 5.490 thousand (31. December 2021: BAM 4.570 thousand).

17.2. LEASED BUSINESS PREMISES

	(In BAM thousand)
Balance as at 1 January 2021	**7.721**
New acquisitions	1.138
Contract termination	(614)
Depreciation	(1.513)
Allowance contract termination	147
Balance as at 31 December 2021	**6.879**
New acquisitions	2.249
Contract termination	(447)
Depreciation	(1.685)
Allowance contract termination	110
Balance as at 31 December 2022	**7.106**

The following table shows the maturity analysis of the contractual undiscounted lease obligation:

	31 December 2022	(In BAM thousand) 31 December 2021
Less than a year	82	1.425
From one to five years	2.545	4.197
More than five years	4.916	1.632
Total contractual lease obligations	**7.543**	**7.254**
Lease obligations included in note 22 as at 31 December 2022	**7.543**	**7.254**

Amounts recognized in the Bank's statement of profit or loss and other comprehensive income:

	Period ended 31 December 2022	(In BAM thousand) Period ended 31 December 2021
Interest on lease obligations IFRS 16	340	358
Depreciation	1.685	1.513
Total lease expenses	**2.025**	**1.871**

18. OTHER ASSETS

	31 December 2022	(In BAM thousand) 31 December 2021
In BAM:		
- Funds acquired through collection of receivables	6.360	5.313
- Accrued other expenses	217	362
- Fee and commission receivables	1.049	584
- Material inventories	14	52
- Given advances	375	144
- Other receivables	1.239	1.250
In foreign currencies:		
- Accrued receivables for calculated expenses	556	136
- Advances in foreign currencies	33	3
- Other foreign currency receivables	423	286
	10.266	**8.130**
Minus: Allowance for accrued interest and other assets	(963)	(575)
Impairment of assets acquired through collection of receivables	(6.360)	(2.889)
Total:	**2.943**	**4.666**

18. OTHER ASSETS (continued)

Movement on acquired tangible assets

Cost of acquired tangible assets	
Balance, 1 January 2021	**5.283**
Acquisitions during the period	878
Sales during the period	(848)
Balance, 31 December 2021	**5.283**
Acquisitions during the period	2.003
Sales during the period	(956)
Balance, 31 December 2022	**6.360**
Accumulated depreciation	
Balance, 1 January 2021	**2.203**
Acquisitions during the period	1.242
Sales during the period	(556)
Balance, 31 December 2021	**2.889**
Acquisitions during the period	4.351
Sales during the period	(880)
Balance, 31 December 2022	**6.360**

The estimated value of the acquired tangible assets as at 31 December 2022 is BAM 10.470 thousand (31 December 2021: BAM 9.741 thousand)

19. DEPOSITS TO CUSTOMERS

(In BAM thousand)

	31 December 2022	31 December 2021
Demand deposits in BAM:		
- Banks and banking institutions	86	56
- Government and state institutions	36.637	15.063
- Enterprises	40.464	30.594
- Non-profit organizations	1.916	1.225
- Non-banking financial institutions	30.548	18.145
- Residents/non-residents	57.420	43.236
- Other	1.032	676
	168.103	**108.995**
Demand deposits in foreign currencies:		
- Enterprises	11.406	5.429
- Non-profit organizations	369	1.322
- Non-banking financial institutions	5.219	1.225
- Residents/non-residents	16.178	14.137
- Other	-	2
	33.172	**22.115**
Short-term deposits in BAM:		
- Banks and banking institutions	1.500	10.000
- Government and state institutions	-	500
- Enterprises	1.330	609
- Non-banking financial institutions	1.300	800
- Residents	73	165
- Other	-	9
	4.203	**12.083**
Short-term deposits in foreign currencies:		
- Residents	37	36
	37	**36**
Long-term deposits in BAM:		
- Banks and banking institutions	6.000	-
- Government and state institutions	5.300	12.450
- Enterprises	17.129	7.192
- Non-profit organizations	1.667	1.467
- Non-banking financial institutions	18.174	21.044
- Residents	102.270	102.803
- Other	300	400
	150.840	**145.356**
Long-term deposits in foreign currencies:		
- Enterprises	4.205	4.960
- Non-banking financial institutions	2.065	2.065
- Residents/non-residents	158.547	162.098
- Non-profit organizations	391	1.173
	165.208	**170.296**
Total:	**521.563**	**458.881**

19. DEPOSITS TO CUSTOMERS (continued)

Current maturity of long-term deposits

(In BAM thousand)

	31 December 2022	31 December 2021
Long-term portion of long-term deposits, in BAM		
- Government and state institutions	-	4.682
- Enterprises	6.697	4.000
- Non-profit organizations	210	1.033
- Non-banking financial institutions	12.424	13.980
- Residents	63.287	53.157
- Other	-	-
	82.618	**76.852**
Long-term portion of long-term deposits, in foreign currencies		
- Enterprises	3.031	3.429
- Non-banking financial institutions	1.565	500
- Residents/non-residents	100.311	77.315
- Non-profit organizations	391	-
	105.298	**81.244**
Current maturity of long-term deposits, in BAM		
- Banks and banking group	6.000	-
- Government and state institutions	5.300	7.768
- Enterprises	10.432	3.192
- Non-profit organizations	1.457	434
- Non-banking financial institutions	5.750	7.064
- Residents	38.983	49.646
- Other	300	400
	68.222	**68.504**
Current maturity of long-term deposits, in foreign currencies		
- Enterprises	1.174	1.531
- Non-banking financial institutions	500	1.565
- Non-profit organizations	-	1.173
- Residents/non-residents	58.236	84.783
	59.910	**89.052**

20. LIABILITIES PER LOANS

(In BAM thousand)

	31 December 2022	**31 December 2021**
In BAM:		
- „Fond za razvoj i zapošljavanje RS“	7.602	8.738
- „Fond stanovanja RS“	8.121	8.897
- „Fond za razvoj istočnog dijela RS“	5.549	5.918
Total in BAM:	**21.272**	**23.553**
In foreign currency:		
- EFSE	41.855	8.215
- KFW	6.845	11.409
- GGF	9.779	-
Total in foreign currency:	**58.479**	**19.624**
Deferred interest liabilities in domestic currency per long-term loans of residents	21	22
Deferred interest liabilities in foreign currencies per short-term loans of non-residents	631	28
Total long-term portion of liabilities in BAM:	18.070	20.149
Total long-term portion of liabilities in foreign currencies	39.768	6.214
Total liabilities per loans	**80.403**	**43.227**
Current maturity:		
- IRB	3.202	3.404
- EFSE	12.517	8.227
- GGF	1.630	-
- KFW	4.564	4.564
Total current maturity of long-term liabilities:	**21.913**	**16.195**

As at 31 December 2022, the total liabilities balance based on loans from the funds managed by the Investment and Development Bank of the Republic of Srpska amounted to BAM 21.272 thousand (31 December 2021: BAM 23.553 thousand).

On 9 July 2020, the Bank concluded a loan agreement with EFSE Luxembourg in the amount of BAM 13.691 thousand, for a period of 3 years, with a semi-annual repayment and an interest rate of 3,1%.

On 6 July 2021, the Bank concluded a loan agreement with KFW Germany in the amount of BAM 13.691 thousand, for a period of 3 years, with a semi-annual repayment and an interest rate of 2,9%.

On 24 March 2022, the Bank concluded an agreement with GGF, Luxembourg on a credit line for the financing of renewable energy sources, with a final repayment date of March 2026, with a semi-annual return and an interest rate of 2,8% + 6M EURIBOR. The loan inflow was realized in two tranches, in the total amount of BAM 9,8 million.

On 24 June 2022, the Bank concluded a loan agreement with EFSE, Luxembourg, in the amount of BAM 19.558 thousand, with a final repayment date of September 2026, with a semi-annual return and an interest rate of 2,8% + 6M EURIBOR. The inflow per credit loan was realized on 29 June 2022.

On 25 August 2022, the Bank concluded a second agreement with EFSE, Luxembourg on credit debt in the amount of BAM 19.558 thousand, with a final repayment date of September 2026, with a semi-annual return and an interest rate of 2,8% + 6M EURIBOR. The inflow per credit loan was realized on 31 August 2022.

The funds received from loans are intended for lending to the bank's clients for the purchase of fixed assets, working capital, investments, initial business activities of small and medium enterprises and entrepreneurs.
According to loan agreements signed with international creditors, the Bank is obliged to comply with certain procedures and accounting records that adequately reflect the Bank's operations in accordance with International Accounting Standards, that is, International Standards for Financial Reporting and certain financial conditions.
As at 31 December 2022, the Bank met all financial indicators required by the terms of the Agreement with the creditor KfW, Germany.

21. SUBORDINATED DEBT

(In BAM thousand)

	31 December 2022	**31 December 2021**
EFSE, Luxembourg	6.845	6.845
Deferred interest liabilities in foreign currency per long-term subordinated loans	22	119
Total:	**6.867**	**6.964**

On 13 October 2016, the Bank and EFSE, Luxembourg signed an agreement on subordinated debt amounting to BAM 6.845 thousand, for the period of 6 years, with a one-off repayment at an interest rate of 6,2 % annually. It is intended for strengthening the Bank's total capital. In its Decision no. 03-1515-3/16 dated 7 October 2016, BARS approved of inclusion of subordinated debt into the Bank's supplementary capital in the amount of BAM 6.845 thousand. In the last quarter of 2022, the Bank repaid this subordinated loan.

On 10 October 2022, the Bank concluded with EFSE, Luxembourg a new agreement on a subordinated loan in the amount of BAM 6.845 thousand, for a period of 6 years, with a one-time return and an interest rate of 4,8% + 6M EURIBOR. Funds from the creditor were paid to the Bank's foreign currency account on 26 October 2022.

By Decision No. 03-2244-5/22 dated 27 December 2022, BARS approved the inclusion of subordinated debt in the additional capital of the Bank in the amount of BAM 6.845 thousand.

According to this agreement, the Bank is obliged to comply with certain procedures and accounting records that adequately reflect the Bank's operations in accordance with International Accounting Standards, that is, International Standards for Financial Reporting and certain financial conditions.

As at 31 December 2022, the Bank met all the financial indicators required by the terms of the Agreement with the creditor EFSE, Luxembourg.

22. OTHER LIABILITIES

(In BAM thousand)

	31 December 2022	**31 December 2021**
In BAM:		
- deferred income	3.498	3.025
- trade payables	389	52
- deferred expenses	553 21	301-
- lease liabilities – IFRS 16 (note 17.2)	7.543	7.254
- provisions for employee benefits and litigation	124	104
- other liabilities	2.572	1.786
In foreign currency:		
- trade payables	34	25
- accrued expenses	42	20
- other liabilities	217	80
Total:	**14.972**	**12.647**

Movements in provisions for employee benefits and litigation

	Employee benefits	Potential liabilities for litigation	Total
Balance as at 31 December 2020	**47**	**68**	**115**
Allocation during the year	-	3	3
Reversal of provisions	(11)	(3)	(14)
Balance as at 31 December 2021	**36**	**68**	**104**
Allocation during the year	8	80	88
Reversal of provisions	(7)	(61)	(68)
Balance as at 31 December 2022	**37**	**87**	**124**

23. EQUITY

Share capital

The share capital of the Bank was formed from the initial investments of shareholders and the subsequent capital increase. The Bank's share capital as at 31 December 2022 amounts to BAM 51.141 thousand (as at 31 December 2021: BAM 51.141 thousand), and was comprised of 511.410 common shares with nominal value of BAM 100 per share.
According to the statement of the Central Registry of Securities of the Republic of Srpska, the equity structure as at 31 December 2022 was as follows:

	Number of shares	**In thousands of BAM**	**%**
MKD Mikrofin d.o.o., Banja Luka	404.981	40.498	79,19
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57
KfW, Germany	47.259	4.726	9,24
	511.410	**51.141**	**100,00**

As at 31 December 2021, the structure of the Bank's share capital was as follows:

	Number of shares	**In BAM thousand**	**%**
MKD Mikrofin d.o.o., Banja Luka	404.981	40.498	79,19
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57
KfW, Germany	47.259	4.726	9,24
	511.410	51.141	100,00

Equity reserves

	31 December 2022	**31 December 2021**
Statutory reserves	1.444	1.013
Revaluation reserves based on value changes in securities	949	777
Revaluation reserves based on provisions / expected credit losses based on securities – IFRS 9	48	50
	2.441	**1.840**

Equity reserves in the amount of BAM 1.444 thousand (31 December 2021: BAM 1.013 thousand) incurred from allocation of profit. During 2022, based on the Supervisory Board's Decision no. NO-107/2022 dated 28 April 2022 and the Decision of the Bank's Assembly no. SK -7/2022 dated 20 June 2022, a total of BAM 431 thousand was allocated to legal reserves.

24. EARNINGS PER SHARE

(In BAM thousand)

	31 December 2022	**31 December 2021**
Net profit of the period	11.315	8.611
Weighted average number of shares	511.410	511.410
Basic earnings per share (in BAM)	22,13	16,84

Given the fact that the Bank has no potentially diluting ordinary shares such as convertible debt and share options, diluted and basic earnings per share are identical.

25. CONTINGENT LIABILITIES AND COMMITMENTS

a) Payment guarantees, contract execution guarantees, and other irrevocable commitments

	31 December 2022	31 December 2021
Payment guarantees	16.480	9.004
Contract execution guarantees	49.104	36.505
Irrevocable commitments for undrawn loans	38.539	33.887
Unused overdrafts on accounts and credit cards	12.229	8.149
Total	**116.352**	**87.545**
Allowance	(948)	(654)
Total	**115.404**	**86.891**

b) Litigation

As at 31 December 2022, the Bank has initiated 2.046 litigation. The total amount of the portfolio received in the Legal Affairs and Restructuring Sector as at 31 December 2022 is BAM 29.066 thousand (31 December 2021: BAM 25.792 thousand).

As at 31 December 2022, there were 16 litigations initiated against the Bank. Considering the nature of litigation, the Committee for assessing the risk of loss in litigation against the Bank determines that the Bank's estimated success in all these disputes is over 50%, and in accordance with the Procedure for assessing the Bank's performance and determining provisions in proceedings against MF Banka a.d. Banja Luka proposed to reserve litigation provisions in the amount of BAM 87 thousand, which was confirmed by the Decision of the Management (provisions for litigation as at 31 December 2021 amount to BAM 67 thousand).

c) Compliance with legal regulations

The Bank is obligated to reconcile the scope of its business operations with the legally prescribed ratios, that is to maintain the scope and structure of its investments in compliance with the accounting standards and regulations of the Republic of Srpska, established by the Banking Agency of the Republic of Srpska.

As at 31 December 2022, the Bank, regarding all indicators, was in compliance with the accounting standards and regulations of the Republic of Srpska established by the Banking Agency of the Republic of Srpska.

26. TRANSACTIONS WITH RELATED PARTIES

(In BAM thousand)

Statement of financial position	**31 December 2022**	**31 December 2021**
Assets:		
Receivables based on placed loans:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	-	3.000
- Drvex d.o.o., Laktaši	144	266
- Management, Management Board and Supervisory Board	998	990
- Other related parties	1.074	441
Other prepaid expenses		
- Mikrofin osiguranje a.d., Banja Luka	143	120
- MF Software d.o.o., Banja Luka	22	209
Receivables for accrued interest		
- Drvex d.o.o., Laktaši	1	1
- MKD Mikrofin d.o.o., Banja Luka (parent company)	1	-
- Other related parties	5	5
Given advances:		
- MF Software d.o.o., Banja Luka	82	71
Assets, total	**2.470**	**5.103**
Liabilities based on deposits:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	18.687	12.718
- MF grupa d.o.o. Banja Luka	1.393	-
- MF Software d.o.o., Banja Luka	146	192
- Mikrofin osiguranje a.d., Banja Luka	4.952	5.551
- Citizens' Association Mikrofin	864	455
- Drvex d.o.o., Laktaši	211	371
- Vilux d.o.o., Banja Luka	92	53
- Management, Management Board and Supervisory Board	1.173	1.503
- Other related parties	2.770	3.398
	30.288	24.241
Other liabilities:		
- MF Software d.o.o., Banja Luka	4	2
- Drvex d.o.o., Laktaši	18	-
- Mikrofin osiguranje a.d., Banja Luka	4	3
	26	5
Interest liabilities:		
- Other related parties	51	86
	51	86
Liabilities, total	**30.365**	**24.332**
Liabilities, net	**(27.895)**	**(19.229)**
Off-balance	**116**	**216**

26. TRANSACTIONS WITH RELATED PARTIES (continued)

	(In BAM thousand)	
Statement of profit or loss	**31 December 2022**	**31 December 2021**
Income		
Fee income from related parties:		
- MKD Mikrofin d.o.o., Banja Luka	245	667
- Mikrofin osiguranje a.d., Banja Luka	19	17
- MF SOFTWARE d.o.o., Banja Luka	1	1
- Vilux doo	1	-
- Drvex d.o.o., Laktaši	13	8
- MF grupa d.o.o., Banja Luka	1	-
- Management, Management Board and Supervisory Board	5	9
- Other related parties	10	9
Rental income		
- MKD Mikrofin d.o.o., Banja Luka	518	523
- MF SOFTWARE d.o.o., Banja Luka	79	79
- MF grupa d.o.o., Banja Luka	8	-
Interest income		
- Drvex d.o.o., Laktaši	6	11
- MKD Mikrofin d.o.o., Banja Luka	2	1
- Management, Management Board and Supervisory Board	37	39
- Other related parties	34	28
Income, total	**979**	**1.392**
Expenses		
Lease expenses		
- MKD Mikrofin d.o.o., Banja Luka	(29)	(29)
- Drvex d.o.o. Laktaši	(39)	(39)
- Mikrofin osiguranje a.d., Banja Luka	(85)	(64)
- MF SOFTWARE d.o.o., Banja Luka	(257)	(239)
Other expenses		
- MF SOFTWARE d.o.o., Banja Luka - license	(222)	(154)
- MF SOFTWARE d.o.o., Banja Luka - OS	(516)	(188)
- Mikrofin osiguranje a.d., Banja Luka - osiguranje	(82)	(80)
- Mikrofin osiguranje a.d., Banja Luka – Other	(338)	(260)
- Drveks doo Laktaši	(18)	-
- Vilux doo Banja Luka	(50)	-
- Other related parties	(6)	-
Interest expenses:		
- Mikrofin osiguranje a.d., Banja Luka	(40)	(58)
- Citizens' Association Mikrofin, Banja Luka	(3)	(4)
- Management, Management Board and Supervisory Board	(12)	(22)
- Other related parties	(46)	(56)
- Expenses based on remuneration of Management, Management Board and Supervisory Board	(1.858)	(1.493)
Expenses, total	**(3.601)**	**(2.686)**
Expenses, net	**(2.622)**	**(1.294)**

27. TAX RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several laws regulating various taxes as imposed by authorized bodies. The applicable taxes include value added tax, income tax and wage (social) taxes, among others. Additionally, the laws regulating these taxes were not enforced for a substantial period of time, in contrast to similar legislation in more developed market economies, while the regulations defining the implementation of these laws are often unclear on non-existent. Consequently, with regards to tax issues, there is a limited number of cases that can be used as examples. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, which can lead to uncertainties and conflicts of interest. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by several authorities that are legally enabled to impose extremely severe fines and default interest.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be determined with additional tax amounts, penalties and interest. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. These facts cause the tax risk in the Republic of Srpska and Bosnia and Herzegovina to be substantially more significant than those typically existing in countries with more developed tax systems.

At the reporting date of the financial statements, a control by the Indirect Tax Administration in underway. It is not possible to assess the potential effects with certainty, but the Bank does not expect materially significant additional obligations.

28. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE BANK'S OPERATIONS

During 2021, the Bank was under a certain influence of the global economic and financial crisis caused by COVID-19 as well as a significant decline in economic activity in BiH, which was further aggravated during 2022 by the outbreak of conflict in Ukraine. Events during 2020 reflected on 2021 and further on 2022 with even stronger intensity.

With the World Health Organization declaring the COVID-19 pandemic in March 2020, which affected the whole world, not only a great health crisis arose, but there were huge changes in the global economy and the economies of individual countries. The ordered measures of isolation and social distancing resulted in reducing the scope and, in certain cases, the complete cessation of economic activity of certain activities. During 2022, caused by the events related to the outbreak of conflict in Ukraine, there will be further economic deterioration at all levels, especially the economic effects of sanctions and the intense growth of the inflation rate in the USA, EU and developing countries.

During 2020 and 2022, the Government of the Republic of Srpska and the entity banking agencies undertook comprehensive fiscal and monetary policy measures with the aim of reducing negative effects. In order to support the financial and real sector of the Republic of Srpska, the Banking Agency of the Republic of Srpska has contributed to the preservation of credit activities and the reduction of negative effects caused by the pandemic and negative effects caused by the consequences of the conflict in Ukraine, especially related to the increase in interest rates due to the rise in EURIBOR. EURIBOR reached a positive value in June 2022 and continued to grow during 2022, following the growth of key ECB interest rates and market expectations.

In order to suppress inflation, the European Central Bank raised its key interest rates several times in 2022. This kind of monetary policy is expected to continue in 2023 with the aim of further suppressing inflation. According to the IMF, Bosnia and Herzegovina ended 2022 with a real GDP growth rate of 2,45%, and according to the latest projection for 2023, real GDP growth is projected at a rate of 2,0%.

Despite significant credit activities during 2020, which continued during 2021 and escalated during 2022, the Bank had no liquidity problems.

So far, the current financial crisis has had a limited impact on the Bank's financial position and performance, primarily due to its internal risk management policies and regulatory constraints. The Bank has taken several timely measures to prevent deterioration of risks, such as:

- revision of credit approval policies and procedures, credit risk assessment, and risk management.
- adjusting the offer of products and services to the needs of clients and the structure of available sources.
- approving loan restructuring in order to adjust payments to the client's real sources.
- revaluation of collateral during loan re-approval and restructuring.

In addition, in October 2022, the Bank projected an increase in reference interest rates and based on this, analyzed its impact on credit risk, and for individual lots where a significant increase in interest rates was identified (200 basis points). Based on the analysis, the Bank adopted the Credit and Interest Risk Management Plan of MF banka a.d. Banja Luka, in accordance with which it defined measures whose purpose is to mitigate credit risk induced by interest rate risk.

The Bank carefully and on a regular basis monitors credit risk, liquidity risk, interest rate and foreign exchange risk. It is expected that the Bank's liquidity in the future will be at a satisfactory level.

The domestic economic situation and worldwide is likely to affect the position of certain industries, as well as the ability of some clients to service their credit obligations, which may affect the Bank's provisions for impairment losses after 31 December 2020 and then other areas in which the Bank's management is expected to make estimates, including the valuation of collateral and securities. The financial statements of the Bank contain significant accounting estimates relating to impairment losses, an estimate of the value of assets. After 31 December 2022, the Bank will continue to concentrate on managing its financial portfolio in line with changes in the business environment.

29. FINANCIAL INSTRUMENTS

29.1. Financial risk management

The Bank is exposed to various types of financial risks based on its activities which include, among others, analyzing, assessing, assuming a certain level of risk or combination of risks, as well as managing these risks. Assumption of risks is inherent in financial business, while operational risks accompany any business. The Bank aims to strike a balance between risks assumed and return on its investments, and to minimize potential adverse effects of these risks on the Bank's financial result.

The Bank's risk management policies are used to identify and analyze these risks, to establish adequate limitations and controls, to review risks and to observe the limitations set by the reliable and updated information systems. The Bank regularly reexamines its risk management policies and systems, making sure that these respond to the changes on the market, changes of products and new best practices.

The Bank has established the risk management system in order to be able to identify, estimate and monitor risks it is exposed to in its operations in a timely manner.
The organizational structure of risk management in the Bank is set up in accordance with the Law on Banks of the Republic of Srpska and effective decisions by BARS.

Supervisory Board

The Bank's Supervisory Board is responsible for defining the Bank's overall risk management strategy and capital management strategy as well as risk management policy as well as supervision of risks assumed by the Bank in its activities.
The Supervisory Board adopts the program, policies and procedures for risk identification, measurement assessment and management. The Supervisory Board is to ensure full compliance of the Bank's activities with the defined strategy and adopted policies and procedures.

The Supervisory Board is also in charge of high exposure risks (whether it is an individual client or a group of related parties), and decides on approving all requests for risky products of the Bank (on the recommendation of the Bank's credit committee) of all exposures (at the client or group of related parties level) for amounts over BAM 5.500 thousand, unless the applicant is a person in a special relationship with the Bank, and the Bank's exposure to that person does not exceed BAM 100 thousand for a natural person, or BAM 250 thousand for a legal entity, or these limits are for certain persons in a special relationship, by decision of the Supervisory Board of the Bank and higher, then these exposures are approved by the Bank's Credit Committee, and in case the total exposure of the group of related parties is greater than 5.500.000, up to the limit of large exposure of the Bank.

Management Board of the Board

The Management Board of the Bank is responsible to create, develop and timely submit to the Supervisory Board proposals for the adoption of programs, policies and procedures for the identification, measurement and assessment of risks, as well as risk management.
The Management Board is also responsible for implementation of the defined risk management strategy and capital management strategy as well as the Bank's risk management policies.
The Management Board oversees the work of all lower management levels within the Bank and controls the implementation of the adopted policies and procedures. The Management Board monitors the trends and analyzes risk management at least quarterly and regularly informs the Supervisory Board on these matters. In instances where certain activities are not defined by the strategy or policy, the Bank's Management Board is obligated to notify the Supervisory Board.
The Bank's Management Board appoints and dismisses the members of the Bank's Credit Committee.

Credit Committee of the Bank

Within the established credit policy of the Bank, the obligation of the Bank's Credit Committee is to make decisions on investments over BAM 750 thousand up to BAM 5.500 BAM of the total exposure of the client / group of related parties to the Bank, and for claims of parties in a special relationship with the bank, if this exposure of the Bank to that party does not exceed BAM 100 thousand for a natural person, or BAM 250 thousand for a legal entity, or these limits for certain parties are in a special relationship, by decision of the Bank's Supervisory Board and higher, then these exposures are approved by the Bank's Credit Committee, and in case that the total exposure of the group of related parties exceeds BAM 5.500 thousand, up to the maximum of the limit which represents a high exposure of the bank.
The decision on investments below the amounts that are within the competence of the Bank's Credit Committee is the responsibility of the Market Sector Credit Committee, the Credit Committee of the region or the Branch Credit Committee.

29. FINANCIAL INSTRUMENTS (continued)

29.1. Financial risk management (continued)

Credit Risk Assessment Division

The role of the Credit Risk Assessment Division is to identify, measure, assess and manage the risks that the Bank has undertaken in its regular operations. The obligation of the Credit Risk Assessment Division is to provide a written opinion for total exposures for individuals greater than BAM 20 thousand or over BAM 30 thousand of total exposures for legal entities. The opinion of the Credit Risk Assessment Division is an integral part of the loan proposal, precisely the case that is considered by the Credit Committee.

As a member of the Bank's Credit Committee and member of the Management Board, the Head of the Credit Risk Assessment Division is responsible for risk management and has the right to veto decisions on investments considered by the Bank's Credit Committee.

Risk Management and Control Department

The Risk Management and Control Department provides an opinion on new credit products as well as other areas that generate potential risk.
In addition to regular monthly reports, the Risk Management and Control Department prepares detailed analyzes of the quality of credit exposure and collateral coverage, which will enable a better understanding, acceptance and mitigation of credit risk.

Treasury and Transaction Department

The Treasury and Transaction Department accomplishes its liquidity management role through the following activities:

- planning the inflow and outflow of cash on a daily basis,
- monitoring of business changes and balance of funds in the reserve account with the CBBH, in the accounts with correspondent banks abroad and in the country, as well as in cash in local and foreign currency in the treasury and in the cashiers of the Bank,
- obtaining missing funds or placing excess liquid assets in the financial markets,
- monitors large individual outflows / inflows of depositors' funds, monitors loan disbursements, all with the aim of maintaining foreign currency position, maturity structure and fulfillment of all due obligations on time,
- analysis of the structure and maturity of deposits by undertaking the activities of re-arranging the maturity of the matured deposits,
- maintains and allocates statutory reserve requirements as a minimum amount of funds allocated to the reserve account with the CBBH,
- prepares daily, monthly and six-month liquidity plans as a method of estimating future liquidity,
- internal and external reporting on liquidity developments.

Asset and Liability Management Committee (ALCO)

The principal function of the Bank's Asset and Liability Management Committee (ALCO) is to identify, measure, and manage risks inherent in the Bank's balance and off-balance sheet items, primarily liquidity and interest rate risks by setting adequate risk limits and measures for elimination of adverse risk impact on profitability.

Loan Management Committee

The principal role of the Loan Management Committee is to oversee the quality of the Bank's assets, credit risk monitoring process and its efficiency, monitor collection processes within the Legal Affairs and Restructuring Sector, and monitor the realization of these processes in conformity with the business goals of the Bank. The Committee's task is monitoring the credit process in all its phases, and in the event that a bottleneck is identified, prepare a proposal to the Management Board of the Bank for definition of measures, actions and responsibilities to eliminate such situations. In addition, its role is to coordinate and strategically direct the processes and activities among all the business functions of the Bank involved in the credit process in order to optimize the process in all its phases and achieve the targeted goals and amounts, along with the regular control related to such processes. This Committee is also competent to proposals for improvement of the loan portfolio quality.

29. FINANCIAL INSTRUMENTS (continued)

29.1. Financial risk management (continued)

Liquidity Committee

The Bank's Liquidity Committee, comprised of three members appointed by the Bank's Supervisory Board – a member of the Management Board, the Manager of the Treasury and Transactions Department and Manager of the Risk Management Department, has meetings at least once on a monthly basis. The Committee monitors and assesses daily liquidity based on the liquidity plan as of the certain date, submitted by the Treasury and Transactions Department on a daily basis to the members of the Committee and Management Board.
The Committee analyzes the liquidity plan and its realization on a monthly basis, proposes measures and defines tasks for liquidity maintenance so that the Bank can avoid the risk of adverse effects on its financial performance due to its inability to settle its current liabilities.

Risk Management Committee

The Risk Management Committee is composed of the Chairperson of the Bank's Management Board, members of the Bank's Management Board, the Head of the Risk Management and Control Department and Deputy Head of the Risk Management and Control Department. The Committee meets once a month. The Commission continuously and systematically monitors all risks to which the Bank is or may be exposed in its operations by monitoring compliance of the Bank with the Bank's Risk Management and Risk Management Strategy, the Bank's Risk Management Policy and the Bank's Risk Tendency Statement.

29.2. Risk management system and mitigation techniques

The most significant risks to which the Bank is exposed are credit risk, market risk, liquidity risk and operational risk.
In its business, the Bank inevitably encounters various risk types which can produce adverse effects to the Bank's business. Bank's risk management system is comprised with the risk management strategy and policy, internal organizational structure of the bank, effective and efficient process of managing all the risks to which Bank is exposed or could be exposed in its business, adequate internal control system and the appropriate information system as well as adequate internal control estimate on capital adequacy and internal control estimate on liquidity adequacy.

In order to ensure an effective risk management and considering the need of minimizing conflicts of interests between risk transfer, limitation of risk levels and controls, as well as audit of the risk management system, a comprehensive risk management system of the Bank is established, according to the principle „3 lines of defense". „First line of defense" has the aim to: identify, estimate, mitigate, monitor and control risk in accordance with the risk limits determined in the second line of defense. „Second line of defense" is aimed to compliance with the determined limitations and is not dependent on the first line of defense. "Third line of defense" has the aim to independently estimate the compliance of the risk management system with internal and external requests.

In its business, the Bank's uses mitigation techniques in order to reduce credit risk related to the exposure or exposures the Bank has, and which includes material and immaterial credit security.

Material credit security is a credit risk mitigation technique according to which the decrease of credit risk by Bank's exposure comes from the Bank's right to, in instances of the counterparty's inability for liabilities settlement, or other credit events related to the counterparty, capitalize or transfer to its entity or appropriate or keep certain assets or amounts, or to decrease the amount of exposure to the amount representing the difference between the exposure amount and credit security amount.

Immaterial credit security is a credit risk mitigation technique according to which the decrease of credit risk by Bank's exposure results from the third party's obligation for payment of a certain amount in instances of counterparty's inability for liabilities settlement or certain other credit events.

29. FINANCIAL INSTRUMENTS (continued)

29.3. Financial risks

In its operations, the Bank is particularly exposed to the following risks:

- Credit risk, including residual risk, risk of impairment of receivables, settlement/delivery risk, as well as counterparty risk;
- Concentration risk, which especially includes risks of exposure to one person or a group of related persons;
- Liquidity risk;
- Market risks (interest rate risk, foreign exchange risk and others);
- Operational risk;
- Bank's investment risk;
- Strategic risk;
- Risk of compliance of the bank's operations;
- The risk of money laundering and terrorist financing.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk

Allowance for receivables (IFRS 9 application – Financial instruments)

The application of IFRS 9 began on 1 January 2018 and since then the Bank has defined strategies, policies and procedures related to the Bank's business models, which are evidence for formally documenting existing business models, defining new ones and adapting them to IFRS 9.

The Methodology in accordance with IFRS 9 implies the following:

- Concept of measurement of expected losses - measurement of expected loss under IFRS 9 implies a transition from recognition of incurred losses to an area of expected losses, whereby different scenarios must be considered for the expected loss.
- Probably weighted scenarios for calculating the expected loss - means that in the stages of an individual estimate of the expected loss, it must be incorporated by the probability weighted scenario, which is calculated in two scenarios with the appropriate probability. For each exposure there is some (even marginally small) likelihood of loss.
- Necessary adequate parameter risk modeling (EAD – exposure at default, PD - probability of default, LGD - loss given default, CCF - credit conversion factor) - IFRS 9 additionally requires more precise parameters for calculating expected losses considering PIT (point-in time) parameters, in contrast to currently defined IAS 39 (TTC – through the cycle).
- Necessary modeling of macroeconomic expectations - when determining the risk of parameters, it is necessary to consider how macroeconomic variables influence the movement of the parameters of the Bank.
- Criteria for transition to phases - IFRS 9 considers that in the part of the incoming portfolio there is also a stage 2, that is, the phase in which exposures with increased credit risk are classified from the moment of approval to the moment of reporting, it is necessary for the Bank to define the criteria on the basis of which it will be recognized exposure with increased credit risk in all segments of the depreciated value of financial instruments.
- Calculation of interest income on non-quality assets - the only source of interest income on non-quality assets is the so-called unwinding.
- POCI financial assets (purchased or originated credit-impaired financial assets) - a new category of assets is defined for which there is a specific set of rules, that is, assets that are in the process of approval or purchase already bearing the mark of impairment, for which there is already an individual expectation of impairment.

Allowance according to IFRS 9 is created for financial assets within the scope of the standard that is classified in the respective business models and areas 1 of the standard.

According to the requests of the IFRS 9 and the BARS Decision on credit risk management and determination of expected credit losses, the Bank, according to the reasonable expense and effort, estimates at which point of economic cycle it is currently in, regarding its exposure, and how macroeconomic changes, that is, future information may impact the expected loss. Macroeconomic indicators may affect differently the risk parameters upon calculation of twelve-month and multi-year losses but considering that the formula for allowance for impairment is a product of risk factors/parameters, with adjusting one risk parameter (PD) allowance for impairment will be adjusted for any expected future information.

Material threshold is used for the purpose of calculation of days delay in payment, which refers to the amount higher than:

- for individuals greater than BAM 200 and 1% of the debtor's total balance exposures,
- for legal entities greater than BAM 1.000 BAM and 1% of the debtor's total balance exposures.

A financial asset or a group of financial assets is considered impaired and impairment losses incurred, only if there is an objective proof of the impairment resulting in one or more previous events occurred after the initial recognition of the asset (a „loss event“) and the loss event (or events) have an impact on the future estimated cash flows of the financial asset or group of financial assets, which can be reliably estimated.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk

Allowance for receivables (IFRS 9 application – Financial instruments) (continued)

First, the Bank estimates whether there is an objective proof of impairment individually for financial assets considered individually significant, and individually or collectively for financial assets not considered as financially significant. Non-significant individual exposures would be estimated individually when a specific risk related to the client/transaction (industry concentration, default status, rating category, credit type, customers risk bearing ability etc.) is defined. Objective evidence of an impairment of financial asset or group of assets includes evident information brought to Bank's attention relating to the loss events described below:

- The debtor is more than 90 days late in repaying due obligations in a material amount.
- The Bank considers it unlikely that the debtor will fully settle its obligation to it, regardless of the possibility of collection based on the activation of the security instrument (Unlikeliness to pay – „UTP"), especially appreciating the following elements:
  - if there is objective evidence that an impairment loss has occurred,
  - if the debtor is facing significant financial difficulties,
  - if the bank sold another exposure of the same debtor with a significant economic loss,
  - if the bank has agreed to modify the exposure due to the debtor's current financial difficulties or imminent difficulties, which will result in a reduction in the debtor's financial liability due to a significant write-off or delay in payment of principal, interest or, if applicable, fees. In doing so, the Bank considers whether the modification of the exposure, which was not assigned to credit risk level 3 at the time of the modification, resulted in a reduction of the debtor's financial obligation due to a significant write-off or delay in the payment of principal, interest or fees, and if it determines that this reduction is greater than 1%, the default status is considered to have occurred. Additionally, the Bank considers whether there are other indications that it is certain that the debtor will not settle the obligations towards the Bank in full, and in case it is certain that the debtor will not settle the obligations towards the Bank in full, including the following;
  - a large one-time payment at the end of the period provided for in the repayment plan,
  - a repayment plan in which significantly lower payment amounts are foreseen at the beginning,
  - a longer grace period, taking into account the purpose of the loan,
  - exposures to the debtor have been restructured several times compared to the initial exposure.
  - if the liquidation or bankruptcy of the debtor has been initiated,
  - if the debtor has not fulfilled his obligation to the bank no later than 60 days from the day when the protest was made on the basis of the previously issued guarantee.

Based on the default status, and individual exposure significance, the Bank distinguishes different approaches to the impairment measurement (individual or portfolio estimate). For all materially significant clients for which the Bank determines there is objective proof of impairment, that is, that they are in the default status, they have specific provisions or are classified as POCI assets, the Bank will conduct an individual estimate on impairment.

Accordingly, in determining the allowance in accordance with IFRS 9, the Bank distinguishes between two approaches:

- Individual (separate) allowance– This type of allowance is calculated on an already stated exposures which are simultaneously individually materially significant (their exposure exceeds the individually defined significant limit) and which have objective proof of impairment, and
- Portfolio (group-level) allowance– This type of allowance is calculated on all of the Bank's exposures for which there is no evidence of impaired receivables.

At each last day of the month, the Bank will determine both types of allowance. The internal methodology of the Bank defines the criteria for allocation per stages for legal entities and individuals.

Calculation of allowance and provisions for losses, per individual materially significant exposures which have an identified objective proof of impairment, is conducted through the individual allowance. Individual allowance implies an estimate of expected credit losses and analysis of the expected future cash flows in several different scenarios of collections with certain probabilities for those scenarios and calculation of their present value. Individual allowance is calculated as a difference between the total client's balance exposure per loan (matured principal, non-matured principal, interest) and sum of net present value of estimated future cash flows (from regular repayment and activated security instruments) of the loan. For each individual transaction future cash flows are to be individually determined, separately for the principal and separately for the interest.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk

Allowance for receivables (IFRS 9 application – Financial instruments) (continued)

All investments to clients categorized by defined criteria for portfolio (group-level) allowance for impairment are further categorized into appropriate homogenous groups (HG). Basic criteria for grouping are the segments, whereby the largest, MSME segment, is divided in credit product groups: MSME-Loans for current assets, MSME-Loans for non-current assets and investments, MSME-Loans for entrepreneurs for all purposes, MSME-Transferred loans and MSME-Others. Due to specific characteristics of the "Overdraft", exposures related to this product are separated into specific homogenous group at the Bank's portfolio level (regardless of the segment). Allowance for defined homogenous group will be formed through application. Every homogenous group will be monitored in regards of its movement, that is, migration of exposures from creditworthiness groups into a certain status according to the number of days delay in payment

Impairment measurement on group-level basis requests an estimate of the parameters on statistic basis with adjustments for future information. Risk parameters PD and LGD will be calculated for each homogenous group for the whole lifecycle, that is, with the highest maturity for the certain homogenous groups with the use of historic data and adjustments for expected future losses.

The Bank calculates the PD parameter for exposures with balance sheets and without balance sheets with the help of transition matrices based on the following algorithm: Migrations are observed in such a way that they follow annual movements with shifts on a monthly level (e.g. 31.03.2019, 31.03.2020, 30.04.2019, 31.05. 2019 -31.05.2020). For each pair of consecutive months, all migrations are summarized in an NxN frequency table, where N indicates the number of rating classes, which is a total of 10. For the first 9 ratings, migrations to rating 10, which represents the default status, are monitored. The LGD parameter is an expertly determined assessment in accordance with the available loss history, but taking into account the possible loss with the probability of such a scenario when determining the percentage of that risk parameter. For exposures in the form of loans, the LGD parameter is determined through the so-called work-out assessment method, which is based on the analysis of historical cases of the collection process after the occurrence of default status. In each such case, the associated series of cash flows that occur during the collection process (e.g. inflows based on debtor payments, collection from debtor's funds from collateral related to the exposure, regardless of whether the collateral is considered acceptable, as well as outflows related to internal and external direct costs of the collection process itself) are discounted with the weighted effective interest rate at the portfolio level (a period of one year), in order to obtain the present value of the collection after the occurrence of default status.

The methodology defines the types of collateral and parameters related to collateral that are used when calculating allowance on an individual and portfolio (group-level) basis. By applying the defined parameters by individual types of collateral for the purpose of calculating individual allowance on individually materially significant exposures provided by these types of collateral, the expected cash flow is reduced by discounting to present value.

The Bank assumes credit risk which relates to potential negative effects on the financial result of the Bank contingent on the failure of debtors to meet their liabilities towards the Bank. Credit risk is the most significant risk for the Bank's business operations, and the Bank manages its risk exposure being aware of its importance. The credit risk exposure occurs primarily based on crediting activities, that is in loan origination activity. Credit risk is also present in off-balance sheet financial instruments such as guarantees and undrawn credit lines.

Credit risk implies the risk of negative effects on the Bank's financial result and capital as a result of the debtor's inability to settle its matured liabilities to the Bank. Credit risk comprises of the following:

- Default risk - the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- Downgrade risk - the risk of loss of the Bank that may arise if a risk level of a debtor is downgraded (deterioration of the customer's credit rating) on the line items of assets that are recorded in the credit portfolio;
- Risk of change in the value of assets - the risk of loss of the Bank that may arise on items of assets that are recorded in the credit portfolio in the event of a decline in their market value compared to the price at which assets were acquired;
- Exposure risks - risks that can arise from the Bank's exposure toward a single entity, a group of related entities or Bank's related parties.

The Bank manages credit risk by implementing the crediting strategy focused on entrepreneurs and micro, small and medium enterprises (MSME) and risk dispersion.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk

The Bank manages credit risk by approving standardized credit products in accordance with its crediting policy. Those products and their basic characteristics in terms of amount, maturity, interest rate, fee and obligatory collateral are defined in the bank's Credit Product Catalogue. The risk management and control department, as a risk management control function, is involved in the definition of credit products and their evaluation from the point of view of risk assessment (gives an opinion on all changes to the Catalog of credit products). The decision-making levels, defined by the Rules of Procedure of the Credit Committees, are responsible for making decisions in cases of approval of standard products and under standard conditions, and any deviation from the defined standards requires decision-making at a higher level.

The Bank's Credit Manual, Rulebook on Documenting Credit Activities and Credit Documentation Disposal/Safekeeping, as well as Instruction Guide for Credit Analysis, clearly define the manner of processing risky products, documentation required for individual market segments, steps of the crediting process and organizational units and individual operators responsible for their implementation. The documentation prescribes all the forms used in loan processing and monitoring and the manner and forms for credit analyses for assessment of credit worthiness depending on the market sub-segment they belong to (Retail, MSME, COR and PUB). The Bank approves loans in accordance with the defined procedure for loan approval based on the assessed credit worthiness of the borrowers and collaterals. Loan decisions are made based on the defined limits for individual exposures and total exposures per single entity or a group of related entities. There are five levels of authority within the Bank for loan approval, the highest of which is the Bank's Supervisory Board and the lowest personal responsibility of the Branch credit committees. Processing of loan requests for MSME and Retail segments is decentralized and performed by the Bank's branches. Processing of loan requests from the receipt of up to the loan disbursement is performed through the application module adjusted to the requirements of the Front Office.

The Instruction for collection and management of overdue uncollected liabilities, as well as the Monitoring Policy, define the manner of monitoring and monitoring of existing investments as well as competencies and responsibilities for the implementation of collection activities. With the stated instruction, the Bank has defined the manner of conducting daily and monthly monitoring of collection, within which certain steps of managing problematic placements are being implemented.

In order to ensure quality, systematic and orderly management of loan portfolio in default, the Bank's internal procedures prescribe the following two documents: "Irregular Repayment File" and "Collection Strategies." The "Irregular Repayment File" represents a report providing a summary of activities already undertaken and performed in respect of loans with repayment over 30 days past due and is maintained until the loan repayment is settled in full. Loan Officers are obligated to maintain the irregular repayment files and chronologically record all activities undertaken in order to collect the receivables. The maintenance of this form is supported by the software within the credit module used by the Front Office. "Collection Strategies„ is a report presenting a dynamic overview of activities that will be undertaken in order to collect receivables, that is, the agreed upon collection strategy.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Impairment losses and provision policy

The Bank estimates the risk of potential losses due to deterioration of the debtor's credit rating. Credit risk implies the risk that debtors won't be able to settle their liabilities when due, whether there be little probability borrowers settling the liabilities from their primary sources or the repayment be over 90 days past due.

Impaired loans are those loans where objective evidence of impairment has been determined. Objective evidence of impairment includes events causing measurable decrease in the estimated future cash flows.

Individually impaired assets are those assets which were assessed for impairment on an individual level and for which the assessed impairment losses have been recognized. The amount of impairment loss is determined as the difference between the carrying value and the present value of the future cash flows.

The calculated amount of the impairment of balance sheet assets is charged to expenses and credited to the impairment allowance of those assets, while the calculated amount of the probable loss per off-balance sheet assets is charged to expenses and credited to the provisions for potential losses per off-balance sheet items.

Group-level assessment for impairment is performed for loans that are not individually significant.

For the purpose of group-level assessment, loans are classified into homogenous groups in aspect of credit risk in accordance with the Bank's internal methodology for calculation of allowance.

Expected future cash flows for homogenous loan groups are determined based on the available historical data, mostly data on default in liability settlement, and cash flows that will certainly result from collateral foreclosure are also considered.

Collateral

In accordance with standard principles of loan business, the Bank requires collateral in terms of investment security which should cover the risk of the client not being capable to settle contractual obligations.
The Bank most commonly uses the following collaterals as security:

- Bills of exchange,
- Orders,
- Statement of confiscation (administrative interdiction),
- Solidary debtor,
- Solidary guarantor/guarantor rewarder,
- Pledge on real estate-mortgage,
- Pledge on movables
- Pledge on securities,
- cash pledge (deposit / savings deposit),
- Insurance policy,
- Guarantees of the Guarantee Fond RS,
- Guarantees of the COVID-19 Guarantee Fond.

The Bank reserves the right to demand any other type of collateral it deems necessary.

Non-performing exposures

Non-performing exposures include exposures in default status, that is, exposures that are allocated to the stage and exposures that are measured at fair value through the statement of profit or loss, and that meet the condition for assignment to stage 3.

The Bank classifies clients in accordance with the Internal Methodology for calculating allowance and classifies clients according to the BARS Decision on credit risk management and determination of expected credit losses. According to the BARS Decision, all clients are classified into three credit risk: Stage1, Stage 2 and Stage 3.

The management of non-performing loans is centralized and organized through the work of the specific Legal Affairs and Restructuring Sector, which is responsible for the reprogramming and restructuring of all investments.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

In the Instruction on collection and management of non-performing loans, the Bank has clearly prescribed the tasks of taking over, monitoring and collecting all non-performing loans for all market segments.

The client should be transferred to the competence of the Loan Restructuring Service when one of the following conditions is met:

1. Exposures that receive the default status on the last day of the month;
2. All types of guarantees where the Bank has made a payment and the due obligation has not been settled within 60 days from the payment date of the Bank under the guarantee.
3. All active exposures that are classified in the last classification in the stage 3 - exposures in default status.

Clients meeting the above listed criteria are transferred to the Loan Restructuring Service assuming that it is possible to enable sustainable debt repayment through restructuring options / measures and thus avoid forced collection through the courts.

The transfer to the Credit Restructuring Service is done after the regular monthly classification of exposures by the Risk Management Department. The market sector generates a decision containing a list of all exposures that met the specified transfer conditions on the last day of the previous month. The decision on transfer to the Restructuring Service should be made in one copy and signed by one member of the Bank's Management Board, and the scanned list should be submitted electronically to the Loan Restructuring Service and branches whose branches are subject to transfer. Based on this list, items from the Market Sector to the Restructuring Service are being transferred, as well as the assignment of the employee in the Restructuring Service for the listed items in the system. The appointment of the competent officer in the Restructuring Service is done automatically in the system.

Employees of the Restructuring Service are obliged to:
- act on the taken over cases as soon as possible,
- continue to review the activities and measures taken at specific parties, through updates in the front application.

Employees of the Restructuring Service have all measures at their disposal in order to solve the problem of delays, which include aggressive collection, rescheduling of existing debts, restructuring of liabilities, opening new debts to the debtor's head or other participants.

Returning the client from the competence of the Loan Restructuring Service to the competence of the Market Sector

When the debtor during the defined recovery period continuously:

- for restructured exposures and POCI assets within 12 months from the date of restructuring

- for non-restructured exposures within six months from the date when the conditions referred to in Article 20 ceased to be met, "Decisions on credit risk management and determination of expected credit losses" shall prove regular repayment on the last day of the month) are returned to the competence of the Market Sector. The grace period is not recognized (does not count) in the recovery period.

The return procedure is the same as the transfer / takeover procedure, only now it is performed in the opposite direction.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.1. Overview of credit exposure as at 31.12.2022

(In BAM thousand)

LOAN BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	345.229	354.150	369.381	361.054	349.907	356.042	380.548	388.462	389.752	388.925	395.867	402.907
Stage 2	83.678	83.009	84.176	94.904	103.770	107.562	92.091	90.063	97.916	101.099	94.847	95.531
Stage 3	26.597	27.534	28.909	30.422	29.424	29.276	29.333	28.439	29.172	28.247	28.669	29.016
Total	**455.504**	**464.694**	**482.465**	**486.380**	**483.101**	**492.880**	**501.972**	**506.965**	**516.840**	**518.271**	**519.383**	**527.454**

INTEREST BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	2.100	1.925	2.038	2.006	2.017	1.913	2.227	2.330	2.289	2.259	2.278	2.273
Stage 2	864	822	727	838	765	809	818	737	737	817	785	716
Stage 3	974	1.002	1.060	1.014	971	949	946	918	920	918	926	939
Total	**3.938**	**3.748**	**3.825**	**3.858**	**3.753**	**3.671**	**3.991**	**3.984**	**3.946**	**3.994**	**3.989**	**3.928**

TOTAL EXPOSURE WITHOUT SUSPENDED INTEREST

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	20.734	22.891	20.118	21.597	25.406	30.683	32.857	37.922	38.776	39.390	31.426	29.943
Stage 1	411.186	425.090	437.122	427.127	417.968	421.232	445.578	456.518	460.254	469.076	481.228	485.786
Stage 2	89.840	88.546	90.229	102.496	110.045	114.781	98.507	96.132	104.445	108.164	100.927	101.991
Stage 3	28.497	29.505	31.005	32.728	31.696	31.558	31.666	30.794	31.539	30.591	31.272	31.522
Total	**550.257**	**566.032**	**578.474**	**583.947**	**585.115**	**598.254**	**608.608**	**621.365**	**635.014**	**647.220**	**644.853**	**649.242**

TOTAL ALLOWANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	7.755	7.978	7.854	6.672	7.391	7.847	9.365	9.092	9.833	9.329	10.307	9.628
Stage 2	12.456	12.541	12.604	13.201	13.580	12.250	10.756	10.268	11.096	12.349	11.102	12.367
Stage 3	24.302	25.113	26.426	27.653	26.791	26.856	26.817	26.120	26.362	25.722	25.667	25.709
Total	**44.513**	**45.631**	**46.884**	**47.526**	**47.761**	**46.954**	**46.938**	**45.480**	**47.291**	**47.400**	**47.076**	**47.705**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.1. Overview of credit exposure as at 31.12.2021

LOAN BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	320.419	304.765	307.307	319.234	335.522	328.112	328.878	331.273	326.234	329.125	338.896	337.233
Stage 2	36.870	54.936	67.086	63.725	57.454	74.456	74.806	76.026	80.476	80.931	82.633	91.385
Stage 3	23.296	23.571	24.496	24.666	24.669	24.127	24.088	23.613	26.492	27.395	26.688	25.952
Total	**380.585**	**383.273**	**398.889**	**407.624**	**417.644**	**426.696**	**427.772**	**430.912**	**433.201**	**437.451**	**448.216**	**454.569**

INTEREST BALANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	2.358	2.171	2.280	2.353	2.507	2.245	2.218	2.278	2.095	2.170	2.102	2.011
Stage 2	478	643	668	652	604	713	824	817	806	776	780	767
Stage 3	749	757	790	802	817	827	841	812	929	976	964	936
Total	**3.585**	**3.570**	**3.738**	**3.808**	**3.929**	**3.785**	**3.883**	**3.907**	**3.830**	**3.923**	**3.848**	**3.714**

TOTAL EXPOSURE WITHOUT SUSPENDED INTEREST

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Other	14.473	15.813	15.703	17.350	17.738	18.210	20.166	21.683	21.227	20.123	21.829	22.367
Stage 1	373.938	351.924	351.565	364.397	382.522	382.836	386.333	389.938	387.145	382.926	392.815	397.610
Stage 2	41.324	64.677	78.119	75.146	65.810	82.384	84.350	85.646	89.487	87.236	88.798	99.125
Stage 3	25.000	25.279	26.275	26.481	26.485	25.940	25.950	25.464	28.318	29.236	28.800	27.776
Total	**454.735**	**457.692**	**471.662**	**483.374**	**492.555**	**509.370**	**516.799**	**522.731**	**526.178**	**519.520**	**532.242**	**546.879**

TOTAL ALLOWANCE

	31.Jan	28.Feb	31.Mar	30.Apr	31.May	30.Jun	31.Jul	31.Aug	30.Sep	31.Oct	30.Nov	31.Dec
Stage 1	10.672	10.132	10.307	10.667	11.102	9.594	9.534	9.155	8.372	8.056	8.301	7.678
Stage 2	7.254	7.942	8.472	8.646	8.376	10.556	10.757	11.773	11.165	11.168	11.759	13.607
Stage 3	20.940	21.141	21.675	22.145	22.346	22.058	22.273	21.962	23.931	24.692	24.501	23.882
Total	**38.867**	**39.217**	**40.456**	**41.460**	**41.826**	**42.211**	**42.566**	**42.892**	**43.470**	**43.919**	**44.564**	**45.167**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Total exposure without suspended interest as at 31.12.2022 and 31.12.2021

(In BAM thousand)

	Share in total exposure as at 31.12.2022									
	Total exposure	Loans due	%	Non-performing loans	%	Reprogrammed/ restructured loans	%	Interest	%	Advances
Public sector	963	0	0,00	1	0,07	0	0,00	0	0,00	0
Corporate	92.531	770	0,83	428	0,46	0	0,00	73	0,08	241
MSME	456.847	16.473	3,61	26.304	5,76	33.930	7,43	1.248	0,27	904
Retail	98.900	2.910	2,94	4.789	4,84	3.257	3,29	299	0,30	506
Total	**649.242**	**20.153**	**3,10**	**31.522**	**4,86**	**37.186**	**5,73**	**1.619**	**0,25**	**1.651**

	Share in total exposure as at 31.12.2021									
	Total exposure	Loans due	%	Non-performing loans	%	Reprogrammed/ restructured loans	%	Interest	%	Advances
Public sector	52	-	0,00%	-	0,11%	-	0,00%	-	0,00%	-
Corporate	71.982	807	1,12%	1.136	1,58%	685	0,95%	48	0,07%	31
MSME	388.522	16.352	4,21%	22.362	5,76%	18.429	4,74%	1.117	0,29%	731
Retail	86.322	2.820	3,27%	4.278	4,96%	2.492	2,89%	338	0,39%	587
Total	**546.879**	**19.979**	**3,65%**	**27.776**	**5,08%**	**21.605**	**3,95%**	**1.503**	**0,27%**	**1.349**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Total exposure without suspended interest as at 31.12.2022 and 31.12.2021 (continued)

The following table shows the changes in the gross carrying amount of loans to customers as at 31.12.2022:

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01 January 2022	**99.127**	**10.213**	**6.207**	**115.548**	**240.117**	**81.939**	**20.680**	**342.736**
Repaid	(31.863)	(2.790)	(2.379)	(37.032)	(121.740)	(39.716)	(7.291)	(168.747)
Transfer to Stage 1 (from 2 or 3)	2.075	(2.052)	(23)	-	16.067	(15.601)	(466)	-
Transfer to Stage 2 (from 1 or 3)	(5.021)	5.352	(331)	-	(16.652)	16.923	(271)	-
Transfer to Stage 3 (from 1 or 2)	(822)	(1.617)	2.439	-	(2.258)	(5.724)	7.982	-
New financial assets acquired or purchased	47.893	3.403	553	51.489	178.563	45.987	3.986	228.537
Total as at 31.12.2022	**111.389**	**12.509**	**6.467**	**130.365**	**294.098**	**83.808**	**24.620**	**402.526**

Gross book values include principal and interest. Unamortized deferred compensation is not included.

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01 January 2021	**91.289**	**6.519**	**6.688**	**104.496**	**239.169**	**26.178**	**17.951**	**283.298**
Transfer to Stage 1 (from 2 or 3)	1.013	(953)	(60)	-	5.899	(5.892)	(7)	-
Transfer to Stage 2 (from 1 or 3)	(4.339)	4.821	(482)	-	(25.036)	25.399	(363)	-
Transfer to Stage 3 (from 1 or 2)	(1.325)	(482)	1.807	-	(5.910)	(1.932)	7.842	-
New financial assets acquired or purchased	12.127	308	(1.746)	11.051	25.995	38.186	(4.743)	59.438
Total as at 31.12.2021	**99.127**	**10.213**	**6.207**	**115.548**	**240.117**	**81.939**	**20.680**	**342.736**

Gross book values include principal and interest. Unamortized deferred compensation is not included.

FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum credit risk exposure
The following table shows changes in impairment of loans to customers:

Impairment of loans to customers

	Retail loans				Corporate loans			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01 January 2022	**944**	**1.380**	**5.572**	**7.896**	**6.734**	**12.228**	**18.309**	**37.271**
Repaid	982	531	(2.154)	(641)	128	(3.749)	(5.959)	(9.580)
Transfer to Stage 1 (from 2 or 3)	43	(42)	(1)	-	550	(542)	(8)	-
Transfer to Stage 2 (from 1 or 3)	(528)	605	(77)	-	(2.735)	2.975	(240)	-
Transfer to Stage 3 (from 1 or 2)	(547)	(1.347)	1.894	-	(1.253)	(4.521)	5.774	-
New financial assets acquired or purchased	615	315	331	1.262	4.694	4.534	2.268	11.496
Total as at 31.12.2022	**1.509**	**1.443**	**5.565**	**8.517**	**8.119**	**10.925**	**20.144**	**39.188**

Impairment of loans to customers

	Retail loans				Corporate loans			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01 January 2021	**1.426**	**1.069**	**5.584**	**8.080**	**9.246**	**5.997**	**15.706**	**30.949**
Transfer to Stage 1 (from 2 or 3)	17	(15)	(2)	-	477	(477)	-	-
Transfer to Stage 2 (from 1 or 3)	(326)	636	(310)	-	(3.534)	3.748	(214)	-
Transfer to Stage 3 (from 1 or 2)	(975)	(330)	1.305	-	(4.724)	(1.432)	6.156	-
New financial assets acquired or purchased	802	20	(1.005)	(184)	5.269	4.391	(3.339)	6.321
Total as at 31.12.202o	**944**	**1.380**	**5.572**	**7.896**	**6.734**	**12.227**	**18.309**	**37.271**

The gross carrying amount of the financial assets below represents the Bank's maximum exposure to credit risk.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

The following table shows changes in the gross book value of loans to customers as at 31.12. 2022 (POCI shown separately):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 01.01.2022	**339.244**	**88.063**	**22.633**	**8.343**	**458.283**
Repaid	(153.603)	(41.400)	(8.555)	(2.338)	(205.896)
Transfer to Stage 1 (from 2 or 3)	18.142	(17.653)	(489)	-	-
Transfer to Stage 2 (from 1 to 3)	(21.673)	22.230	(557)	-	-
Transfer to Stage 3 (from 1 to 2)	(3.079)	(7.077)	10.156	-	-
New financial assets acquired or purchased	226.455	49.390	4.539	118	280.502
Total as at 31.12.2022	**405.486**	**93.553**	**27.727**	**6.123**	**532.890**

The following table shows changes in the impairment of loans to customers (POCI shown separately):

Impairment of loans to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 01.01.2022	**7.678**	**12.296**	**19.753**	**5.440**	**45.167**
Repaid	-1.111	-2.590	-6.904	-1.807	-.12.412
Transfer to Stage 1 (from 2 or 3)	593	(584)	(9)	-	-
Transfer to Stage 2 (from 1 to 3)	(3.263)	3.544	(281)	-	-
Transfer to Stage 3 (from 1 to 2)	(1.799)	(5.637)	7.436	-	-
New financial assets acquired or purchased	7.530	4.850	2.472	97	19.949
Total as at 31.12.2022	**9.628**	**11.879**	**22.467**	**3.730**	**47.704**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum exposure to credit risk before collateral and other credit collateral as at 31 December 2022 and 2021

FINANCIAL INSTRUMENTS

	31 December 2022			31 December 2021		
	Exposure before impairment	**Impairment**	**Net credit risk exposure**	**Exposure before impairment**	**Impairment**	**Net credit risk exposure**
A. Credit risk exposure related to balance sheet items						
Cash funds and funds with the Central bank	143.262	127	143.135	106.827	95	106.732
Funds with other banks	21.550	80	21.470	12.330	62	12.268
Loans to customers	528.852	45.813	483.039	456.861	43.969	412.892
Other assets	10.266	7.323	2.943	8.130	3.464	4.666
Securities	47.852	48	47.804	49.521	50	49.471
Total assets	**751.782**	**53.391**	**698.391**	**633.669**	**47.640**	**586.029**
Off-balance						
Unused credit obligations	50.768	407	50.361	42.036	412	41.624
Credit portfolio collateral	*288.573*			*261.621*		
- Securities pledged as collateral	*5.396*			*6.907*		
Total off-balance	**50.768**	**407**	**50.361**	**42.036**	**412**	**41.624**
Total credit exposure	**802.550**	**53.798**	**748.752**	**675.705**	**48.052**	**627.653**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Measurement of expected credit losses

Financial risk management

Principle balance based on loans as at 31 December 2022

Homogeneous groups	Loan balance	Exposure	Recognized amount of collateral	Expected credit loss (ECL) without other assets
Customers without balances	182.459	189.503	87.256	18.810
Customers with balances	344.998	381.512	194.879	28.895
TOTAL Bank:	**527.457**	**571.015**	**282.135**	**47.705**

Principle balance based on loans as at 31 December 2021

Homogeneous groups	Loan balance	Exposure	Recognized amount of collateral	Expected credit loss (ECL) without other assets
COR	45.245	63.769	31.695	5.862
MSME- Working capital loan	83.719	85.376	41.893	8.242
MSME- Loan for fixed assets and investments	115.950	118.918	81.691	11.389
MSME- Non-purpose loan for entrepreneurs	1.254	1.318	688	525
MSME- other	65.405	102.705	35.252	5.331
MSME- Transfer loan	63	71	0	71
Overdraft	23.518	30.598	6.133	1.961
PUB	34	86	34	-
Reprogram	15.788	16.056	10.408	7.410
Retail	103.592	105.615	49.863	4.376
TOTAL Bank	**454.569**	**524.512**	**257.658**	**45.167**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Measurement of expected credit losses

SEGMENTATION	Overview of credit status by segment and by maturity						
	<=30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 1year	Total
Public Sector	-	-	-	-	-	-	-
Corporate	52.476	-	-	-	-	399	52.875
MSME	352.723	6.409	1.149	2.998	5.100	11.976	380.355
Retail	89.522	828	283	578	465	2.548	94.224
TOTAL Bank	**494.721**	**7.237**	**1.432**	**3.576**	**5.565**	**14.923**	**527.454**

Overview of expected credit losses (ECL) per segments:

Segment	31.12.2021		31.12.2022	
	Expected credit loss (ECL)	% share	Expected credit loss (ECL)	% share
Public Sector	-	0,00%	7	0,01%
Corporate	6.005	13,30%	2.346	4,92%
MSME	34.303	75,95%	39.606	83,02%
Retail	4.859	10,76%	5.746	12,05%
TOTAL	**45.167**	**100,00%**	**47.705**	**100,00%**

Overview of loan balances by days of delay:

Days of delay	31.12.2021			31.12.2022		
	Loan balance	% share	PAR%	Loan balance	% share	PAR%
0 days	361.344	79,49%	0,00%	423.024	80,20%	80,20%
1-30 days	64.124	14,11%	14,11%	71.697	13,59%	13,59%
31-90 days	6.742	1,48%	1,48%	8.669	1,65%	1,65%
Over 90 days	22.359	4,92%	4,92%	24.064	4,56%	4,56%
TOTAL	**454.569**	**100,00%**	**20,51%**	**527.454**	**100,00%**	**100,00%**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Loan collateral and other loan security (continued)

Collateral held for securing financial assets other than loans and advances depends on the nature of the instrument. The Bank's collateral acquisition policy did not change significantly during the reporting period and there was no significant change in the overall quality of the collateral held by the Bank from the previous period.

The overall exposure to collateral and credit collateral analyzes is presented below as at 31 December 2022 and 31 December 2021:

(In BAM thousand)

	As at 31 December 2022	31 December 2021
Loans secured by special deposit	6.569	8.097
Loans secured by property	207.845	178.871
Loans secured by other collateral	314.438	269.893
Total:	**528.852**	**456.861**

(In BAM thousand)

	Loans to customers		
As at 31 December 2022	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	53.673	167.533	221.206
Pledge	4.710	35.661	40.371
Financial asset	1.905	11.489	13.394
Other	821	17.628	18.449
Total	**61.109**	**232.311**	**293.420**

(In BAM thousand)

	Loans to customers		
As at 31 December 2021	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	45.793	142.365	188.158
Pledge	6.972	47.617	54.589
Financial asset	2.343	14.007	16.350
Other	594	7.008	7.602
Total	**55.702**	**210.997**	**266.699**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Exposure overview by segments and days of delay as at 31 December 2022

(In BAM thousand)

SEGMENTATION	Days of delay	Loan balance	Total exposure	Allowance
Public Sector	0 days	-	959	7
	1-30 days	-	5	-
	31-90 days	-	-	-
	>90 days	-	-	-
Public Sector Total		**-**	**964**	**7**
Corporate	0 days	43.016	82.344	1.373
	1-30 days	9.460	9.760	547
	31-90 days	-	-	-
	>90 days	399	427	425
Corporate Total		**52.875**	**92.531**	**2.345**
MSME	0 days	300.606	370.618	13.772
	1-30 days	52.117	56.785	4.850
	31-90 days	7.559	7.695	2.550
	>90 days	20.074	21.749	18.433
MSME Total		**380.355**	**456.847**	**39.606**
Retail	0 days	79.402	83.576	1.624
	1-30 days	10.120	10.296	509
	31-90 days	1.110	1.143	308
	>90 days	3.591	3.885	3.306
Retail Total		**94.224**	**98.900**	**5.746**
TOTAL Bank as at 31 December 2022		**527.454**	**649.242**	**47.705**

Exposure overview by segments and days of delay as at 31 December 2021

(In BAM thousand)

SEGMENTATION	Days of delay	Loan balance	Total exposure	Allowance
Public Sector	0 days	-	52	-
	1-30 days	-	-	-
	31-90 days	-	-	-
	>90 days	-	-	-
Public Sector Total		**-**	**52**	**-**
Corporate	0 days	39.954	65.672	3.534
	1-30 days	4.830	5.179	1.446
	31-90 days	118	123	106
	>90 days	955	1.009	920
Corporate Total		**45.857**	**71.982**	**6.005**
MSME	0 days	250.477	308.015	11.632
	1-30 days	51.436	55.038	4.165
	31-90 days	5.767	6.195	1.337
	>90 days	17.945	19.275	17.168
MSME Total		**325.626**	**388.522**	**34.302**
Retail	0 days	70.913	73.642	1.231
	1-30 days	7.858	7.997	259
	31-90 days	856	878	75
	>90 days	3.459	3.805	3.294
Retail Total		**83.086**	**86.322**	**4.859**
Total		**454.569**	**546.879**	**45.167**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on gross and net credit risk exposure by sectors and categories of receivables, maturity and value of collateral

	Stage1/Stage2		Stage3		Total gross	Allowance		Total net	Value of collateral	
2022	**Stage1**	**Stage2**	**Undue**	**Due**	**receivables**	**Stage1/Stage2**	**Stage3**	**receivables**	**Stage1/Stage2**	**Stage3**
By sectors					0					
Balance sheet receivables - retail	**145.308**	**19.624**	**4.743**	**7.505**	**177.181**	**(4.498)**	**(10.470)**	**162.213**	**77.210**	**5.519**
General consumption	61.471	5.281	2.036	2.925	71.712	(1.490)	(4.173)	66.050	18.581	1.779
Housing loans	23.367	718	35	190	24.311	(275)	(196)	23.840	15.580	223
Performing activities (entrepreneurs)	60.255	13.598	2.672	4.030	80.555	(2.724)	(5.795)	72.036	43.048	3.516
Other receivables	215	27	-	360	603	(9)	(306)	287	1	1
Balance sheet receivables - corporate	**260.178**	**76.692**	**7.276**	**11.563**	**355.709**	**(16.603)**	**(15.186)**	**323.920**	**185.443**	**8.128**
PUB – Public enterprises	5	-	-	-	5	-	-	5	-	-
COR – Big enterprises	46.129	6.579	-	428	53.137	(1.504)	(426)	51.207	27.029	14
Micro enterprises	13.226	15.221	2.711	4.538	35.697	(2.007)	(6.255)	27.435	13.554	3.173
Small enterprises	79.947	29.780	3.521	4.386	117.633	(6.341)	(6.041)	105.252	61.256	3.488
Medium-sized enterprises	120.871	25.112	1.044	2.211	149.237	(6.751)	(2.464)	140.021	83.604	1.453
By categories of receivables										
Performing receivables	405.486	96.317	-	-	501.803	(21.101)	-	480.702	262.654	-
of which restructured	7.353	20.358	-	-	27.711	(3.856)	-	23.855	17.880	-
Non-performing receivables	-	-	12.019	19.068	31.087	-	(25.656)	5.432	-	13.647
of which restructured	-	-	4.531	4.851	9.382	-	(7.626)	1.756	-	4.897
Total balance sheet exposure	**405.486**	**96.317**	**12.019**	**19.068**	**532.890**	**(21.101)**	**(25.655)**	**486.134**	**262.654**	**13.647**
Total off-balance sheet exposure	**110.243**	**5.674**	**434**	**-**	**116.352**	**(895)**	**(53)**	**115.404**	**17.007**	**113**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on branch and geographical concentration of exposure

	Region 1		Region 2		Region 3		Region 4		Region 5	
2022	**Stage1/Stage2**	**Stage 3**	**Stage1/Stage2**	**Stage 3**	**Stage1/Stage2**	**Stage 3**	**Stage1/Stage2**	**Stage 3**	**Stage1/Stage2**	**Stage 3**
Balance sheet receivables - retail	**23.502**	**2.077**	**47.977**	**4.443**	**25.761**	**1.436**	**38.315**	**2.329**	**29.377**	**1.964**
General consumption	9.690	1.000	12.315	1.407	11.656	649	16.645	912	16.447	992
Housing loans	3.838	35	8.503	190	5.702	-	3.926	-	2.116	-
Performing activities (entrepreneurs)	9.924	962	27.111	2.723	8.355	732	17.687	1.363	10.774	924
Other receivables	50	80	48	123	48	55	57	54	40	48
Receivables - corporate	**42.023**	**2.277**	**101.024**	**6.083**	**59.966**	**3.085**	**61.990**	**3.921**	**71.867**	**3.473**
Agriculture, forestry, fishing	1.254	466	4.858	47	601	9	1.635	59	545	-
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	10.496	702	21.788	1.069	15.262	645	15.459	601	18.071	93
Traffic, storage and communications, electricity supply, hotels and restaurants	6.930	352	7.755	1.608	10.363	777	12.946	509	6.159	668
Construction	10.930	-	27.623	462	6.932	88	3.989	385	10.200	1.455
Wholesale and retail trade, repair of motor vehicles and motorcycles	8.313	625	21.124	2.630	25.151	1.386	23.263	1.984	22.366	800
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	4.100	132	10.701	251	1.496	180	3.929	383	14.032	446
Receivables from other clients	-	-	7.177	16	161	-	769	-	494	11
Financial institutions	-	-	-	-	-	-	-	-	-	-
Total balance sheet exposure	**65.525**	**4.354**	**149.001**	**10.526**	**85.727**	**4.521**	**100.305**	**6.250**	**101.244**	**5.437**
Total off-balance sheet exposure	**9.525**	**82**	**51.940**	**27**	**9.343**	**134**	**24.157**	**18**	**20.952**	**174**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on gross credit risk exposure by sectors and categories of receivables and number of days in delay / arrears

2022	**Stage1/Stage2**					**Stage3**				
	0 days delay	**1-30 days**	**31-60 days**	**61-90 days**	**Over 90 days**	**0 days delay**	**1-30 days**	**31-60 days**	**61-90 days**	**Over 90 days**
By sectors										
Balance sheet receivables - retail	**136.510**	**25.792**	**1.863**	**768**	**-**	**1.433**	**523**	**252**	**69**	**9.972**
General consumption	56.350	9.538	635	229	-	477	136	209	22	4.116
Housing loans	23.311	705	-	70	-	35	-	-	-	190
Performing activities (entrepreneurs)	56.616	15.544	1.224	468	-	642	385	40	45	5.590
Other receivables	233	5	4	1	-	279	2	3	2	74
Balance sheet receivables - corporate	**287.071**	**45.582**	**3.824**	**394**	**-**	**1.034**	**557**	**1.413**	**242**	**15.593**
PUB – Public enterprises	1	5	-	-	-	-	-	-	-	-
COR – Big enterprises	43.193	9.515	-	-	**-**	1	-	-	-	427
Micro enterprises	24.138	3.908	262	139	-	662	317	103	3	6.164
Small enterprises	86.599	21.105	1.769	254	-	366	240	1.095	238	5.968
Medium-sized enterprises	133.141	11.048	1.793	-	-	6	-	215	-	3.034
By categories of receivables					-					
Performing receivables	423.582	71.374	5.686	1.162	**-**	-	-	-	-	-
of which restructured	18.642	7.492	1.331	246	-	-	-	-	-	-
Non-performing receivables	-	-	-	-	-	2.467	1.080	1.665	311	25.565
of which restructured	-	-	-	-	-	916	703	904	81	6.778
Total balance sheet exposure	**423.582**	**71.374**	**5.686**	**1.162**	**-**	**2.467**	**1.080**	**1.665**	**311**	**25.565**
Total off-balance sheet exposure	**111.393**	**4.344**	**1**	**-**	**178**	**54**	**48**	**2**	**12**	**319**

29. FINANCIAL INSTRUMENTS (continued)
29.4. Credit risk (continued)

(In BAM thousand)

			Data on performing receivables				
2022	**Gross value of total receivables**	**Allowance for total receivables**	**Gross value of Stage3 receivables**	**Out of which: restructured receivables**	**Allowance for Stage3 receivables**	**% of performing receivables**	**Value of collateral for Stage 3 receivables**
Receivables - retail	**177.181**	**14.968**	**12.249**	**4.064**	**(10.470)**	**6,91%**	**5.519**
General consumption	71.712	5.663	4.960	1.267	(4.173)	**6,92%**	1.779
Housing loans	24.311	471	225	-	(196)	**0,93%**	223
Performing activities (entrepreneurs)	80.555	8.519	6.704	2.797	(5.795)	**8,32%**	3.516
Other receivables	603	315	360	-	(306)	**59,71%**	1
Receivables - corporate	**355.709**	**31.789**	**18.839**	**5.319**	**(15.186)**	**5,30%**	**8.128**
Agriculture, forestry, fishing	9.473	1.294	581	-	(524)	**6,13%**	182
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	84.185	8.111	3.111	1.194	(2.712)	**3,69%**	1.395
Traffic, storage and communications, electricity supply, hotels and restaurants	48.065	5.291	3.913	1.469	(3.141)	**8,14%**	1.828
Construction	62.064	4.311	2.391	472	(1.746)	**3,85%**	882
Wholesale and retail trade, repair of motor vehicles and motorcycles	107.642	10.040	7.425	1.988	5.914	**6,90%**	3.474
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	35.651	2.588	1.392	180	(1.123)	**3,90%**	365
Receivables from other clients	8.628	154	27	16	(26)	**0,32%**	2
Balance sheet receivables from banks and financ.institutions	-	-	-	-	-	-	-
Total balance sheet exposure	**532.890**	**46.757**	**31.088**	**9.383**	**(25.656)**	**5,83%**	**13.647**
Total off-balance sheet exposure	**116.352**	**948**	**434**	**34**	**(53)**	**0,37%**	**113**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on the credit quality of non-performing / performing receivables and the value of collateral used to secure these receivables

2022	**Stage1/Stage2**			**Stage3**	**POCI**
	High rating (1 - 4)	**Medium rating (5 - 7)**	**Low (8 – 9 other)**		
Receivables - retail	**46.182**	**114.576**	**4.175**	**12.248**	**3.611**
General consumption	15.575	49.175	2.001	4.960	1.280
Housing loans	8.668	15.417	-	225	35
Performing activities (entrepreneurs)	21.938	49.760	2.154	6.703	2.296
Other receivables	1	222	20	360	-
Receivables - corporate	**214.433**	**96.693**	**25.745**	**18.839**	**2.512**
PUB – Public enterprises	-	5	-	-	-
COR – Big enterprises	40.725	11.437	547	428	-
Micro enterprises	12.849	12.949	2.650	7.249	1.474
Small enterprises	59.758	40.066	9.903	7.905	685
Medium-sized enterprises	101.101	32.236	12.645	3.255	353
Receivables from other clients	-	-	-	-	-
Balance sheet receivables from banks and financ.institutions	-	-	-	-	-
Total balance sheet exposure	**260.615**	**211.269**	**29.920**	**31.087**	**6.123**
Total off-balance sheet exposure	**78.985**	**34.821**	**2.111**	**435**	**-**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on the type and value of collateral by sector and categories of receivables

	Types of collateral			
2022	**Deposits and guarantees of the RS Guarantee Fund**	**Securities**	**Residential and commercial real estate**	**Mobility**
Receivables - retail	**3.399**	-	**69.352**	**9.624**
General consumption	1.650	-	15.738	2.971
Housing loans	12	-	15.779	13
Performing activities (entrepreneurs)	1.737	-	37.835	6.606
Other receivables	-	-	-	34
Receivables - corporate	**15.418**	**5.396**	**139.453**	**30.509**
PUB – Public enterprises	-	-	-	-
COR – Big enterprises	4.313	1.155	16.659	3.345
Micro enterprises	1.431	0	11.870	3.451
Small enterprises	2.774	4.241	46.157	11.455
Medium-sized enterprises	6.900	-	64.767	12.258
Receivables from other clients	**-**	**-**	**-**	**-**
Balance sheet receivables from banks and financ.institutions	**-**	**-**	**-**	**-**
By categories of receivables	**18.817**	**5.396**	**208.806**	**40.134**
Performing receivables	18.473	5.396	199.089	36.549
of which restructured	645	-	14.558	2.677
Non-performing receivables	344	-	9.717	3.585
of which restructured	56	-	3.483	1.357
Total balance sheet exposure	**18.817**	**5.396**	**208.806**	**40.134**
Total off-balance sheet exposure	**1.364**	**-**	**12.401**	**237**

29. FINANCIAL INSTRUMENTS (continued)
29.4. Credit risk (continued)

(In BAM thousand)

2022	Gross value of total receivables	Allowance for total receivables	Data on restructured receivables Value of restructured receivables Gross value of restructured receivables	Out of which: Stage 3 receivables	Allowance for restructured receivables	% restructured receivables	Value of collateral for restructured receivables
Receivables - retail	**177.181**	**14.968**	**13.347**	**4.064**	**(4.652)**	**7,53%**	**8.353**
General consumption	71.712	5.663	3.633	1.267	(1.281)	5,07%	1.850
Housing loans	24.311	471	-	-	-	0,00%	-
Performing activities (entrepreneurs)	80.555	8.519	9.714	2.797	(3.371)	12,06%	6.503
Other receivables	603	315	-	-	-	0,00%	-
Receivables - corporate	**355.709**	**31.788**	**23.747**	**5.319**	**(6.830)**	**6,68%**	**14.425**
Agriculture, forestry, fishing	9.473	1.294	727	-	(339)	7,67%	622
Mining, manufacturing, water supply, waste water management, waste disposal operations and similar activities	84.185	8.111	11.066	1.194	(2.475)		7.696
Traffic, storage and communications, electricity supply, hotels and restaurants	48.065	5.291	3.690	1.469	(1.203)	7,68%	1.675
Construction	62.064	4.311	863	472	(318)	1,39%	569
Wholesale and retail trade, repair of motor vehicles and motorcycles	107.643	10.040	5.913	1.988	(2.012)	5,49%	3.419
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	35.651	2.587	1.342	180	(453)	3,76%	313
Receivables from other clients	8.628	154	146	16	(30)	1,70%	131
Balance sheet receivables from banks and financ.institutions	-	-	-	-	-	-	-
Total balance sheet exposure	**532.890**	**46.756**	**37.093**	**9.382**	**(11.482)**	**6,96%**	**22.777**
Total off-balance sheet exposure	**116.352**	**948**	**93**	**34**	**(10)**	**0,08%**	**7**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Employees of the Legal Affairs and Restructuring Sector must receive a credit file from a credit officer within 15 days of the debit day. Act on items taken over as soon as possible. The Legal Affairs and Restructuring Division staff responsible for the client is obliged to continue to review the activities and measures taken at specific parties, through updating the strategies in the front application. Even if the loans are properly serviced, the Legal Affairs and Restructuring Sector responsible for the client is required to regularly monitor the client.

Employees in the Legal Affairs and Restructuring Sector have all the measures at their disposal in order to address delays that include aggressive collection, rescheduling of existing debt, restructuring the opening of new debt to the debtor or other participants.

Credit risk-related risks

The Bank issues guarantees to its customers whereupon it has contingent liabilities to make the payment in favor of third parties. In this manner the Bank is exposed to risks similar and related to credit risk, which it may overcome by applying the same control processes and procedures.
Monitoring and collection procedures applied to these exposures are identical to those applied to loans.

Collaterals and other forms of security instruments

The Bank demands security instruments for all types of loans. The amount and type of the security instrument demanded depends on the market segment a specific client belongs to and the type of credit product being approved as well as the assessed credit risk for each individual customer.

The assessment and fair value of collateral are based on the value of security instruments estimated upon loan approval. In accordance with its business policy and internal procedures, the Bank determines the required fair value of the collateral as well as the manner and time of its revaluation.

The management monitors the market value of collaterals and demands additional security instruments upon reassessment of the loan impairment allowance adequacy. The Bank takes into account the value of collaterals upon reassessment of the loan allowance adequacy.

29.5.1. Concentration risk

The Bank has internally defined minimum standards regarding concentration risk management by which the bank secures its business in terms of careful exposure to credit collection risk and risk of potential losses on issued loans, and all other investments as well as potential off-balance sheet liabilities.
In such way the Bank maintains business stability and determines the minimum standards of the highest allowed credit risk exposure of the Bank to a single client, borrower or other subject (or a group of related entities), as well as limits of high exposure.

According to the Article 106 of Law on Banks of the Republic of Srpska, high exposure of banks is the exposure towards a single entity or a group of related entities amounting or exceeding 10% of the recognized Bank's capital. The Bank has adopted policies and procedures aimed to determine and monitor single and total exposure, maintain records, monitor and report on the said exposure, in accordance with Agency regulations.

The Bank's recognized capital is equal to regulatory capital, which is a sum of a regular share capital and supplementary share capital after regulatory adjustments.

Bank's exposure towards single entity or a group of related entities after applying the credit risk decrease method cannot exceed 25% of the Bank's recognized capital. In accordance with Agency regulations, the highest allowed amount of credit receivables that is not secured with a collateral, towards single entity or group of related entities cannot exceed 15% of the Bank's recognized capital. The total exposure of the bank toward its superior and subordinate entity and the related entities is limited by provisions of Article 107 of the Law on Banks.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.1. Concentration risk (continued)

The Bank's share in other legal entities is defined by Article 111 of Law on Banks of RS: Prior to consent of the Agency, the Bank is not allowed to have direct or indirect:

- share in a legal entity or subsidiary of that legal entity exceeding 5% of the recognized Bank capital or total net value of all Bank's interest in other legal entities and subsidiaries of those legal entities exceeding 20% of the recognized Bank capital.
- the Bank's share, direct or indirect, in one legal entity from financial sector cannot exceed 15% of Bank's recognized capital.
- the Bank's interest in the legal entity not pertaining to financial sector cannot exceed 10% of Bank's recognized capital, nor 49% of the capital of that entity.
- Total interest in legal entities not pertaining to financial sector cannot exceed 25% of recognized Bank's capital, and total interest in legal entities pertaining to financial sector cannot exceed 50% of the Bank's recognized capital.

Credit risk concentration per industry sector

The Bank has a diversified loan portfolio covering various industries: **In BAM thousand**

	31 December 2022	In %	31 December 2021	In %
Agriculture, forestry and fishing	9.425	2%	8.368	2%
Mining and stone extraction	8.581	2%	5.075	1%
Manufacturing industry	71.413	14%	60.168	13%
Production and supply of electricity, gas, steam and air conditioning	5.689	1%	2.193	-
Water supply, sewerage, waste management and environmental remediation activities	3.805	1%	3.899	1%
Construction	61.846	12%	42.694	9%
Wholesale and retail trade; repair of motor vehicles and motorcycles	107.063	20%	92.162	20%
Traffic and storage	32.590	6%	33.558	7%
Accommodation, food preparation and serving activities; hotel and hospitality industry	9.457	2%	6.490	1%
Information and communication	7.645	1%	1.327	-
Financial and insurance activities	957	-	5.790	1%
Real estate business	8.580	2%	3.610	1%
Professional, scientific and technical activities	14.484	3%	11.605	3%
Administrative and support service activities	6.651	1%	9.238	2%
Public administration and defense; compulsory social insurance	2	-	3	-
Education	258	-	111	-
Health and social work activities	2.111	-	1.823	-
Arts, entertainment and recreation	392	-	1.300	-
Other service activities	2.617	-	2.952	1%
Retail and entrepreneurs	175.286	33%	164.495	36%
Total:	**528.852**	**100%**	**456.861**	**100%**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Concentration of credit risk by types of loans

The Bank regularly monitors and diversifies loans by type of loan. **(In BAM thousand)**

	31 December 2022	U %	31 December 2021	U %
Loans per transaction accounts	25.946	5%	23.698	5%
Consumer loans	69.985	13%	67.632	15%
Working capital loans	181.035	34%	146.854	32%
Investment loans	226.523	43%	200.121	44%
Housing loans	24.215	5%	17.607	4%
Investments for realized payments under guarantees	1.148	-	949	-
Total:	**528.852**	**100%**	**456.861**	**100%**

29.4.2. Stress test

In accordance with the Bank's Stress Test Program for credit risk, two shock scenarios are predicted, one of which is further aggravated. More precisely, two shock scenarios are foreseen, one of which has a higher degree of probability and a lower level of negative effects, and the other with a lower degree of probability, but higher negative effects on the Bank's operations.

In its stress scenarios for credit risk, the Bank strives to provide a wide range of possible events, including events that may arise from the macroeconomic environment, levels of severity of events and their interactions, all with the aim of better identifying potential vulnerabilities. More precisely, bearing in mind that at the time of carrying out the process of stress resistance testing and defining stress scenarios, there were significant macroeconomic disturbances caused by the pandemic and the overall political and security situation in Europe (war in Ukraine), the Bank tried to, within the process of defining stress scenarios and of their quantitative components, apply an adequate level of conservatism that will include possible implications for the Bank's operations in the conditions of this macroeconomic environment, additionally emphasizing the economic recession and its negative impacts.

According to the scenario that is expected related to the assessment of the economic cycle and the projected stressed macroeconomic trends, the key calculation variables of credit risk and calculation of PD and LGD are stressed, and residual risk is additionally stressed through the reduction of recognized collateral values.

The impact is manifested through the calculation of the value correction of balance sheet exposures and provisions for off-balance sheet items in stressful scenarios:
- directly to the reduction of the income statement, and indirectly to the Bank's capital plan,
- to an increase in risk-weighted assets for credit risk and a decrease in the capital adequacy rate.

The starting point for stress resistance testing for credit risk is the credit portfolio with the recorded balance of value correction as at 31 December 2022.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Stress test (continued)

Overview of exposure/ECL trends by credit risk levels as at 31 December 2022:

(In BAM thousand)

Credit risk level	Exposure*	Recognized amount of collateral	ECL	%ECL
Stage 1	440.963	212.104	9.628	2,18%
Stage 2	98.879	56.271	12.367	12,51%
Stage 3	31.173	13.759	25.709	82,47%
Total:	**571.015**	**282.135**	**47.705**	**8,35%**

* Exposure from IFRS 9 Module. Off-balance sheet exposure is adjusted by the credit conversion factor (CCF)

Scenario I

In scenario I, the following assumptions were used:

- Decrease in recognized collateral values by 10%,
- Increase of PD by 10% + average stressed default rate 3,18% (average of legal/individuals),
- Decrease of CR by 10% + average stressed default rate 3,18% (average of legal/individuals),
- Correction of the amount of ECL for individually assessed investments of credit risk level 2 and credit risk level 3.

By applying the defined scenario, the following results were obtained:

(In BAM thousand)

Credit risk level ST1	Exposure ST1 *	Recognized amount of collateral ST1	ECL ST1	%ECL ST1
Stage 1	440.963	190.894	10.946	2,48%
Stage 2	98.879	50.644	14.035	14,19%
Stage 3	31.173	12.383	26.238	84,17%
Total:	**571.015**	**253.921**	**51.219**	**8,97%**

*Exposure of ST 1 from IFRS 9 module

The effect of stress testing in Scenario I:

(In BAM thousand)

Credit risk level ST1	Effect ST1 - recognized amount of collateral	Effect ST1 - ECL ST1
Stage 1	(21.210)	1.317
Stage 2	(5.627)	1.668
Stage 3	(1.376)	530
Effect:	**(28.213)**	**3.514**

The effect of stress testing ST 1:

- a decrease in the coverage of exposure by recognized means of security by BAM 28,2 million, of which the largest decrease in coverage was recorded in credit risk level 1, by approx. BAM 21,2 million,
- increase in value correction by BAM 3,5 million, while dominantly in the level of credit risk 2.

When defining the stress test scenario, we did not take into account the expected and planned payment of investments classified in Stage 3 where the process of realization from the collateral is in progress ("residual risk").

No changes are foreseen in the amount of Other exposures - funds for the purposes of preparing the stress test.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Stress test (continued)

The results obtained by this scenario would be partially satisfied from the realized profit of the current year and at the same time have a negative impact on the capital plan since this profit could not be used for capital strengthening as planned by the capital plan. However, based on the realized capital size, capital adequacy rate and realized profit, the Bank would still be highly capitalized, which would enable further support of the planned scope and nature of the Bank's business activities.

Impact on RWA and capital adequacy ratio

Starting from the assumptions defined in ST 1, that is, the decrease in the value of the allocated recognized collateral (impact on residual risk), the stressed growth of PD indicators and the reduction of the Cure rate, there is an increase in RWA for credit risk in the amount of BAM 73,41 million. The effect of RWA is mostly influenced by the growth of RWA in the exposure class of corporate (+ BAM 170,71 million), Exposures with default status (+ BAM 4,50 million), Other exposures (+ BAM 2,31 million) and with a simultaneous decrease exposure classes Secured by real estate (- BAM 54,11 million) and Retail (BAM 50,00 million).

The following shows the impact of the application of ST 1 on the growth of risk-weighted assets ("RWA") and the capital adequacy rate as at 31 December 2022:

(In BAM thousand)

Item	Realized as at 31.12.2022	ST 1	Effect ST1
Rate of regular basic capital	**18,19%**	**15,20%**	**-2,99%**
Surplus (+) / deficit (–) of regular basic capital	56.062	47.592	(8.470)
Rate of basic capital	**18,19%**	**15,20%**	**-2,99%**
Surplus (+) / deficit (–) of basic capital	45.039	34.918	(10.122)
Rate of regular capital	**19,59%**	**16,41%**	**-3,18%**
Surplus (+) / deficit (–) of regular capital	37.188	24.864	(12.324)

Scenario II

In scenario II, the following assumptions were used:
- Decrease in recognized collateral values by 15%,
- Increase of PD by 15% + average stressed default rate 3,68% (average of legal/individuals),
- Decrease of CR by 15% + average stressed default rate 3,68% (average of legal/individuals),
- Correction of the amount of ECL for individually assessed investments of credit risk level 2 and credit risk level 3
- Deterioration of %ECL for the largest exposures from credit risk level 3 to %ECL of 90%,
- Deterioration of %ECL for the largest exposures from credit risk level 2, which are not on individual assessments and where the account is blocked for 1-60 days.

By applying the defined scenario, the following results were obtained:

(In BAM thousand)

Credit risk level ST2	Exposure ST2*	Recognized amount of collateral ST2	ECL ST2	%ECL-a ST2
Stage 1	440.963	180.289	12.656	2,87%
Stage 2	98.879	47.830	14.975	15,15%
Stage 3	31.173	11.695	26.687	85,61%
Total:	**571.015**	**239.814**	**54.318**	9,51%

* Exposure from IFRS 9 Module. Off-balance sheet exposure is adjusted by the credit conversion factor (CCF)

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Stress test (continued)

The effect of stress testing in Scenario II:

(In BAM thousand)

Credit risk level ST2	Effect ST2 - recognized amount of collateral	Effect ST2 - ECL ST2
Stage 1	(31.816)	3.027
Stage 2	(8.440)	2.607
Stage 3	(2.064)	978
Effect:	**(42.320)**	**6.613**

The effect of stress testing ST2:

-a decrease in the coverage of exposure by recognized means of security by BAM 42,32 million, of which the largest decrease in coverage was recorded in credit risk level 1, by approx. BAM 31,82 million,

-increase in value correction by BAM 6,6 million and at the same time dominantly in the level of credit risk 1.

When defining the stress test scenario, we did not take into account the expected and planned payment of investments classified in Stage 3 where the process of realization from the collateral is in progress ("residual risk").

No changes are foreseen in the amount of Other exposures - funds for the purposes of preparing the stress test. The results obtained by this scenario would be partially satisfied from the realized profit of the current year and at the same time have a negative impact on the capital plan since this profit could not be used for capital strengthening as planned by the capital plan. However, based on the realized capital size, capital adequacy rate and realized profit, the Bank would still be highly capitalized, which would enable further support of the planned scope and nature of the Bank's business activities.

<u>Impact on RWA and capital adequacy ratio</u>

Starting from the assumptions defined in ST 2, that is, the decrease in the value of the allocated recognized collateral (impact on residual risk), the stressed growth of PD indicators and the reduction of the Cure rate, there is an increase in RWA for credit risk in the amount of BAM 109,22 million. The effect of RWA is mostly influenced by the growth of RWA in the exposure class of corporate (+ BAM 213,57 million), Exposures with default status (+ BAM 6,00 million), and with a simultaneous decrease exposure classes Secured by real estate (- BAM 63,66 million) and Retail (BAM 50,00 million).

The following shows the impact of the application of ST 2 on the growth of risk-weighted assets ("RWA") and the capital adequacy rate as at 31 December 2022:

(In BAM thousand)

Description	Realized as at 31.12.2022	ST2	Effect ST2
Rate of regular basic capital	**18,19%**	**13,77%**	**-4,42%**
Surplus (+) / deficit (–) of regular basic capital	56.062	42.077	(13.985)
Rate of basic capital	**18,19%**	**13,77%**	**-4,42%**
Surplus (+) / deficit (–) of basic capital	45.039	28.597	(16.443)
Rate of regular capital	**19,59%**	**14,92%**	**-4,68%**
Surplus (+) / deficit (–) of regular capital	37.188	17.468	(19.719)

In addition, the Bank also conducted reverse stress testing for credit risk based on the known result of stress resistance testing, determined in Scenario II for credit risk.

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk

The Bank assumes market risks which represent the risk that the fair value or future cash flows from financial instruments may oscillate due to changes in market values. Market risks occur in open positions exposed to risk based on maturities, interest rates, currencies and capital products exposed to general and special movements and changes related to the degree of market rate and price volatility (such as interest rates, credit margins, foreign exchange rates and prices of capital). The Bank is exposed to foreign exchange risk and interest rate risk related to market risk.

The market risk control system is implemented through the division according to the principle of three lines of defense, that is risk taking function (front office), risk management control function - their monitoring and management as well as support activities (back office), risk exposure limit establishment function.

29.5.1. Foreign exchange risk

Foreign exchange risk represents the Bank's exposure to possible changes in foreign exchange rates and the risk that adverse changes will result in losses in local currency for the Bank, where the level of foreign exchange risk represents the function of the amount and duration of the Bank's exposure to the possible changes in foreign exchange rates and depends on the amount of Bank's foreign debt, extent of the foreign currency exposure of the balance sheet assets and off-balance sheet items as well as the compliance of the currency cash flows of the Bank.

The strategy of the Bank, applied in foreign exchange risk management, is based on the maintenance of foreign currency position within the limits prescribed by the Law on Banks of the Republic of Srpska and Decision on minimum standards for currency risk management in banks.

For the purpose of controlling and identifying foreign currency exposure, the Bank monitors daily balances and structure of foreign currency cash in the treasury, foreign currency assets and structure per currencies on the accounts with foreign banks, ensures the compliance between the foreign currency positions in unstable currencies, includes in contracts currency clause for both balance sheet assets and liabilities and off-balance sheet items, in the form a symmetrical, that is, two-directional currency clause, in order to protect the value of assets and liabilities irrespective of the rise or decline of the exchange rate of the currency the currency clause refers to against the local currency, so as to achieve currency compliance between the financial assets and financial liabilities.

The Treasury and Transactions Department monitors the foreign currency position on a daily basis and, in collaboration with the Market Sector and Bank's Management undertakes adequate aforesaid activities in order to maintain the foreign currency position within the permitted limits.

In planning activities that significantly influences the changes in the structure or maturities of the Bank's financial assets and/or financial liabilities, and thereby Bank's foreign currency position, the Treasury and Transactions Department makes projections of the foreign currency position in order to ensure timely activities for continuous maintenance of the currency compliance of financial assets and financial liabilities.

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.1. Foreign exchange rate risk (continued)

The statement on foreign currency balances, net, as at 31 December 2022:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash and cash funds held with the Central Bank	10.209	376	359	18	289	11.251	131.884	143.135
Funds with other banks	20.436	365	10	8	1	20.820	650	21.470
Securities	43.157	-	-	-	-	43.157	4.695	47.852
Loans due from customers	308.744	-	-	-	-	308.744	174.295	483.039
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	8.613	8.613
Leased business premises IFRS 16	-	-	-	-	-	-	7.106	7.106
Other assets	1.006	-	-	-	-	1.006	1.937	2.943
	383.552	**741**	**369**	**26**	**290**	**384.978**	**329.180**	**714.158**
Liabilities								
Deposits to banks	-	-	-	-	-	-	7.586	7.586
Deposits to customers	299.560	72	548	2	101	300.283	213.694	513.977
Liabilities per loans	80.382	-	-	-	-	80.382	21	80.403
Subordinated debt	6.867	-	-	-	-	6.867	-	6.867
Lease liabilities IFRS 16	-	-	-	-	-	-	7.543	7.543
Other liabilities	246	47	-	-	-	293	7.012	7.305
Provisions for employee benefits and other contingent liabilities	-	-	-	-	-	-	1.072	1.072
	387.055	**119**	**548**	**2**	**101**	**387.825**	**236.928**	**624.753**
Net foreign currency position	**(3.503)**	**622**	**(179)**	**24**	**189**	**(2.847)**	**92.252**	**89.405**

The statement on foreign currency balances, net, as at 31 December 2021:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash and cash funds held with the Central Bank	7.314	257	219	11	425	8.226	98.506	106.732
Funds with other banks	11.256	343	90	2	-	11.691	577	12.268
Securities	48.803	-	-	-	-	48.803	718	49.521
Loans due from customers	310.778	-	-	-	-	310.778	102.114	412.892
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	7.336	7.336
Leased business premises IFRS 16	-	-	-	-	-	-	6.879	6.879
Other assets	421					421	4.245	4.666
	378.572	**600**	**309**	**13**	**425**	**379.919**	**220.375**	**600.294**
Liabilities								
Deposits to banks	-	-	-	-	-	-	10.056	10.056
Deposits to customers	334.509	-	-	-	-	334.509	114.316	448.825
Liabilities per loans	43.227	-	-	-	-	43.227	-	43.227
Subordinated debt	6.964	-	-	-	-	6.964	-	6.964
Lease liabilities IFRS 16	-	-	-	-	-	-	7.254	7.254
Other liabilities	125	-	-	-	-	125	5.164	5.289
Provisions for employee benefits and other contingent liabilities	-	-	-	-	-	-	758	758
	384.825	**-**	**-**	**-**	**-**	**384.825**	**137.548**	**522.373**
Net foreign currency position	**(6.253)**	**600**	**309**	**13**	**425**	**(4.906)**	**82.827**	**77.921**

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.1. Foreign exchange rate risk (continued)

During 2022, the Bank maintained the open individual foreign currency position within limits permitted for EUR currency up to the maximum of +/- 40% of its core capital and for USD currency up to +/- 20% of its core capital, while the total foreign currency position was within the permitted range (40% of the recognized capital).

Foreign currency sensitivity analysis

The Bank is mostly exposed to EUR. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of fluctuations in the EUR exchange rate.

29.5.2. Interest rate risk

The Bank is exposed to multiple risks, which influence its financial position and cash flows through the effects of changes in the amount of interest rate fluctuations on the market. Interest rate risk is the risk from adverse effect on the Bank's financial result and equity contingent on the changes in interest rates.

The basic objective of interest rate risk management is to minimize adverse effects of changes in interest rates.

Interest rates to loans depend on the volatility of interest rates in the money market as well as on the business policies of the Bank.
Interest rates on loans are fixed for loan repayment periods of up to 36 months, and variable for repayment periods over 36 months. Exceptions to this rule are investment loans for corporate clients and the public sector for which the interest rate is variable for all repayment terms. The Bank opted for a variable interest rate of 6 months EURIBOR rounded to the next major tenth, which is adjusted twice a year on 30.06. and 31.12.
Interest rates on deposits are fixed, and interest rates on loans taken from foreign creditors are variable and are tied to 6 months EURIBOR.

The basic principle of interest rate risk management is matching assets and liabilities per interest rate type (fixed or variable interest rate) and per maturities or dates of redetermining interest rates.

The Bank's top management and Risk Management Department monitor and consider the Bank's optimization of profitability levels and interest rate risk exposure.

Interest rate sensitivity analysis

The sensitivity analyses have been conducted based on the exposure to interest rates for instruments at the statement of financial position date. For variable interest rates, the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date remained the same for the whole year. A 10% increase or decrease rate is used when reporting interest rate risk internally to key management personnel and represents the Bank's management assessment of reasonably possible changes in interest rates.

If interest rates were higher or lower by 10% compared to the existing ones, and if other variables were kept constant, the Bank would have reduced / increased its net profit by BAM 25.236 thousand for the year ended 31 December 2022 (2021: decreased / increased profit by BAM 22.894 thousand).

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.2. Interest rate risk (continued)

The following table provides an overview of the annual interest rates applied to the most significant financial instruments:

	In foreign currency	In domestic currency BAM
Assets		
Obligatory reserve at the Central Bank	-	0,00%-0,10%
Funds over the obligatory reserve	-	(0,25%)
Foreign currency accounts with international banks	0,00%-1,25%	-
Loans to customers up to one year:		
- corporate	-	3,00%-14,99%
- retail	-	4,00% -15,49%
Loans to customers over one year:		
- corporate	-	3,00%-15,49%+6M Euribor
- retail	8,99%-11,29%	2,99%-15,49%+6M Euribor
Liabilities		
Demand deposits corporate	0,00%	0,00%-0,10%
Demand deposits retail	0,00%	0,00%
Short-term deposits:		
- corporate	0,00%-1,45%	0,00%-2,34%
- retail	0,00%-3,80%	0,00%-3,82%
Long-term deposits:		
- corporate	1,47%-2,20%	0,00%-2,60%
- retail	0,00%-4,00%	0,00%-5,00%
Loans:		
EFSE	6MEuribor+2,80% 6MEuribor+4,80%	-
KfW	2,90%	
GGF	6MEuribor+2,80%	-
„Fond za razvoj i zapošljavanje RS“	-	1,20%-2,32%
„Fond stanovanja RS“	-	1,20%-2,40%
„Fond za razvoj istočnog dijela RS“	-	1,20%-2,40%

The Bank is exposed to various risks, which affect its financial position and cash flows through the effects of changes in interest rates on the market.

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.2. Interest rate risk (continued)

The following table shows an overview of interest bearing and non-interest bearing assets and liabilities, as at 31 December 2022 and 31 December 2021:

(In BAM thousand)

		31 December 2022	
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash and cash funds held with the Central Bank	66.305	76.830	143.135
Funds with other banks	-	21.470	21.470
Securities	47.103	749	47.852
Loans due from customers	483.039	-	483.039
Equipment, intangible assets and investment property	-	8.613	8.613
Leased business premises IFRS 16	-	7.106	7.106
Interest, fee and other receivables	523	2.420	2.943
Total monetary assets	**596.970**	**117.188**	**714.158**
Monetary liabilities			
Deposits of customers	328.537	193.026	521.563
Received loans	79.751	652	80.403
Subordinated debt	6.845	22	6.867
Lease liabilities IFRS 16	7.543	-	7.543
Other liabilities	-	7.305	7.305
Provisions for contingent losses	-	1.072	1.072
Total monetary liabilities	**422.676**	**202.077**	**624.753**

(In BAM thousand)

		31 December 2021	
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash and cash funds held with the Central Bank	41.637	65.095	106.732
Funds with other banks	-	12.268	12.268
Securities	48.699	822	49.521
Loans due from customers	412.892	-	412.892
Equipment, intangible assets and investment property	-	7.336	7.336
Leased business premises IFRS 16	-	6.879	6.879
Interest, fee and other receivables	584	4.082	4.666
Total monetary assets	**503.812**	**96.482**	**600.294**
Monetary liabilities			
Deposits of customers	350.315	108.566	458.881
Received loans	43.177	50	43.227
Subordinated debt	6.845	119	6.964
Lease liabilities IFRS 16	7.254	-	7.254
Other liabilities	-	5.289	5.289
Provisions for contingent losses	-	758	758
Total monetary liabilities	**407.591**	**114.782**	**522.373**

29. FINANCIAL INSTRUMENTS (continued)

29.6. Liquidity risk

Liquidity risk is the risk which emerges when the Bank is unable to settle all liabilities when due and in full. The basic objective of liquidity management is to ensure that the Bank has resources obtainable at reasonable costs necessary to discharge all liabilities for expected and unexpected fluctuations in the statement of financial position. Additionally, the process of liquidity management in the Bank needs to ensure liquid resources sufficient to finance the development of its loan portfolio.

The Bank's liquidity management strategy is implemented by controlling the maturity matching of assets and sources of assets based on the realistic and precise projections of cash inflows and outflows, both recurring and non-recurring, for different time periods.

The strategy of asset liquidity risk management includes the following:

- striving to keep liquid assets in the assets that could be sold on the market without losses in the event of greater exposure to liquidity risk (to have at its disposal a sufficient amount of liquid funds to cover possible liabilities at all times);
- Diversification of investments per customers, per industries and per loan maturities.

The strategy of liability management in respect to liquidity includes the following:

- Striving to ensure deposit stability with increasing participation of long-term deposits,
- Maximum diversification of resources according to their maturity, stability, origin, market and instruments,
- Particular attention is paid to large deposits,
- Undertaking arrangements with domestic and foreign banks on mutual extension of interbank liquidity loans which makes it possible to invest liquidity surpluses at an adequate interest rate, that is, in case of insufficient liquidity funds, these resources are available to the Bank at favorable terms.

Primary sources of funds are local deposits acquired by the Bank by applying an adequate deposit policy and interest rate policy.

The adoption, comprehensiveness and implementation of the Program for liquidity risk management is the responsibility of Bank's Supervisory Board and its Management.

Day-today monitoring of the Bank's daily liquidity is the responsibility of the Head of the Treasury and Transactions Department and Liquidity Commission, short-term liquidity is the responsibility of the Liquidity Commission, and long-term liquidity is the responsibility of ALCO (the Asset and Liability Management Committee).

Responsible persons of the Bank:

- monitor the liquidity position and composition of asset and liability maturities,
- perform operational management of liquid assets on daily basis,
- compare the positions with projected position so as to determine trends in the liquidity positions and undertake adjustment measures so the liquidity position and maturity gaps would be in compliance with the law and the limits set by the Bank's Supervisory Board.

The table below shows a GAP analysis of assets and liabilities according to respective maturity based on the outstanding period before the agreed due date by matching receivables and payables per maturity periods in accordance with BARS regulations.

29. FINANCIAL INSTRUMENTS (continued)

29.6. Liquidity risk (continued)

(In BAM thousand)

31 December 2022	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash funds held with the Central Bank	143.135	-	-	-	143.135
Funds with other banks	21.470	-	-	-	21.470
Securities	47.852	-	-	-	47.852
Loans due from customers	18.308	32.353	126.798	305.580	483.039
Equipment, intangible assets and investment property	-	-	-	8.613	8.613
Leased business premises IFRS 16	-	-	-	7.106	7.106
Other assets	2.387	-	21	535	2.943
Total assets	**233.152**	**32.353**	**126.819**	**321.834**	**714.158**
LIABILITIES					
Deposits	215.234	21.198	99.258	185.873	521.563
Liabilities per loans	905	5.426	16.215	57.857	80.403
Subordinated debt	22	-	-	6.845	6.867
Lease liabilities IFRS 16	-	420	1.212	5.911	7.543
Other liabilities	4.676	260	775	1.594	7.305
Provisions for contingent losses	-	-	-	1.072	1.072
Total liabilities	**220.837**	**27.304**	**117.460**	**259.152**	**624.753**
Liability gap	**12.315**	**5.049**	**9.359**	**62.682**	**89.405**

(In BAM thousand)

31 December 2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash funds held with the Central Bank	106.732	-	-	-	106.732
Funds with other banks	12.268	-	-	-	12.268
Securities		-	5.205	44.316	49.521
Loans due from customers	15.387	26.670	106.651	264.184	412.892
Equipment, intangible assets and investment property	-	-	-	7.336	7.336
Leased business premises IFRS 16	-	-	-	6.879	6.879
Other assets	2.108	-	7	2.551	4.666
Total assets	**136.495**	**26.670**	**111.863**	**325.266**	**600.294**
LIABILITIES					
Deposits	143.043	25.145	132.597	158,096	458.881
Liabilities per loans	292	577	12.606	29.752	43.227
Subordinated debt	-	119	6.845	-	6.964
Lease liabilities IFRS 16	-	361	1.064	5.829	7.254
Other liabilities	3.704	229	673	683	5.289
Provisions for contingent losses	-	-	-	758	758
Total liabilities	**147.039**	**26.431**	**153.785**	**195.118**	**522.373**
Liability gap	**(10.544)**	**239**	**(41.922)**	**130.148**	**77.921**

29. FINANCIAL INSTRUMENTS (continued)

29.7. Operational risk

Operational risk management is an important part of the Bank's business as it minimizes adverse effects on the income and equity of the Bank. Operational risk management implies the following:
- forming a network of operational risk custodians and reporters across departments and divisions, who are in charge of taking activities in the area of operational risk management,
- maintaining records on harmful events occurrences,
- operational risk identification and assessment within all processes and adoption of measures for risk minimization,
- regular reporting on damages incurred and detailed review of risks identified per process,
- monitoring of implementation of the proposed measures for the review of operational risks.

Operational risk management is based on:
- monitoring of incurred harmful events in the scope of operational risks,
- risk identification per process within the Bank,
- significant risk measurements,
- continuous monitoring and control of operational risks,
- forming the minimum amount of adequate capital.

Monitoring of incurred harmful events in the scope of operational risks results in the historical review of the scale and type of actually occurred operational risks and is performed in accordance with the Procedure and instructions for recording of harmful events.

Operational risk management includes the following activities:
- identification of existing sources of operational risks and sources contingent on the introduction of new products, systems and activities,
- operational risk measurement through accurate and timely risk estimates,
- continuous control of operational risks ensuring the maintenance thereof up to the level acceptable for the Bank's risk profile, its reduction and minimization;
- continuous monitoring of operational risks by analyzing amounts, changes and trends of the Bank's exposure thereto;
- forming the minimum amount of capital for protection against incurring operational risk-based losses (MAKOR),
- clear definition of authority and responsibility lines in the process of operational risk assumption and management,
- setting up a system to ensure that all Bank's employees become familiar with their respective obligations in the process of operational risk management,
- setting up a system for regular reporting to the Supervisory Board and Management Board on functioning of the operational risk management,
- obligatory regular periodical review and obligation of the Bank's Supervisory Board to analyze and assess the adequacy of the established system for operational risk management at least annually.

29.8. Capital management

Capital is a rare economic resource and capital management is one of the most important components of prudent, efficient and strategic planning and management of the Bank. The capital management policy includes ensuring and maintaining the quantity and quality of capital at least at the level of the minimum standards set out in the Decision on minimum standards for managing banks' capital and capital protection, that is, the minimum amount of initial capital and the minimum amount of net capital that the Bank must maintain may not be less than BAM 15 million. Pursuant to the Decision, the Bank's capital comprises the amounts of core (Tier 1), supplementary (Tier 2), and net capital represents the amount of capital less deductible items.

The Bank's policy for maintaining the quantity and quality of the capital include the following:
- respect of the shareholder composition and profile, focus on shareholders from the banking sector and areas of micro crediting, financial investment, corporate shareholders and individuals,
- policy of diverse equity instruments, particularly within the core and supplementary capital, and decrease or avoidance of the capital deductibles of the Bank,
- in respect of the profit distribution, increase in the Bank's total capital in accordance with the effective regulations,
- in respect of the capital adequacy, when the capital adequacy ratio falls below 15%, the Bank undertakes activities to improve capital adequacy by new share issues, increase of supplementary capital by setting as priorities restructuring of bad assets, write-off of liabilities and obtaining subordinated debts.

29. FINANCIAL INSTRUMENTS (continued)

29.8. Capital management (continued)

Procedures for continuous monitoring of the balances are implemented through:

- maintaining up-to-date accounting records,
- monitoring capital balances per quantity, quality and structure,
- monitoring and analyzing balance sheet items and off-balance sheet credit equivalents,
- reporting on changes in capital and changes that could have material adverse effect on the capital adequacy,
- proposing necessary measures to be taken in order to ensure the quantity and quality structure of capital,
- planning the capital in terms of anticipating the Bank's future needs and requirements for capital.

In accordance with legal regulations, the Bank is obliged to maintain a capital adequacy of at least 12%, and the Bank's management regularly monitors the indicators of the Bank's capital adequacy and submits the report in the prescribed form, on a quarterly basis, to BARS. In accordance with decision number 02-21-212-1866-3/21 dated 29.12.2021, BARS prescribed to the Bank an additional requirement for capital in the amount of 1% on the capital rates prescribed by the Decision on the calculation of banks' capital.

As at 31 December 2022, the Bank was in full compliance with all the prescribed capital indicators:

	As at	
	31 December 2022	**31 December 2021**
Regular share capital	89.131	69.119
Supplementary capital	6.845	1.102
Regulatory capital	**95.976**	**70.221**
Total amount of risk exposure	489.902	413.605
% share capital adequacy	**18,19%**	**16,71%**
% regulatory capital adequacy	**19,59%**	**16,98%**

By decision of the Bank's Shareholders' Assembly, the accumulated unallocated profit from 2021 was allocated to retained earnings and legal reserves in 2022. Increase in regulatory capital at the reporting date 31 December 2022 occurred by including and recognizing the profit of the current period of 2022 through the item of regular basic capital, and before the approval of the distribution of profit by the Supervisory Board of the Bank. The inclusion of the profit of the current period in the item of regular basic capital was made after obtaining the consent of the Banking Agency of the Republic of Srpska (Decision No. 03-245-2/2023). After the Supervisory Board approves the distribution of profit for the current period, it will be distributed to other reserves in accordance with legal provisions and to retained profit.

In the fourth quarter of 2022, the Bank realized a new subordinated loan with the EFSE fund (the previous loan was repaid in October 2022) in the amount of BAM 6.845 thousand, which additionally ensured an increase in regulatory capital through supplementary capital. By Decision No. 03-2244-5/22 dated 27 December 2022, the Banking Agency of the Republic of Srpska approved the inclusion of subordinated debt in the additional capital of the Bank in the amount of BAM 6.845 thousand.

30. POST-REPORTING DATE EVENTS

After 31 December 2022, there were no significant events after the reporting date that would require the adjustment of the Bank's financial statements as at 31 December 2022, and the events that must be disclosed in the notes to the financial statements are stated below:

1. There was a change within the Bank's Management Board after 31.12.2022.

The Bank's Management Board as at 31 December 2022 consists of the following:
- Bojan Luburić, chairperson
- Saša Sekulić, member
- Dragan Đurić, member

As at 1 March 2023, the Bank's Management Board consists of the following:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Dragana Janjić, member

As at 19 April 2023, the Bank's Management Board consists of the following:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member (acting)

2. There was a change within the Bank's Audit Board after 31.12.2022.

The Bank's Audit Board as at 31 December 2022 consists of the following:
- Đurđica Dragojević, chairperson, independent member
- Milena Haneš, member
- Sanja Brkić, member
- Mira Cvijan, member
- Željko Pena, member

As at 1 February 2023, the Bank's Audit Board consists of the following:
- Đurđica Dragojević, chairperson, independent member
- Zoran Đukić, member
- Sanja Brkić, member
- Mira Cvijan, member
- Željko Pena, member

3. There was a change within capital structure after 31.12.2022.

Capital structure as at 31 December 2022:

	Number of shares	**In BAM thousand**	**%**
MKD Mikrofin d.o.o., Banja Luka	404.981	40.498	79,19%
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57%
KfW, Germany	47.259	4.726	9,24%
	511.410	**51.141**	**100,00**

30. POST-REPORTING DATE EVENTS (continued)

Capital structure as at 30 March 2023:

	Number of shares	In BAM thousand	%
MKD Mikrofin d.o.o., Banja Luka	255.598	25.560	49,98%
MF grupa d.o.o., Banja Luka	149.383	14.938	29,21%
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO). Holland	59.170	5.917	11,57%
KfW, Germany	47.259	4.726	9,24%
	511.410	**51.141**	**100,00**

31. FOREIGN EXCHANGE RATES

The official foreign exchange rates used in the translation of statement of financial position items as at 31 December 2022 and 31 December 2021 were as follows:

		In BAM
	31 December 2022	**31 December 2021.**
USD	1,8532	1,7256
CHF	1,9698	1,8873
EUR	1,9558	1,9558