Financial statements for the Year ended 31 December 2023 prepared in accordance with IFRS and Independent Auditor's Report

MF Banka a.d. Banja Luka

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Responsibility of the Bank's Management and Supervisory Board for the preparation and approval of the financial statements

The Bank's management is obliged to prepare financial statements which provide an objective and true presentation of the Bank's financial position, as well as the results of its operations and cash flow in accordance with applicable accounting standards, and is responsible for keeping appropriate accounting records that enable the preparation of financial statements at all times.

The Bank's management has a general responsibility for taking steps that are reasonably available in order to enable the preservation of the Bank's assets, and to prevent and detect fraud and other irregularities.

The Bank's management is responsible for choosing appropriate accounting policies that are in accordance with applicable accounting standards and for their consistent application, making reasonable and prudent assumptions and estimates, and preparing financial statements on a going concern basis, unless it is assumed that the Bank's going concern is not appropriate.

The Bank's management is obliged to submit the Bank's annual report together with the annual financial statements to the Supervisory Board for approval.

The financial statements on pages 5. to 89. have been approved by the Management Board for submission to the Supervisory Board on 15 April 2024.

For and on behalf of the Management Board

Chairperson of the Bank's Management Board

Independent Auditor's Report

Grant Thornton d.o.o. Banja Luka
Vase Pelagića 2/IV
78 000 Banja Luka
Republika Srpska
Bosna i Hercegovina

T +387 51 211 509; +387 51 211 294
F +387 51 211 501
E office@ba.gt.com
www.grantthornton.ba

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 2023, and the statement of 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 2023, 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 599.606 thousand, that is, the net value in the amount of BAM 548.606 thousand and the impairment for expected credit losses in the amount of BAM 51.421 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 2023. 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, 19 April 2024

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 COMPREHENSIVE INCOME
For the year ended 31 December 2023
(In BAM thousand)

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Interest income calculated based on the effective interest rate	5	51.242	43.578
Interest expenses calculated based on the effective interest rate	6	(11.521)	(8.270)
Net interest income		**39.721**	**35.308**
Fee and commission income	7	13.398	11.602
Fee and commission expenses	8	(2.917)	(2.793)
Net fee and commission income		**10.481**	**8.809**
Other operating income	9	3.424	2.755
Other operating expenses	10	(33.693)	(23.306)
Exchange rate differences, net		(35)	25
Impairment and provisions (net provisions)	11	(8.913)	(10.757)
Profit from operations before taxes		**10.985**	**12.834**
Income tax	12	(1.796)	(1.519)
Net profit of the current year		**9.189**	**11.315**
Other comprehensive income		246	170
Changes in the fair value of debt instruments that are measured at fair value through other comprehensive income		246	170
Total comprehensive income for the accounting period		**9.435**	**11.485**
Earnings per share:			
- Basic earnings per share (in BAM)	24	17,97	22,13

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 15 April 2024.

Signed on behalf of "MF Banka a.d." Banja Luka:

Aleksandar Kremenović
Acting Chairperson of the Management Board

MF banka BANJA LUKA AKCIONARSKO DRUŠTVO 1

Nikolina Vujkovac Paden
Head of the Accounting and Finance Sector

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023
(In BAM thousand)

	Note	31 December 2023	31 December 2022
ASSETS			
Cash funds and assets held with banks	13	104.361	107.438
Assets held with the Central Bank – obligatory reserve	14	65.319	57.167
Securities	15	48.518	47.852
Loans to customers	16	548.185	479.817
Property and equipment	17	4.954	3.896
Intangible assets	17	373	275
Investment property	17.1	4.384	4.442
Leased business premises	17.2	6.522	7.106
Other assets	18	2.605	2.387
Total assets		**785.221**	**710.380**
LIABILITIES AND EQUITY			
Liabilities			
Deposits to banks	19	8.746	7.586
Deposits to customers	19	573.669	513.977
Liabilities per taken loan	20	79.144	79.913
Subordinated debt	21	13.829	6.801
Other liabilities and equity	22	10.356	11.750
Provisions for employee benefits and contingent liabilities	11 c)	637	948
Total liabilities		**686.381**	**620.975**
Equity			
Share capital	23	51.141	51.141
Share premium		1.307	1.307
Equity reserves	23	3.252	2.441
Accumulated profit/(loss)		33.951	23.201
Profit of the current period		9.189	11.315
Total equity		**98.840**	**89.405**
Total liabilities and equity		**785.221**	**710.380**
Contingent liabilities and commitments	25	154.082	116.352

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023
(In BAM thousand)

	Share Capital	Share Premium	Equity Reserves	Accumulated profit/(loss)	Total
Balance, 1 January 2022	**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**
Allocation of reserves debited to accumulated profit	-	-	565	(565)	-
Total transactions with owners	***-***	***-***	***565***	***(565)***	***-***
Net profit of the current period	-	-	-	9.189	9.189
Revaluation reserves based on securities	-	-	246	-	246
Comprehensive income for the accounting period	***-***	***-***	***246***	***9.189***	***9.435***
Balance, 31 December 2023	**51.141**	**1.307**	**3.252**	**43.140**	**98.840**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023
(In BAM thousand)

	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities:		
Interest receipts	50.781	40.949
Fee and commission receipts	9.050	10.813
Interest paid	(4.924)	(7.302)
Fee and commission paid	(3.183)	(3.049)
Collection of written-off receivables	1.824	952
Payments to employees and suppliers	(30.330)	(18.205)
Net cash from operating activities	**23.218**	**24.158**
Changes in operating assets and liabilities:		
Net increase in loans due from customers	(84.293)	(77.263)
Investments in other banks	-	-
Income tax paid	(1.527)	(1.403)
Net increase in deposits due to customers	58.316	63.282
Net cash from/(used in) operating activities	**(4.286)**	**8.774**
Cash flows from investing activities:		
Interest receipts	1.422	1.429
Purchase of intangible assets	-	(129)
Purchase of fixed assets	(265)	(1.043)
Purchase of other investments	(798)	1.394
Net cash (used in) investing activities	**359**	**1.651**
Cash flows from financing activities:		
Commitments per loans	35.325	57.614
Repayments per loans	(26.286)	(22.411)
Net cash from/(used in) financing activities	**9.039**	**35.203**
Net increase in cash funds	5.112	45.628
Calculated interest on the amount of the obligatory reserves	21	-
Effects of exchange rate changes	(35)	27
Effects of value adjustment change	(23)	(50)
Cash funds, beginning of the year	**164.605**	**119.000**
Cash funds, end of the year	**169.680**	**164.605**
Cash funds comprise of the following items:		
- Cash funds and assets held with banks	104.361	107.438
- Assets held with the Central Bank – obligatory reserve	65.319	57.167
	169.680	**164.605**

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 2022 and 31 December 2023. The ultimate parent company is “MF grupa d.o.o.” Banja Luka.

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 2023, the Bank operates in its headquarters in Banja Luka, Aleja Svetog Save street 61 and in affiliates in Banja Luka, Prijedor, Bijeljina, East Sarajevo, Tuzla, Cazin, Sarajevo center, Tešanj, as well as in branch offices in Banja Luka, Laktaši, Gradiška, Prnjavor, Teslić, Novi Grad, Modriča, Brčko, Zvornik, Pale, Bihać, Gradačac, Ilidža, Zenica, Trebinje, Derventa, Gračanica, Živinice, Novi Grad Sarajevo, Bugojno, Srebrenik, Velika Kladuša and via counter in Nova Topola, Omarska, Petrovo, Kostajnica and Trn.

As at 31 December 2023, the Bank had 334 employees (31 December 2022: 293 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 2023, the management bodies of the Bank consist of the following:

Supervisory Board:

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

Supervisory Board until 3 November 2023:

- Aleksandar Kremenović, chairperson
- Darko Radić, 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 19 April 2023:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

Management Board as of 1 March until 19 April 2023:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Dragana Janjić, member

Management Board until 1 March 2023:
- Bojan Luburić, chairperson
- Saša Sekulić, member
- Dragan Đurić, member

Audit Board as of 15 December 2023:
- Đurđica Dragojević, chairperson, independent member
- Zoran Đukić, member
- Sanja Brkić, member
- Ivana Živković, member
- Željko Pena, member

Audit Board as of 1 February until 15 December 2023:
- Đurđica Dragojević, chairperson, independent member
- Zoran Đukić, member
- Sanja Brkić, member
- Mira Cvijan, member
- Željko Pena, member

Audit Board until 1 February 2023:
- Đurđica Dragojević, chairperson, independent member
- Milena Haneš, 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 3.203 thousand in relation to the amount obtained by calculation which is the result from the internal model of the Bank, in accordance with requirements of IFRS 9.

Differences as at 31.12.2023 and 31.12.2022 are as follows:

	(In BAM thousand)	
	31 December	
	2023	**2022**
- Application of minimum rates of impairment prescribed in Article 23. of the Decision for credit risk exposures 1 – Stage 1	1.271	159
- Application of minimum rates of impairment prescribed in Article 24. of the Decision for credit risk exposures 2 – Stage 2	1.378	1.038
- Application of minimum rates of impairment prescribed in Article 25. of the Decision for credit risk exposures 3 – Stage 3	807	368
- 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	(253)	(214)

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. Comparative data

As comparative data in the accompanying financial statements, the Bank presented comparative data for 2022, which, due to the application of the Rulebook on the new accounting framework, were reclassified in certain items differently from the financial statements published for 2022. These reclassification had no impact on the Bank's result.

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

2.5. Going concern principle

The Bank 's Management has assessed the Bank' s ability to continue as a going concern, including 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.

2.6. 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:

- IAS 1 „Presentation of Financial Statements“ – Amendments to the classification of liabilities (1 January 2023);
- IAS 1 „Presentation of Financial Statements“ – Disclosure initiative — Accounting policies – Amendments (1 January 2023);
- IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors“ – Amendment to the definition of accounting estimates (1 January 2023);
- IAS 12 „Income tax“ – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (1 January 2023);
- IFRS 17 „Insurance contracts“ – Amendments (1 January 2023).

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:

- IAS 1 „Presentation of Financial Statements“ – Amendments to the classification of liabilities as current or non-current (1 January 2024);
- IAS 1 „Presentation of Financial Statements“ – Amendments to non-current liabilities with covenants (1 January 2024);
- IAS 7 „Statement of Cash Flows“ and IFRS 7 „Financial instruments – Disclosure “ – Amendments to supplier finance arrangements (1 January 2024);
- IFRS 16 „Leases“ – Amendments to lease liability in a sale and leaseback (1 January 2024).

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.

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 2023 and 2022, 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:
- financial assets are held within a business model aimed at holding financial assets in order to collect contractual cash flows.
- 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:
- financial assets are held within a business model aimed at collecting contractual cash flows and selling the financial asset.
- 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 (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 for calculating the allowance for expected credit losses according to the requirements of IFRS 9 and the BARS decision on credit risk management and determination of expected credit losses includes 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.
- 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.

According to the requirements of IFRS 9, provisions/impairment for expected credit risks must be created after assigning a financial instrument to the appropriate credit risk levels if there is objective evidence of impairment affecting the expected future cash flows from the financial instrument or if there are indications of potential impairment.

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.

The materiality thresholds for the counter of days imply the fulfillment of both stated conditions.

The counter of days of delay is included on the date when the total overdue receivables of that debtor exceed a materially significant amount and amount to more than 1% of the debtor's total balance sheet exposure, and it is reset when the total receivables fall below that level. When the debtor exceeds the specified materiality threshold, the number of days of delay increases by one day each day, and stops only when the due liabilities are settled below the specified threshold.

The counter of days of delay works on the principle that when the debtor is materially late in paying liabilities to the bank, the number of delays is increased by one. If the counter has reached 91 days in a row, it is considered that the condition for entering the debtor's default status has been met. The counter is reset when the debtor makes a payment that eliminates the existence of a delay in a materially significant amount.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Allowance for receivables (IFRS 9 application – Financial instruments)

The Bank allocates each exposure valued at amortized cost and at fair value through other comprehensive income into one of the following categories:

- Credit risk level 1 – low level of credit risk (performing)
- Credit risk level 2 – increased level of credit risk (underperforming)
- Credit risk level 3 – exposures in which value has been impaired, that is exposures in non-performing status.

The bank determines the default status (credit risk level 3) when one or both of the following conditions are met:

- The client is late in repaying his obligations to the Bank for more than 90 days in a materially significant amount;
- Identified UTP conditions, i.e. the Bank considers it certain that the client will not fully settle his obligations to the Bank, not taking into account the possibility of collection from the collateral.

Taking into account potential indicators that indicate an increase in credit risk, the Bank has defined the following events as UTP (unlikeliness to pay) conditions

- 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 client's current financial difficulties, which will result in a reduction of the debtor's financial obligation,
- initiated bankruptcy proceedings or liquidation of the client,
- if the client has not fulfilled his obligation to the Bank within 60 days at the latest from the day when the protest was made on the basis of the previously issued guarantee,
- when the client's account is continuously blocked for more than 60 days,
- restructured exposures that were assigned to credit risk level 3 at the time of modification remain in default status until the conditions for assignment to lower credit risk levels are met,
- POCI assets during the initial designation (approval), at least in the first year,
- the client's sources of income are reduced by more than 50%, and the same affects the ability to settle obligations to the Bank,
- the client is a co-borrower or guarantor for a loan that is in default, and the remaining claim and installment is so large that it significantly affects his creditworthiness and directly threatens the repayment of the loan in the Bank,
- the Bank initiated a lawsuit against the debtor before the competent court,
- the Bank initiated the procedure of compulsory collection from the collateral,
- fraud – the Bank determined that during the approval of the loan, fraud was committed through the submission of incorrect, incomplete information as well as the falsification of documents,
- significant deterioration of the client's financial indicators, that is, indicators defined by the Procedure for determining the status of default,
- for newly established entities and exposures based on project financing, if the estimated future cash flows are inadequate and if during the repayment of the loan there is a significant deviation from the initial business plan, that is, the realization of the project,
- level of credit quality in another bank,
- M5 monitoring classification as a result of the process of regular/extraordinary monitoring of the client.
- in the case of natural persons, if a company or an independent business owned by the debtor is in default, and the client guarantees the obligations of that company or independent business with personal assets.

When it comes to exposure modifications due to financial difficulties of clients, for the purposes of determining the existence of UTP conditions, the Bank reviews the following indicators:

• large one-time payment at the end of the period provided for in the repayment plan,
• repayment plan in which significantly lower payment amounts are foreseen at the beginning,
• longer grace period, taking into account the purpose of the loan,
• exposures to the debtor that have been restructured several times compared to the initial exposure.

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.

Expected credit losses for legal and natural persons are determined on an **individual** basis, for individually significant exposures assigned to credit risk level 3, that is, which are greater than:

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

Also, assets classified as POCI assets are depreciated on an individual basis.

Exceptionally from the above, the Bank determines expected credit losses on an individual basis for certain items that are assigned to credit risk level 2, that is, if a significantly increased exposure to credit risk has been identified and/or the calculation on a group (portfolio) basis does not reflect the identified level of client risk, and if BARS, through supervision, determines and orders the Bank to calculate expected credit losses on an individual basis.

Parameters of the internal model for calculating the value adjustment - PD

To calculate the PD parameter, we divide the portfolio into:

- segment with balances
- segment without a balances.

In addition to dividing the portfolio into segments, the PD homogeneous group is also affected by the internal rating class, so we distinguish 20 PD homogeneous groups.
When calculating the PD, the principle of monotony is respected, that is, that each homogeneous group must have a higher PD than the previous one, while the PD for rating 10 (non-profitable rating) must be 100%.

Internal rating range:
Rating from 1 to 4 - strong
Rating from 5 to 7 - satisfactory
Rating from 8 to 9 - high risk
Rating 10 - risky

Probability of default (PD), that is, the debtor's probability of defaulting during the period of the financial instrument is one of the basic parameters used in the calculation of impairment.
The PD parameter can be determined by statistical methods, based on an expert assessment or by a hybrid method (which simultaneously includes expert and statistical determination of individual parts required for the assessment of credit risk parameters). In order to ensure that the estimates of the (12-month and multi-year) values of the PD parameters that the Bank uses when calculating expected credit losses are credible and reliable measures of the process of entering the default status during the lifetime of its exposures, the Bank is guided by the principles of impartiality and all other guidelines prescribed by the competent regulator (BARS) and IFRS 9.
The Bank calculates the PD parameter for the corresponding homogeneous groups on the basis of transition matrices, taking into account the available time series.

Parameters of the internal model for calculating the value adjustment - LGD

When segmenting the portfolio for the purposes of calculating the LGD parameter, we observe three criteria:

- security of exposure (secured and unsecured)
- clients with balances (with and without balances)
- number of years in default.

By combining the first 2 criteria, we segment the portfolio into 4 basic LGD client groups:

1. Clients with balances and with security
2. Clients with balances and without security
3. Clients without balance and with security
4. Clients without balance and without security

Depending on whether the client has/does not have balances and collateral, and based on the number of years in default, we distinguish 32 LGD homogeneous groups.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Parameters of the internal model for calculating the value adjustment - LGD (continued)

The Bank regularly checks the adequacy of established homogeneous groups, taking into account new information (realized occurrences of default status for the PD parameter, recovery rates for the LGD parameter, etc.), and macroeconomic factors. If this verification determines that it is necessary, the Bank will resegment the exposure and form new homogeneous groups. At the same time, the level of granularity of the homogeneous group must be sufficient to adequately assess changes in the level of the corresponding credit risk parameter. Loss given default (LGD parameter) represents the Bank's internal assessment of the level of expected loss related to exposure in the event of default.

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 (and a period of one year), in order to obtain the present value of collection after the occurrence of default status.

Parameters of the internal model for calculating the value adjustment - EAD

EAD, that is, exposure at default, is an estimate of the amount of exposure at the time of the status of default, based on the contractual and expected cash flows until maturity.
The maximum period that the Bank takes into account when measuring expected credit losses is the maximum contractual period during which the Bank is exposed to credit risk.

The Bank reduces the amount of exposure at the time of default status by the amount of the cash deposit deposited with the Bank, which serves as collateral for that exposure, and is pledged in the competent pledge register, only if that deposit has the same or longer maturity than the exposure.
The bank determines the exposure at the time of default status for off-balance sheet exposures by multiplying the book value of the off-balance sheet item by the credit conversion factor (CCF).

Therefore, default exposure represents the amount that the Bank can expect to lose on average during the time period in which it extends loan repayment and this estimate includes balance sheet items as well as off-balance sheet items (unused financial monitoring frameworks, potential future exposure and potential receivables) that are typically weighted by the specified factor.

Collateral

The methodology defines the types of security assets (collateral) and parameters related to collateral that are used when calculating value adjustments on an individual and portfolio (group) basis. By applying the defined parameters for individual types of collateral, for the purposes of calculating the individual value correction on individually materially significant exposures secured by these types of collateral, the expected cash flow reduced through discounting to the present value is obtained.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Credit risk management

The Bank assumes credit risk, which represents the possibility of negative effects on the Bank's financial results due to non-fulfillment of the debtor's contractual obligations to the Bank. Credit risk represents the most significant risk for the Bank's operations, which for this reason manages its exposure to credit risk. Exposure to credit risk is primarily based on lending activities, i.e. loan approval. Credit risk is also present in off-balance sheet financial instruments, such as guarantees and undrawn credit lines.

The Bank manages credit risk by implementing a lending strategy directed towards entrepreneurs, micro, small and medium-sized enterprises (MSME), that is, towards the Sector for entrepreneurs, in accordance with the internal division and wide dispersion of risks.

The Bank manages credit risk by approving standardized credit products in accordance with its lending policy. Credit products and their basic characteristics in terms of amount, term, interest rate, fee, and mandatory security are defined in the Catalog of Credit Products. The risk management sector, as a control function of risk management, is involved in the definition of credit products and their assessment 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 has clearly defined the method of processing risky products, the necessary documentation for individual market sectors, the steps of the credit process, as well as the organizational parts and individual executors responsible for their implementation, in internal acts. These documents prescribe all the forms used during the processing and monitoring of loans, as well as the method and forms of credit analysis for assessing creditworthiness (creditworthiness) depending on belonging to the market sector (entrepreneurs, corporate and public clients and the population). The bank approves loans in accordance with the defined loan approval procedure, based on an assessment of the debtor's creditworthiness and security instruments. Credit decisions are made on the basis of defined limits for individual exposures and defined limits of the total exposure of the client or group of related parties. In the Bank, there are 5 levels of authority for approving placements, the highest of which is the Supervisory Board of the Bank, and the lowest is the Credit Committee of the branch. Processing of credit requests for all sectors or market segments is done decentralized, that is, within the corresponding sales sectors. The processing of credit requests from the receipt of the loan request to the placement of the loan is done through an application credit module adapted to the needs of the sales sector (Front office).

The instructions for the collection and management of overdue unpaid obligations, as well as the Monitoring Procedure, define the way of monitoring and monitoring of existing placements, as well as the competences and responsibilities for the implementation of collection activities. With the aforementioned instruction, the Bank defined the method of conducting daily and monthly collection monitoring, within which certain steps of managing problematic placements are implemented.

In order to manage the delinquent portfolio in a high-quality, systematic and reviewed manner, internal procedures defined 2 documents, namely: "Irregular repayment file" and "Collection strategy". "Irregular repayment file" is a report that provides an overview of already performed activities on loans in arrears of more than 30 days and is kept until the loan obligations are settled in full. Credit officers are obliged to keep a file of irregular repayments and chronologically record all activities undertaken in order to collect claims. The management of this form is supported by software within the credit module used by the Front office. "Collection strategies" is a report that provides an overview of the planned activities that will be undertaken in order to collect claims, that is, the agreed collection strategy.

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 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Non-performing exposures (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 from Article 20 ceased to be fulfilled. "Decisions on credit risk management and determination of expected credit losses" prove regularity in repayment (they make repayments in accordance with the agreed repayment plan, without delay >30 days on the last day of the month) are returned to the jurisdiction 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.

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 CALCULATED BASED ON THE EFFECTIVE INTEREST RATE

(In BAM thousand)

	Period ended 31 December 2023	2022
Interest income from:		
Banks and banking group	230	2
Enterprises	32.229	26.596
Retail	17.348	16.017
Public sector	1.133	894
Non-profit organizations	27	60
Other	275	9
Total:	**51.242**	**43.578**

6. INTEREST EXPENSES CALCULATED BASED ON THE EFFECTIVE INTEREST RATE

(In BAM thousand)

	Period ended 31 December 2023	2022
Interest expenses from:		
Retail	6.413	5.424
Public sector	224	77
Non-banking financial institutions	369	448
Interest on subordinated debt	785	423
Interest on loans	3.275	1.619
Enterprises	277	207
Non-profit organizations	75	39
Banks and bank institutions	95	30
Other	8	3
Total:	**11.521**	**8.270**

7. FEE AND COMMISSION INCOME

(In BAM thousand)

	Period ended 31 December 2023	2022
Fee and commission income from domestic and international payment transactions	8.558	7.473
Income from foreign change transactions	2.184	2.027
Fees and commissions per loans	951	808
Fees and commissions per off-balance transactions	1.705	1.294
Total:	**13.398**	**11.602**

8. FEE AND COMMISSION EXPENSES

(In BAM thousand)

	Period ended 31 December 2023	2022
Central Bank fees based on domestic payment transaction services	731	1.138
Fees based on card transactions	1.293	805
Fees based on sale and purchase of foreign exchanges	360	314
Fees for international payment transaction services	315	361
Fees based on loan processing	187	136
Other fees and commissions	31	39
Total:	**2.917**	**2.793**

9. OTHER OPERATING INCOME

(In BAM thousand)

	Period ended 31 December 2023	2022
Collection of written-off suspended interest	1.872	1.055
Other income	1.552	1.700
Total:	**3.424**	**2.755**

10. OTHER OPERATING EXPENSES

(In BAM thousand)

	Period ended 31 December 2023	2022
Gross personal income	12.410	10.274
Remunerations to members of the Supervisory Board, Audit Committee, employees help	409	279
Professional education of employees	76	69
Materials and services	886	821
Business trips	170	61
Telecommunication and postage services	869	729
Equipment/software maintenance	870	681
Marketing and advertising	667	556
Leases	557	442
Membership fees	203	182
Representation	328	410
Assets' security services	1.376	1.158
Depreciation/Amortization (Note 17)	3.243	2.666
Taxes and contributions	233	166
Fees	1.299	900
Write-off of uncollectable receivables	6.897	149
Fees for third party engagements	287	302
Other	2.913	3.461
Total:	**33.693**	**23.306**

Gross personal income	Period ended 31 December 2023	2022
Net salaries	7.832	6.304
Taxes	648	559
Contributions	3.930	3.411
Total gross personal income:	**12.410**	**10.274**

11. IMPAIRMENT AND PROVISIONS

a) Debited to expenses

(In BAM thousand)

	Period ended 31 December 2023	2022
Cash funds and cash with other banks	(239)	(270)
Loans due from customers	(95.051)	(77.207)
Other assets and securities	(2.289)	(4.886)
Contingent liabilities and commitments	(3.943)	(3.504)
Total:	**(101.522)**	**(85.867)**

11. IMPAIRMENT AND PROVISIONS (continued)

b) Reversal of provisions credited to income

(In BAM thousand)

	Period ended 31 December 2023	2022
Cash funds and cash with other banks	216	220
Loans due from customers	85.668	70.656
Other assets and securities	2.471	1.024
Contingent liabilities and commitments	4.254	3.210
Total:	**92.609**	**75.110**
Net provisions	**(8.913)**	**(10.757)**

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 (Note 11)	Total
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**
Provisions during the year	239	95.051	2.286	-	3.943	101.519
Reversal of provisions	(216)	(77.915)	(2.301)	-	(4.254)	(84.686)
Reversal of provisions based on the sale of part of the loan portfolio	-	(7.753)	(168)	-	-	(7.921)
Provisions based on securities stated at fair value through other comprehensive income	-	-	-	3	-	3
Reversals based on securities stated at fair value through other comprehensive income	-	-	-	(2)	-	(2)
Accounting written-off receivables	-	(3.775)	(127)	-	-	(3.902)
Balance, 31 December 2023	**230**	**51.421**	**7.013**	**49**	**637**	**59.350**

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 2023	2022
Profit before taxes	10.985	12.834
Income tax calculated at the rate of 10%	1.098	1.283
Tax reduction for tax exempt income	(3.740)	(3.082)
Expenses not recognized for tax purposes – impairment of loans and other assets	3.219	3.192
Other expenses not recognized for tax purposes	905	122
Not recognized tax credit	314	4
Total income tax	1.796	1.519
Income tax RS	1.008	963
Income tax realized in the branch office in Brčko District	718	497
Income tax realized in the branch offices in FBiH	70	59
Total income tax	1.796	1.519
Effective income tax rate	16,35%	11,84%

For the business year 2023, 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 2022.

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 FUNDS AND ASSETS HELD WITH THE CENTRAL BANK

(In BAM thousand)

	31 December 2023	31 December 2022
Cash funds:		
- in BAM	10.461	8.413
- in foreign currencies	6.708	8.399
	17.169	**16.812**
Funds at the Central Bank of BiH in BAM:		
- Gyro account	50.195	66.371
- Foreign cash funds	4.566	2.855
	54.761	**69.226**
Assets with other banks:		
- domestic banks	1.125	2.707
- foreign banks	31.471	18.843
	32.596	**21.550**
Gross value	**104.526**	**107.588**
Value adjustment	(165)	(150)
Total:	**104.361**	**107.438**

14. ASSETS HELD WITH THE CENTRAL BANK - OBLIGATORY RESERVE

(In BAM thousand)

	31 December 2023	31 December 2022
Assets held with the Central bank:		
- obligatory reserve	65.363	57.224
- due interest on the obligatory reserve held with CBBH	21	-
Gross value:	**65.384**	**57.224**
Value adjustment of cash funds held with the Central bank - obligatory reserve	(65)	(57)
Total:	**65.319**	**57.167**

In accordance with the Decision of the Central Bank of Bosnia and Herzegovina on determining and maintaining mandatory reserves, the Bank is obliged to maintain and calculate the mandatory reserve on deposits (which form the basis for calculating the mandatory reserve) according to the balance at the end of each working day during the ten calendar days preceding the maintenance period . The reserve requirement represents the sum of 10% of total deposits with a maturity of up to one year and total deposits with a maturity of more than one year. Calculated interest, fees and commissions that are due for payment are included in the base for calculating the mandatory reserve.

15. SECURITIES

(In BAM thousand)

	31 December 2023	31 December 2022
Securities - war damage stated at fair value through other comprehensive income	1.402	1.599
Securities – Republic of Srpska government bonds, stated at fair value through other comprehensive income	46.341	45.504
Accrued interest	775	749
Total:	**48.518**	**47.852**

Debt securities as at 31 December 2023 in the amount of BAM 48.518 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 2023
Securities	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities stated at fair value through other comprehensive income	-	48.518	-	48.518
Total:	**-**	**48.518**	**-**	**48.518**

15. SECURITIES (continued)

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2023	**-**	**47.852**	**-**	**47.852**
Purchased principle instruments	-	7.407	-	7.407
Purchased interest instruments	-	-	-	-
Sold principle instruments		(479)		(479)
Sold interest instruments		(17)		(17)
Repaid principle instruments	-	(6.129)	-	(6.129)
Repaid interest instruments	-	(1.405)	-	(1.405)
Accrued interest	-	1.044	-	1.044
Change in fair value of principle	-	30	-	30
Change in fair value based on discount / premium depreciation	-	215	-	215
Fair value as at 31 December 2023	**-**	**48.518**	**-**	**48.518**

	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**

Movements in provisions for debt securities per expected loss level:

	Level 1	Level 2	Level 3	Total
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**
Allowance as at 1 January 2023	**-**	**48**	**-**	**48**
Provision during the year	-	3	-	3
Reversal during the year	-	(2)	-	(2)
Allowance as at 31 December 2023	**-**	**49**	**-**	**49**

16. LOANS TO CUSTOMERS

(In BAM thousand)

	31 December 2023	31 December 2022
Short-term loans in BAM	108.323	77.665
Long-term loans in BAM	351.030	337.720
Long-term loans in foreign currencies	26	38
Guarantees paid	509	1.148
Current portion of long-term loans	139.718	109.059
	599.606	**525.630**
Less: Allowance for loans due from customers	(51.421)	(45.813)
Total:	**548.185**	**479.817**

During 2023, an accounting write-off of loans in the amount of BAM 3.775 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 2023, the Bank issued mostly long-term loans, an in smaller amount short-term loans, at annual interest rates ranging from 2,50%-19,89%. Loans with annual interest rate ranging from 2,50%-5,00% are 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 or mortgages.

As security for approved loans, the Bank took deposits, pledges over movable and immovable property, securities, administrative prohibitions, bills of exchange, transfer orders , 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.. 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 as at 31 December 2023 were issued to enterprises and population with an annual interest rate ranging from 4,20% to 12,94%, for periods up to the maximum of 25 years.

An interest rate of 2,50% was granted to clients who secured a 100% deposit as loan security, while interest rates higher than 13% refer to long-term consumer loans and loans for the micro segment and the population.

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 current assets.

As at 31 December 2023, 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. 19,8%), City of Sarajevo (ca. 9,1%), City of Trebinje (ca. 7%), City of Bijeljina (ca. 5,4%), City of Zvornik (ca. 4,7%), City of Prijedor (ca. 4,2%).

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(In BAM thousand)

	Leasehold improve-ments	Equipment	Equipment in preparation	Total property and equipment	Intangible assets
Balance,1 January 2022	**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**
Acquisitions in the period	-	-	2.339	2.339	243
Transfers from/to	834	1.729	(2.563)	-	-
Sale	-	(817)	-	(817)	-
Disposals	-	(34)	-	(34)	-
Balance, 31 December 2023	**2.424**	**7.702**	**436**	**10.562**	**1.787**
Accumulated depreciation/amortization					
Balance,1 January 2022	**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**
Depreciation/amortization	335	874	-	1.209	145
Sale	-	(745)	-	(745)	-
Disposals	-	(34)	-	(34)	-
Balance, 31 December 2023	**1.325**	**4.283**	**-**	**5.608**	**1.414**
31 December 2022	**600**	**2.636**	**660**	**3.896**	**275**
31 December 2023	**1.099**	**3.419**	**436**	**4.954**	**373**

As at 31 December 2023 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 2022	**4.856**
Acquisitions in the period	-
Transfer	-
Balance, 31 December 2022	**4.856**
Acquisitions in the period	5
Transfer	-
Balance, 31.decembra 2023	**4.861**
Accumulated depreciation	
Balance, 1 January 2022	**351**
Depreciation	63
Balance, 31 December 2022	**414**
Depreciation	63
Balance, 31 December 2023	**477**
31 December 2022	**4.442**
31 December 2023	**4.384**

As at 31 December 2023, the estimated market value of the investment property is BAM 5.490 thousand (in accordance with the assessment of an authorized court expert in the construction profession), and BAM 4.570 thousand as at 31 December 2022.

17.2. LEASED BUSINESS PREMISES

	(In BAM thousand)	
Balance as at 1 January 2022	**6.879**	**7.72**
New acquisitions	2.249	1.13
Contract termination	(447)	(614
Depreciation	(1.685)	(1.513
Allowance contract termination	110	14
Balance as at 31 December 2022	**7.106**	**6.87**
New acquisitions	1.407	2.24
Contract termination	(1.826)	(447
Depreciation	(353)	(1.685
Allowance contract termination	188	11
Balance as at 31 December 2023	**6.522**	**7.10**

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

	31 December 2023	**31 December 2022**
		(In BAM thousand)
Less than a year	1.750	1.632
From one to five years	5.128	5.220
More than five years	121	691
Total contractual lease obligations	**6.999**	**7.543**
Lease obligations included in note 22 as at 31 December 2023	**6.999**	**7.543**

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

	Period ended 31 December 2023	**Period ended 31 December 2022**
		(In BAM thousand)
Interest on lease obligations IFRS 16	333	340
Depreciation	1.826	1.685
Total lease expenses	**2.159**	**2.025**

18. OTHER ASSETS

	31 December 2023	**31 December 2022**
		(In BAM thousand)
In BAM:		
- Funds acquired through collection of receivables	5.760	6.360
- Accrued other expenses	240	217
- Fee and commission receivables	1.671	1.049
- Material inventories	77	14
- Given advances	99	375
- Other receivables	1.361	1.239
In foreign currencies:		
- Advances in foreign currencies	8	33
- Other foreign currency receivables	402	423
	9.618	**9.710**
Minus: Allowance for accrued interest and other assets	(1.253)	(963)
Impairment of assets acquired through collection of receivables	(5.760)	(6.360)
Total:	**2.605**	**2.387**

18. OTHER ASSETS (continued)

Movement on acquired tangible assets

Cost of acquired tangible assets	
Balance, 1 January 2022	**5.313**
Acquisitions during the period	2.003
Sales during the period	(956)
Balance, 31 December 2022	**6.360**
Acquisitions during the period	1.434
Sales during the period	(2.034)
Balance, 31 December 2023	**5.760**
Accumulated depreciation	
Balance, 1 January 2022	**2.889**
Acquisitions during the period	4.351
Sales during the period	(880)
Balance, 31 December 2022	**6.360**
Acquisitions during the period	1.434
Sales during the period	(2.034)
Balance, 31 December 2023	**5.760**

The estimated value of the acquired tangible assets as at 31 December 2023 is BAM 10.546 thousand (31 December 2022: BAM 10.470 thousand)

19. DEPOSITS TO CUSTOMERS

(In BAM thousand)

	31 December 2023	**31 December 2022**
Demand deposits in BAM:		
- Banks and banking institutions	246	86
- Government and state institutions	21.311	36.637
- Enterprises	62.776	40.464
- Non-profit organizations	2.396	1.916
- Non-banking financial institutions	22.976	30.548
- Residents/non-residents	69.675	57.420
- Other	1.249	1.032
	180.629	**168.103**
Demand deposits in foreign currencies:		
- Enterprises	13.710	11.406
- Non-profit organizations	1.231	369
- Non-banking financial institutions	618	5.219
- Residents/non-residents	15.452	16.178
- Other	3	-
	31.014	**33.172**
Short-term deposits in BAM:		
- Banks and banking institutions	7.000	1.500
- Government and state institutions	2.375	-
- Enterprises	312	1.330
- Non-banking financial institutions	800	1.300
- Residents/non-residents	4	73
	10.491	**4.203**
Short-term deposits in foreign currencies:		
- Residents/non-residents	-	37
	-	**37**
Long-term deposits in BAM:		
- Banks and banking institutions	1.500	6.000
- Government and state institutions	22.375	5.300
- Enterprises	10.785	17.129
- Non-profit organizations	4.027	1.667
- Non-banking financial institutions	17.919	18.174
- Residents	123.141	102.270
- Other	1.000	300
	180.747	**150.840**
Long-term deposits in foreign currencies:		
- Enterprises	4.259	4.205
- Non-banking financial institutions	2.065	2.065
- Residents/non-residents	172.819	158.547
- Non-profit organizations	391	391
	179.534	**165.208**
Total:	**582.415**	**521.563**

19. DEPOSITS TO CUSTOMERS (continued)

Current maturity of long-term deposits

(In BAM thousand)

	31 December 2023	31 December 2022
Long-term portion of long-term deposits, in BAM		
- Banks and banking group	-	-
- Government and state institutions	-	-
- Enterprises	6.640	6.697
- Non-profit organizations	2.733	210
- Non-banking financial institutions	9.595	12.424
- Residents	62.889	63.287
- Other	-	-
	81.857	**82.618**
Long-term portion of long-term deposits, in foreign currencies		
- Enterprises	3.346	3.031
- Non-banking financial institutions	2.065	1.565
- Non-profit organizations	391	391
- Residents/non-residents	82.617	100.311
	88.419	**105.298**
Current maturity of long-term deposits, in BAM		
- Banks and banking group	1.500	6.000
- Government and state institutions	22.375	5.300
- Enterprises	4.145	10.432
- Non-profit organizations	1.294	1.457
- Non-banking financial institutions	8.324	5.750
- Residents	60.252	38.983
- Other	1.000	300
	98.890	**68.222**
Current maturity of long-term deposits, in foreign currencies		
- Enterprises	913	1.174
- Non-banking financial institutions	-	500
- Non-profit organizations	-	-
- Residents/non-residents	90.202	58.236
	91.115	**59.910**

20. LIABILITIES PER LOANS

(In BAM thousand)

	31 December 2023	**31 December 2022**
In BAM:		
- „Fond za razvoj i zapošljavanje RS“	11.209	7.602
- „Fond stanovanja RS“	7.582	8.121
- „Fond za razvoj istočnog dijela RS“	6.426	5.549
Total in BAM:	**25.217**	**21.272**
In foreign currency:		
- EFSE	39.116	41.855
- GGF	8.149	9.779
- KFW	2.282	6.845
- ResponsAbility	3.912	-
Total in foreign currency:	**53.459**	**58.479**
Total taken loans:	**78.676**	**79.751**
Deferred interest liabilities in domestic currency per long-term loans of residents	31	21
Deferred interest liabilities in foreign currencies per short-term loans of non-residents	893	631
Total liabilities per taken loans:	**79.144**	**79.913**
Total long-term portion of liabilities in BAM:	21.954	18.070
Total long-term portion of liabilities in foreign currencies	34.879	39.768
	56.833	**57.838**
Current maturity in BAM:		
- IRB	3.263	3.202
Current maturity in foreign currencies:		
- EFSE	11.735	12.517
- GGF	3.259	1.630
- KFW	2.282	4.564
- ResponsAbility SICAV	1.304	-
Total current maturity of long-term liabilities:	**21.843**	**21.913**

As at 31 December 2023, 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 25.217 thousand (31 December 2022: BAM 21.272 thousand).

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.

20. LIABILITIES PER LOANS (continued)

In July 2023, the Bank concluded agreements with the creditor ResponsAbility SICAV (Lux) on credit debt in the amount of BAM 3.912 thousand, with the final repayment date on 14 July 2024, with an annual return and an interest rate of 3,10% + 6M EURIBOR. The inflow of credit was realized on 21 July 2023.

On 13 November 2023, the Bank concluded two agreements with the creditor EFSE, Luxembourg on credit debt in the amount of BAM 9.779 thousand in total, for a period of 3 years, with semi-annual repayment and an interest rate of 3,3% + 6M EURIBOR.

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 2023, the Bank met all financial indicators required by the terms of the Agreement with creditors: EFSE, Luxembourg, GGF, Luxembourg and ResponsAbility SICAV, Luxembourg.

As at 31 December 2023, the Bank did not meet the required financial indicators (one indicator) from the Agreement with the creditor KfW, Germany. The Bank approached the creditor for a "Waiver" and received approval from the creditor for the reporting date (note 30). In accordance with the requirements of IAS 1, as at 31 December 2023, the Bank classified these liabilities for taken loans as short-term loans, due to the failure to meet the above conditions.

21. SUBORDINATED DEBT

(In BAM thousand)

	31 December 2023	**31 December 2022**
EFSE, Luxembourg	6.845	6.845
ResponsAbility SICAV, Luxembourg	6.846	-
	13.691	**6.845**
Deferred fees for loan processing in foreign currency that are included in the calculation of the effective interest rate	(119)	(66)
Accrued liabilities for interest in foreign currency on long-term subordinated loans	257	22
Total:	**13.829**	**6.801**

On 10 October 2022, 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 4,8 % + 6M EURIBOR. The 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 gave consent for the inclusion of subordinated debt in the supplementary capital of the Bank in the amount of BAM 6.845 thousand.

On 21 August 2023, the Bank concluded an agreement with ResponsAbility Sicav (Lux) on a subordinated loan in the amount of BAM 6.846 thousand, for a period of 6 years, with a one-time return and an interest rate of 5,3% + 6M EURIBOR. Funds from the creditor were paid to the Bank's foreign currency account on 23 August 2023. By Decision No. 03-2198-4/23 dated 20 December 2023, the Banking Agency of the Republic of Srpska approved the inclusion of subordinated debt in the supplementary capital of the Bank in the amount of BAM 6.846 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 2023, the Bank met all the financial indicators required by the terms of the Agreement with the creditor EFSE, Luxembourg and ResponsAbility SICAV, Luxembourg.

22. OTHER LIABILITIES

(In BAM thousand)

	31 December 2023	31 December 2022
In BAM:		
- deferred income	332	276
- trade payables	566	389
- deferred expenses	336	553-
- lease liabilities – IFRS 16 (note 17.2)	6.999	7.543
- provisions for employee benefits and litigation	110	124
- other liabilities	1.405	2.572
In foreign currency:		
- trade payables	48	34
- accrued expenses	55	42
- other liabilities	505	217
Total:	**10.356**	**11.750**

Movements in provisions for employee benefits and litigation

	Employee benefits	Potential liabilities for litigation	Total
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**
Allocation during the year	19	50	69
Reversal of provisions	-	(78)	(78)
Used provisions	(5)	-	(5)
Balance as at 31 December 2023	**51**	**59**	**110**

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 2023 amounts to BAM 51.141 thousand (as at 31 December 2022: 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 2023 was as follows:

	Number of shares	**In thousands of BAM**	**%**
MKD Mikrofin d.o.o., Banja Luka	229.373	22.937	44,85
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
GLS Alternative Investments Sicav, Luxembourg	26.225	2.623	5,13
	511.410	**51.141**	**100,00**

As at 31 December 2022, 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 2023	**31 December 2022**
Statutory reserves	2.009	1.444
Revaluation reserves based on value changes in securities	1.194	949
Revaluation reserves based on provisions / expected credit losses based on securities – IFRS 9	49	48
	3.252	**2.441**

Equity reserves in the amount of BAM 2.009 thousand (31 December 2022: BAM 1.444 thousand) incurred from allocation of profit.

During 2023, based on the Supervisory Board's Decision no. NO-103/2023 dated 27 April 2023 and the Decision of the Bank's Assembly no. 34-29/2023 dated 28 June 2023, a total of BAM 565 thousand was allocated to legal reserves.

24. EARNINGS PER SHARE

(In BAM thousand)

	31 December 2023	31 December 2022
Net profit of the period	9.189	11.315
Weighted average number of shares	511.410	511.410
Basic earnings per share (in BAM)	**17,97**	**22,13**

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 2023	31 December 2022
Payment guarantees	24.420	16.480
Contract execution guarantees	53.163	49.104
Irrevocable commitments for undrawn loans	61. 746	38.539
Unused overdrafts on accounts and credit cards	14. 753	12.229
Total	**154.082**	**116.352**
Allowance	(637)	(948)
Total	**153.445**	**115.404**

b) Litigation

As at 31 December 2023, the Bank has initiated 2.267 litigation. The total amount of the portfolio received in the Legal Affairs and Restructuring Sector as at 31 December 2023 is BAM 33.131 thousand (31 December 2022: BAM 29.066 thousand).

As at 31 December 2023, there were 17 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 59 thousand, which was confirmed by the Decision of the Management (provisions for litigation as at 31 December 2022 amount to BAM 87 thousand) – (note 22).

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 2023, 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 2023**	**31 December 2022**
Assets:		
Receivables based on placed loans:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	4.000	-
- Drvex d.o.o., Laktaši	725	144
- Management, Management Board and Supervisory Board	733	998
- Other related parties	622	1.074
Other prepaid expenses		
- Mikrofin osiguranje a.d., Banja Luka	140	143
- MF Software d.o.o., Banja Luka	31	22
Receivables for accrued interest		
- Drvex d.o.o., Laktaši	3	1
- MKD Mikrofin d.o.o., Banja Luka (parent company)	-	1
- Other related parties	4	5
Given advances:		
- MF Software d.o.o., Banja Luka	-	82
Other receivables:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	49	-
- MF grupa doo	10	-
Assets, total	**6.317**	**2.470**
Liabilities based on deposits:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	15.419	18.687
- MF grupa d.o.o. Banja Luka	2.701	1.393
- MF Software d.o.o., Banja Luka	772	146
- Mikrofin osiguranje a.d., Banja Luka	5.011	4.952
- Citizens' Association Mikrofin	780	864
- Drvex d.o.o., Laktaši	490	211
- Longi doo Laktaši	121	-
- Vilux d.o.o., Banja Luka	48	92
- Management, Management Board and Supervisory Board	1.063	1.173
- Other related parties	2.339	2.770
	28.744	**30.288**
Other liabilities:		
- MKD Mikrofin d.o.o., Banja Luka (parent company)	3	-
- MF grupa doo	7	-
- MF Software d.o.o., Banja Luka	33	4
- Drvex d.o.o., Laktaši	-	18
- Mikrofin osiguranje a.d., Banja Luka	-	4
- Other related parties	15	-
	58	**26**
Interest liabilities:		
- Other related parties	57	51
	57	**51**
Liabilities, total	**28.859**	**30.365**
Liabilities, net	**(22.542)**	**(27.895)**
Off-balance	**109**	**116**

26. TRANSACTIONS WITH RELATED PARTIES (continued)

	(In BAM thousand)	
Statement of profit or loss	**31 December 2023**	**31 December 2022**
Income		
Fee income from related parties:		
- MKD Mikrofin d.o.o., Banja Luka	239	245
- Mikrofin osiguranje a.d., Banja Luka	22	19
- MF SOFTWARE d.o.o., Banja Luka	2	1
- Vilux doo	1	1
- Drvex d.o.o., Laktaši	18	13
- MF grupa d.o.o., Banja Luka	1	1
- Management, Management Board and Supervisory Board	4	5
- Other related parties	7	10
Rental income		
- MKD Mikrofin d.o.o., Banja Luka	510	518
- MF SOFTWARE d.o.o., Banja Luka	33	79
- MF grupa d.o.o., Banja Luka	61	8
Interest income		
- Drvex d.o.o., Laktaši	12	6
- MKD Mikrofin d.o.o., Banja Luka	4	2
- Management, Management Board and Supervisory Board	29	37
- Other related parties	26	34
Income, total	**969**	**979**
Expenses		
Lease expenses		
- MKD Mikrofin d.o.o., Banja Luka	(29)	(29)
- Drvex d.o.o. Laktaši	(801)	(39)
- Mikrofin osiguranje a.d., Banja Luka	(85)	(85)
- MF SOFTWARE d.o.o., Banja Luka	(341)	(257)
- MF grupa d.o.o., Banja Luka	(34)	-
Other expenses		
- MF grupa d.o.o., Banja Luka	(4)	-
- MF SOFTWARE d.o.o., Banja Luka - license	(306)	(222)
- MF SOFTWARE d.o.o., Banja Luka - OS	(611)	(516)
- MF SOFTWARE d.o.o., Banja Luka - other	(123)	(82)
- Mikrofin osiguranje a.d., Banja Luka – insurance	(369)	(338)
- Drveks doo Laktaši	(76)	(18)
- Vilux doo Banja Luka	(2)	(50)
- Other related parties	-	(6)
Interest expenses:		
- MKD Mikrofin d.o.o., Banja Luka	(18)	-
- Mikrofin osiguranje a.d., Banja Luka	(44)	(40)
- Citizens' Association Mikrofin, Banja Luka	(5)	(3)
- Management, Management Board and Supervisory Board	(5)	(12)
- Other related parties	(52)	(46)
- Expenses based on remuneration of Management, Management Board and Supervisory Board	(1.439)	(1.858)
Expenses, total	**(4.344)**	**(3.601)**
Expenses, net	**(3.375)**	**(2.622)**

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.

27. TAX RISKS (continued)

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.

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

After the stabilization of the epidemiological crisis caused by the corona virus, during 2022, there was an escalation of the crisis in Ukraine, a tightening of international and economic relations, and a halt in global supply chains. This all influenced the growth of energy and food prices on the world market and the strengthening of inflationary pressures, which was further reflected in the slowdown of global trade and demand, and over time influenced the weakening of global economic growth.

In the circumstances of the continuation of the crisis due to the conflict in Ukraine and sanctions against Russia, the energy market crisis, and prolonged inflationary pressures, during the year 2023, there was an outbreak of conflicts in the Middle East and an additional lag in the already complex political, economic, and monetary policies at the global level. Global economic trends, trends in the environment, through trade shocks and price pressures, significantly affect economic trends in the Republic of Srpska and Bosnia and Herzegovina.

The International Monetary Fund (IMF) in its latest report from October (World Economic Outlook, update October 2023) forecasts that the world economy will grow by 3% in 2023, which is less than last year when growth of 3,5% was recorded. The forecast for next year was also reduced by 0,1 p. p. and is 2,9%. Developed economies are expected to slow economic growth from 2,6% in 2022 to 1,5% in 2023 and 1,4% in 2024 due to the tightening of monetary policy. Furthermore, economic growth in developing countries is projected to be slightly lower, from 4,1% in 2022 to 4% in 2023 and 2024. According to the same source, the global inflation rate is expected to fall from 6,9% in 2023 to 5,8% in 2024, but in most cases it will not return to the desired range until the end of 2025.

According to the IMF's assessment, Bosnia and Herzegovina ended 2023 with a real GDP growth rate of 2%, and according to the latest projection for 2024, real GDP growth was projected at a rate of 3.0%.

The Government of the Republic of Srpska and the entity Banking Agencies undertook comprehensive fiscal and monetary policy measures in 2020 and 2022 with the aim of reducing the negative effects of the pandemic and the negative effects caused by the consequences of the conflict in Ukraine, especially related to the increase in interest rates due to the rise of the EURIBOR .

EURIBOR reached a positive value in June 2022 and continued to grow during 2022 and 2023, following the growth of key ECB interest rates and market expectations. The strengthening of inflationary pressures prompted the tightening of the monetary policy of the leading central banks by raising interest rates, and then reducing the monetary incentives introduced during the pandemic (purchase of securities, purchase of assets), as part of the fight against high inflation.

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. 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.

Despite significant lending activities, the Bank had no liquidity problems during 2022 and 2023.

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

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 economic situation in the country and the world affected the position of certain industrial branches, as well as the ability of some clients to service their credit obligations, which had an impact on the Bank's provisions for impairment losses.

The financial statements of the Bank contain significant accounting estimates relating to impairment losses, an estimate of the value of assets.

After 31 December 2023, 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 gives prior consent to the conclusion of a legal transaction that leads to the Bank's total exposure of up to 10% of recognized capital (large exposure) to one person or a group of related persons or to any subsequent increase in this exposure), and decides on the approval of all requests for non-quality bank exposures (on the recommendation of the Bank's Credit Committee) of all exposures (at the level of the client or a group of related parties) greater than 10% of the recognized capital of the Bank. For claims of persons in a special relationship with the bank, if the bank's exposure to the claimant for all its risk lots does not exceed 100 thousand BAM, if it is a natural person, or 250 thousand BAM if it is a legal person, the request is approved at the Credit to the Bank's board regardless of the total exposure of the group of related parties, but only on the condition that the total exposure of the group does not represent a large exposure when approved by the Supervisory Board.

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

The obligation of the Credit Committee of the Bank's Management is to, within the framework of the established credit policy of the Bank, make decisions on investments over BAM 300 thousand (Retail Sector) and over BAM 500 thousand (Sector for entrepreneurs and Sector for corporate and public clients) up to the amount of 10% of recognized of the Bank's capital of the total exposure of the client/group of related parties to the Bank.

For claims of persons in a special relationship with the Bank, if the Bank's exposure to that person does not exceed BAM 100 thousand for a natural person, or BAM 250 thousand for a legal person, or if these limits for persons in a special relationship with the Bank are higher, in accordance with by the decision of the Bank's Supervisory Board, then these exposures are approved by the Bank's Credit Committee, up to a maximum limit that represents a large exposure.

29. FINANCIAL INSTRUMENTS (continued)

29.1. Financial risk management (continued)

Making a decision on investments below the amount that is within the competence of the Credit Committee of the Bank's Management is the competence of the Credit Committee of the sector and SMN, the Credit Committee of the sector and SPKR, the Credit Committee of the sector or the Credit Committee of the branch/business center.

Credit Risk Assessment Division

The Credit Risk Assessment Division identifies and assesses credit risk at the client level (individual request for a risky product) that the Bank has undertaken in its regular operations. The obligation of the Credit Risk Assessment Division is to give an opinion in written form for total exposures for natural persons greater than BAM 20 thousand, or over BAM 30 thousand of total exposure for legal persons. The opinion of the Credit Risk Assessment Division is an integral part of the credit proposal, that is, the case that is considered by the Credit Committee.

The Head of the Credit Risk Assessment Division and the Director of the Opinion and Collection Sector as substitute members of the Credit Committee of the Bank's Management Board, as well as the member of the Management Board responsible for risk management, have the right of veto when deciding on investments considered by the Credit Committee of the Bank's Management Board.

Risk Management Department

The Risk Management 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 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.

Fund Management and Planning Department

The Fund Management and Planning 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,
- monitoring of 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,
- maintaining and allocating statutory reserve requirements as a minimum amount of funds allocated to the reserve account with the CBBH,
- preparing 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.

29. FINANCIAL INSTRUMENTS (continued)

29.1. Financial risk management (continued)

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.

Liquidity Committee

The Liquidity Committee, with a permanent composition of three members appointed by the decision of the Bank's Management Board, that is the chairperson of the Bank's Management Board, Head of the Fund Management and Planning Department, Head of the Risk Management Department until 19 February 2024, and after that the chairperson of the Bank's Management Board, director of the Sector for retail and counters, director of the Sector for entrepreneurs, director of the Sector for corporate and public clients and head of the Sector for Fund Management and Planning Department. The Committee holds meetings at least once a month. The Liquidity Commission monitors and evaluates the current, daily liquidity based on the liquidity plan for a specific day, which the Fund Management and Planning Department delivers on a daily basis to the Commission members and other members of the Bank's Management Board.

On a monthly basis, it analyzes the liquidity plan and its implementation, proposes measures and defines tasks for the needs of maintaining the Bank's liquidity in order to avoid the risk of negative effects on the Bank's financial result due to the inability to properly settle its current obligations

Risk Committee

The Risk Committee consists of the President of the Bank's Management Board, members of the Bank's Management Board, the head of the Risk Management Department and the head of the Credit Risk Management Department, and periodically at quarterly meetings, the director of the Sales Support and Control Department and the head of the Fund Management and Planning Department The Committee holds meetings once a month and continuously and systematically monitors all risks to which the Bank is exposed or could be exposed to in its operations through monitoring the compliance of operations with the Bank's Risk Undertaking and Management Strategy, the Bank's Risk Undertaking and Management Policy and the Bank's Risk-Taking Propensity 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.

29. FINANCIAL INSTRUMENTS (continued)

29.3. Financial risk

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.

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;
- The risk of maturity mismatch of financial assets and liabilities;
- Reputation risk (as a sub-type of operational risk);
- Model risk (as a sub-type of operational risk);
- Information system risk, including cyber risk (as a sub-type of operational risk);
- Other significant risks.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

a) Maximum exposure to credit risk without taking into account collateral or other hedging instruments

The following table shows the maximum credit risk exposure of items of the statement of financial position. The maximum exposure is shown in the net amount without taking into account the effects of risk reduction through collateral or other hedging instruments.

(In BAM thousand)

	31 December 2023	31 December 2022
ASSETS:		
Cash funds and assets with banks	104.361	107.438
Assets with the Central bank - obligatory reserve	65.319	57.167
Securities	48.518	47.852
Loans to customers	548.185	479.817
Other assets	2.605	2.387
Total:	**768.988**	**694.661**
OFF-BALANCE SHEET ASSETS:		
Payment guarantees	24.251	16.195
Contract execution guarantees	52.974	48.847
Undertaken irrevocable commitments for undrawn loans	61.666	38.277
Overdrafts on accounts	14.554	12.085
Total:	**153.445**	**115.404**
Total risk exposure:	**922.433**	**810.065**

In the case of financial instruments valued at fair value, the amounts presented represent the current exposure to credit risk, but not the maximum risk exposure that may arise in the future as a result of changes in fair value.

29. FINANCIAL INSTRUMENTS (continued)

29.4.1. Total exposure without suspended interest as at 31.12.2023 and 31.12.2022

(In BAM thousand)

Participation in the total exposure as at 31.12.2023

Segmentation	Total exposure	Due loans	%	Non-performing loans	%	Rep/Res S1	Rep/Res S2	Rep/Res S3	Reprogrammed/restructured loans	%	Interest	%	Advances
Corporate and public customers	164.020	189	0,12	1.967	1,20	-	-	-	0	0,00	20	0,01	225
Entrepreneurs	462.456	17.356	3,75	28.710	6,21	7.446	10.572	7.994	26.013	5,62	1.317	0,28	2.093
Retail	135.701	6.467	4,77	11.434	8,43	1.259	1.925	4.839	8.023	5,91	519	0,38	831
Total Bank	**762.177**	**24.012**	**3,15**	**42.110**	**5,53**	**8.705**	**12.497**	**12.834**	**34.036**	**4,47**	**1.856**	**0,24**	**3.149**

(In BAM thousand)

Participation in the total exposure as 31.12.2022

Segmentation	Total exposure	Due loans	%	Non-performing loans	%	Rep/Res S1	Rep/Res S2	Rep/Res S3	Reprogrammed/restructured loans	%	Interest	%	Advances
Corporate and public customers	110.317	1.559	1,41	1.090	0,99	-	5.804	156	5.961	5,40	160	0,14	277
Entrepreneurs	404.947	14.381	3,55	23.939	5,91	4.925	9.760	7.346	22.031	5,44	1.056	0,26	769
Retail	133.978	4.213	3,14	6.493	4,85	2.428	4.852	1.914	9.195	6,86	403	0,30	604
Total Bank	**649.242**	**20.153**	**3,10**	**31.522**	**4,86**	**7.353**	**20.416**	**9.416**	**37.186**	**5,73**	**1.619**	**0,25**	**1.651**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Total exposure without suspended interest as at 31.12.2023 and 31.12.2022 (continued)

The following table shows changes in the gross book value of loans placed with clients as at 31.12.2023:

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01.01.2023	**111.389**	**12.509**	**6.467**	**130.365**	**294.097**	**83.808**	**24.620**	**402.525**
Repaid loans (without write-off)	(17.681)	(841)	(482)	(19.004)	(97.452)	(23.126)	(2.984)	(123.562)
Transfer to Stage 1 (from 2 to 3)	1.179	(1.052)	(127)	-	11.995	(11.979)	(17)	-
Transfer to Stage 2 (from 1 to 3)	(8.020)	8.224	(204)	-	(41.286)	41.335	(49)	-
Transfer to Stage 3 (from 1 to 2)	(2.257)	(4.839)	7.096	-	(8.471)	(8.761)	17.231	-
Loans in repayment	(16.302)	(1.450)	(491)	(18.243)	(45.151)	(11.823)	(1.459)	(58.434)
Write-offs	-	-	(960)	(960)	-	-	(2.943)	(2.943)
Sale of NPLs	-	-	-	-	-	-	(7.952)	(7.952)
Newly placed loans	37.869	1.628	101	39.599	202.627	61.074	3.002	266.703
Total as at 31.12.2023	**106.176**	**14.180**	**11.401**	**131.757**	**316.359**	**130.529**	**29.450**	**476.338**

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01.01.2022	**99.127**	**10.213**	**6.207**	**115.548**	**240.117**	**81.939**	**20.680**	**342.736**
Repaid loans (without write-off)	(16.047)	(1.194)	(701)	(17.942)	(91.522)	(29.551)	(2.803)	(123.875)
Transfer to Stage 1 (from 2 to 3)	2.075	(2.052)	(23)	-	16.067	(15.601)	(466)	-
Transfer to Stage 2 (from 1 to 3)	(5.021)	5.352	(331)	-	(16.652)	16.923	(271)	-
Transfer to Stage 3 (from 1 to 2)	(822)	(1.617)	2.439	-	(2.257)	(5.724)	7.981	-
Loans in repayment	(15.816)	(1.595)	(253)	(17.665)	(30.219)	(10.165)	(1.201)	(41.584)
Write-offs	-	-	(1.424)	(1.424)	-	-	(3.288)	(3.288)
Newly placed loans	47.893	3.403	553	51.849	178.562	45.987	3.987	228.536
Total as at 31.12.2022	**111.389**	**12.509**	**6.467**	**130.365**	**294.097**	**83.808**	**24.620**	**402.525**

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

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum exposure to credit risk

The following table shows changes in the impairment of loans to customers:

(In BAM thousand)

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 01.01.2023	**1.509**	**1.443**	**5.565**	**8.517**	**8.118**	**10.925**	**20.144**	**39.187**
Repaid loans (without write-off)	(209)	(81)	(418)	(708)	(2.908)	(2.969)	(763)	(6.640)
Transfer to Stage 1 (from 2 to 3)	24	(22)	(3)	-	139	(138)	(1)	-
Transfer to Stage 2 (from 1 to 3)	(650)	667	(17)	-	(4.940)	4.942	(3)	-
Transfer to Stage 3 (from 1 to 2)	(1.629)	(3.563)	5.192	-	(5.812)	(5.531)	11.343	-
Changes in provisions of loans in repayment	2.043	2.597	(154)	4.487	7.255	1.235	35	8.525
Write-offs	-	-	(960)	(960)	-	-	(2.943)	(2.943)
Sale of NPLs	-	-	-	-	-	-	(7.921)	(7.921)
Newly placed loans	601	116	53	770	2.766	6.603	1.598	10.966
Total as at 31.12.2023	**1.689**	**1.158**	**9.260**	**12.106**	**4.617**	**15.066**	**21.491**	**41.175**

(In BAM thousand)

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 01.01.2022	**944**	**1.380**	**5.572**	**7.896**	**6.734**	**12.228**	**18.309**	**37.271**
Repaid loans (without write-off)	(117)	(166)	(612)	(894)	(2.335)	(3.752)	(2.366)	(8.453)
Transfer to Stage 1 (from 2 to 3)	43	(42)	(1)	-	550	(542)	(8)	-
Transfer to Stage 2 (from 1 to 3)	(528)	606	(77)	-	(2.735)	2.975	(240)	-
Transfer to Stage 3 (from 1 to 2)	(547)	(1.347)	1.894	-	(1.252)	(4.521)	5.773	-
Changes in provisions of loans in repayment	1.104	697	(118)	1.682	2.881	83	(301)	2.663
Write-offs	-	-	(1.424)	(1.424)	-	-	(3.288)	(3.288)
Newly placed loans	610	315	331	1.257	4.274	4.454	2.265	10.993
Total as at 31.12.2022	**1.509**	**1.443**	**5.565**	**8.517**	**8.118**	**10.925**	**20.144**	**39.187**

The gross book value of 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 31.12.2023 (POCI investments separately shown):

(In BAM thousand)

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2023	**405.486**	**93.553**	**27.727**	**2.763**	**3.360**	**532.890**
Repaid loans (without write-off)	(115.133)	(23.867)	(3.103)	(99)	(363)	(142.566)
Transfer to Stage 1 (from 2 to 3)	13.174	(13.030)	(144)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(49.306)	49.463	(253)	96	-	-
Transfer to Stage 3 (from 1 to 2)	(10.728)	(13.600)	24.251	-	77	-
Loans in repayment	(61.454)	(12.544)	(1.703)	(729)	(247)	(76.677)
Write-off	-	-	(2.767)	-	(1.135)	(3.902)
Sale of NPLs	-	-	(7.250)	-	(702)	(7.952)
Newly placed loans	240.495	62.703	3.100	-	4	306.302
Total as at 31.12.2023	**422.535**	**142.677**	**39.857**	**2.032**	**994**	**608.095**

(In BAM thousand)

Impairment of loans to customers

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2023	**9.627**	**11.879**	**22.467**	**488**	**3.242**	**47.704**
Repaid loans (without write-off)	(3.118)	(3.039)	(838)	(11)	(342)	(7.348)
Transfer to Stage 1 (from 2 to 3)	163	(160)	(3)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(5.590)	5.603	(20)	7	-	-
Transfer to Stage 3 (from 1 to 2)	(7.441)	(9.094)	16.497	-	38	-
Changes in provisions of loans in repayment	9.298	4.133	93	(300)	(211)	13.012
Write-off	-	-	(2.767)	-	(1.135)	(3.902)
Sale of NPLs	-	-	(7.250)	-	(671)	(7.921)
Newly placed loans	3.366	6.719	1.648	-	3	11.736
Total as at 31.12.2023	**6.306**	**16.040**	**29.828**	**183**	**923**	**53.281**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

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

(In BAM thousand)

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2022	**339.244**	**88.063**	**22.633**	**4.089**	**4.254**	**458.284**
Repaid loans (without write-off)	(107.568)	(30.410)	(3.096)	(335)	(408)	(141.818)
Transfer to Stage 1 (from 2 to 3)	18.142	(17.653)	(489)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(21.673)	22.230	(602)	45	-	-
Transfer to Stage 3 (from 1 to 2)	(3.079)	(7.342)	10.155	-	265	-
Loans in repayment	(46.035)	(10.720)	(1.272)	(1.035)	(187)	(59.249)
Write-off	-	-	(3.989)	-	(723)	(4.712)
Newly placed loans	226.455	49.385	4.386	-	159	280.385
Total as at 31.12.2022	**405.486**	**93.553**	**27.727**	**2.763**	**3.360**	**532.890**

(In BAM thousand)

Impairment of loans to customers

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2022	**7.678**	**12.296**	**19.753**	**1.311**	**4.129**	**45.167**
Repaid loans (without write-off)	(2.451)	(3.790)	(2.601)	(127)	(377)	(9.347)
Transfer to Stage 1 (from 2 to 3)	593	(584)	(9)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(3.263)	3.544	(317)	36	-	-
Transfer to Stage 3 (from 1 to 2)	(1.799)	(5.868)	7.435	-	232	-
Changes in provisions of loans in repayment	3.985	1.517	(278)	(732)	(148)	4.344
Write-off	-	-	(3.989)	-	(723)	(4.712)
Newly placed loans	4.885	4.764	2.473	-	128	12.250
Total as at 31.12.2022	**9.627**	**11.879**	**22.467**	**488**	**3.242**	**47.703**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum exposure to credit risk before collateral and other credit collateral as at 31 December 2023 and 2022

(In BAM thousand)

Financial instruments	**31 December 2023**			**31 December 2022**		
	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 assets with banks	104.526	165	104.361	107.588	150	107.438
Assets with the Central bank – obligatory reserve	65.384	65	65.319	57.224	57	57.167
Loans to customers	599.606	51.421	548.185	525.630	45.813	479.817
Other assets	9.618	7.013	2.605	9.710	7.323	2.387
Securities	48.518		48.518	47.852		47.852
Total assets	**827.652**	**58.664**	**768.988**	**748.004**	**53.343**	**694.661**
Off-balance						
Unused credit liabilities	76.499	279	76.220	50.768	407	50.361
Guarantees	77.583	358	77.225	65.584	541	65.043
Credit portfolio collateral	*365.068*			*293.420*		
- Securities pledged as collateral	*7.941*			*5.396*		
Total off-balance	**154.082**	**637**	**153.445**	**116.352**	**948**	**115.404**
Total credit exposure	**981.734**	**59.301**	**922.433**	**864.356**	**54.291**	**810.065**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Measurement of expected credit losses

Financial risk management

(In BAM thousand)

	31 December 2023			
	Loan balance	**Total exposure**	**Recognized amount of collateral**	**Expected credit loss (ECL) without other assets**
Homogeneous groups				
Customers without balances	178.718	190.574	79.270	20.850
Customers with balances	423.083	571.603	285.798	32.431
TOTAL Bank:	**601.801**	**762.177**	**365.068**	**53.281**

(In BAM thousand)

	31 December 2022.			
	Loan balance	**Total exposure**	**Recognized amount of collateral**	**Expected credit loss (ECL) without other assets**
Homogeneous groups				
Customers without balances	182.482	194.081	89.023	18.810
Customers with balances	344.972	455.160	204.397	28.895
TOTAL Bank:	**527.454**	**649.242**	**293.420**	**47.705**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Measurement of expected credit losses

(In BAM thousand)

Overview of loans by sector and by maturity period

Sectors	**<=30 days**	**31-60 days**	**61-90 days**	**91-180 days**	**181-365 days**	**over 365 days**	**Status**
Corporate and public customers	100.535	459	-	-	289	-	**101.284**
Entrepreneurs	332.125	11.082	6.407	4.810	9.654	6.430	**370.508**
Retail	117.835	1.855	1.219	1.140	3.899	4.061	**130.009**
Total Bank	**550.496**	**13.396**	**7.626**	**5.950**	**13.842**	**10.491**	**601.801**

(In BAM thousand)

Overview of expected credit losses (ECL) per segments

	31 December 2023.		**31 December 2022.**	
Sectors	**Expected credit loss (ECL)**	**% share**	**Expected credit loss (ECL)**	**% share**
Corporate and public customers	2.840	5,33	4.488	9,41
Entrepreneurs	38.334	71,95	34.700	72,74
Retail	12.106	22,72	8.517	17,85
Total Bank	**53.281**	**100,00**	**47.705**	**100,00**

(In BAM thousand)

Overview of loan balances by days of delay

	31 December 2023.			**31 December 2022.**		
Days of delay	**Loan balance**	**% share**	**PAR %**	**Loan balance**	**% share**	**PAR%**
Without delay	480.300	79,81	79,81	423.024	80,20	80,20
1-30 days	70.196	11,66	11,66	71.697	13,59	13,59
31-90 days	21.022	3,49	3,49	8.669	1,65	1,65
More than 90 days	30.283	5,03	5,03	24.064	4,56	4,56
Total Bank	**601.801**	**100,00**	**100,00**	**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.

The overall exposure to collateral and credit collateral analyzes is presented below as at 31.12.2023 and 31.12.2022:

(In BAM thousand)

	As at 31 December 2023	**31 December 2022**
Loans secured by special deposit	7.362	6.569
Loans secured by property	213.250	207.845
Loans secured by other collateral	378.994	311.216
Total:	**599.606**	**525.630**

(In BAM thousand)

	Loans to customers		
As at 31 December 2023	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	51.633	175.192	226.825
Pledge	4.344	33.512	37.856
Financial asset	2.315	15.150	17.465
Other	478	82.443	82.921
Total	**58.770**	**306.297**	**365.067**

(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**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Exposure overview by sectors and days of delay - Bank

		31.decembar 2023.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	100.535	163.252	2.400
	1-30 days	-	-	-
	31-90 days	459	473	223
	more than 90 days	289	295	217
Total		**101.284**	**164.020**	**2.840**
Entrepreneurs	Without delay	278.409	360.679	13.131
	1-30 days	53.716	60.184	4.964
	31-90 days	17.489	19.093	3.484
	more than 90 days	20.893	22.500	16.756
Total		**370.508**	**462.456**	**38.334**
Retail	Without delay	101.356	106.166	2.534
	1-30 days	16.479	16.749	935
	31-90 days	3.074	3.137	635
	more than 90 days	9.100	9.649	8.002
Total		**130.009**	**135.701**	**12.106**
Total exposure by sectors and days of delay		**601.801**	**762.177**	**53.281**

(In BAM thousand)

Exposure overview by sectors and days of delay - Stage 1

		31.decembar 2023.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	90.654	151.026	861
	1-30 days	-	-	-
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**90.654**	**151.026**	**861**
Entrepreneurs	Without delay	200.601	271.614	2.874
	1-30 days	23.529	26.121	883
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**224.131**	**297.735**	**3.756**
Retail	Without delay	94.649	99.330	1.431
	1-30 days	10.540	10.703	258
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**105.189**	**110.033**	**1.689**
Total exposure by sectors and days of delay		**419.973**	**558.794**	**6.306**

Exposure overview by sectors and days of delay - Stage 2 **(In BAM thousand)**

		31.decembar 2023.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	9.141	11.023	981
	1-30 days	-	-	-
	31-90 days	-	4	-
	more than 90 days	-	-	-
Total		**9.141**	**11.027**	**981**
Entrepreneurs	Without delay	74.635	84.903	7.885
	1-30 days	29.429	33.282	3.495
	31-90 days	16.248	17.826	2.704
	more than 90 days	-	-	-
Total		**120.312**	**136.011**	**14.085**
Retail	Without delay	5.888	5.983	419
	1-30 days	5.748	5.848	538
	31-90 days	2.350	2.404	201
	more than 90 days	-	-	-
Total		**13.985**	**14.235**	**1.158**
Total exposure by sectors and days of delay		**143.437**	**161.273**	**16.223**

Exposure overview by sectors and days of delay - Stage 3 **(In BAM thousand)**

		31.decembar 2023.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	741	1.203	559
	1-30 days	-	-	-
	31-90 days	459	469	223
	more than 90 days	289	295	217
Total		**1.490**	**1.967**	**998**
Entrepreneurs	Without delay	3.173	4.161	2.372
	1-30 days	758	782	586
	31-90 days	1.241	1.267	779
	more than 90 days	20.893	22.500	16.756
Total		**26.066**	**28.710**	**20.493**
Retail	Without delay	819	853	684
	1-30 days	192	199	139
	31-90 days	724	733	435
	more than 90 days	9.100	9.649	8.002
Total		**10.835**	**11.434**	**9.260**
Total exposure by sectors and days of delay		**38.390**	**42.110**	**30.751**

Exposure overview by sectors and days of delay - Banka **(In BAM thousand)**

		31.decembar 2022.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	55.854	98.058	2.563
	1-30 days	9.254	9.516	529
	31-90 days	1.628	1.654	460
	more than 90 days	1.008	1.089	936
Total		**67.744**	**110.317**	**4.488**
Entrepreneurs	Without delay	263.885	331.826	11.967
	1-30 days	44.097	48.707	4.282
	31-90 days	4.766	4.857	1.958
	more than 90 days	18.008	19.557	16.493
Total		**330.757**	**404.947**	**34.700**
Retail	Without delay	103.285	107.613	2.246
	1-30 days	18.346	18.623	1.097
	31-90 days	2.275	2.326	440
	more than 90 days	5.048	5.416	4.734
Total		**128.954**	**133.978**	**8.517**
Total exposure by sectors and days of delay		**527.454**	**649.242**	**47.705**

Exposure overview by sectors and days of delay - Stage 1 **(In BAM thousand)**

		31.decembar 2022.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	45.401	86.148	1.153
	1-30 days	4.401	4.524	185
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**49.802**	**90.672**	**1.338**
Entrepreneurs	Without delay	211.073	274.586	4.822
	1-30 days	31.515	35.355	1.959
	31-90 days	-	-	-
	more than 90 days	-	178	-
Total		**242.588**	**310.120**	**6.781**
Retail	Without delay	96.825	101.045	1.076
	1-30 days	13.692	13.892	434
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**110.517**	**114.938**	**1.509**
Total exposure by sectors and days of delay		**402.907**	**515.729**	**9.628**

Exposure overview by sectors and days of delay - Stage 2 (In BAM thousand)

		31.decembar 2022.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	10.452	11.909	1.409
	1-30 days	4.853	4.992	344
	31-90 days	1.628	1.654	460
	more than 90 days	-	-	-
Total		**16.933**	**18.555**	**2.213**
Entrepreneurs	Without delay	51.436	55.334	5.855
	1-30 days	11.727	12.433	1.728
	31-90 days	3.085	3.121	1.129
	more than 90 days	-	-	-
Total		**66.247**	**70.888**	**8.711**
Retail	Without delay	5.868	5.952	703
	1-30 days	4.450	4.522	519
	31-90 days	2.033	2.074	221
	more than 90 days	-	-	-
Total		**12.350**	**12.547**	**1.443**
Total exposure by sectors and days of delay		**95.531**	**101.991**	**12.367**

Exposure overview by sectors and days of delay - Stage 3 (In BAM thousand)

		31.decembar 2022.		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	-	1	1
	1-30 days	-	-	-
	31-90 days	-	-	-
	more than 90 days	1.008	1.089	936
Total		**1.008**	**1.090**	**937**
Entrepreneurs	Without delay	1.376	1.906	1.290
	1-30 days	856	919	594
	31-90 days	1.681	1.736	829
	more than 90 days	18.008	19.378	16.493
Total		**21.921**	**23.939**	**19.207**
Retail	Without delay	592	615	468
	1-30 days	204	209	144
	31-90 days	242	253	219
	more than 90 days	5.048	5.416	4.734
Total		**6.087**	**6.493**	**5.565**
Total exposure by sectors and days of delay		**29.016**	**31.522**	**25.709**

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

By sectors	31 December 2023									
	Stage1/Stage2		Stage3		Total gross receivables	Allowance		Total net receivables	Value of collateral	
	Stage1	Stage2	Undue	Due		Stage1/Stage2	Stage3		Stage1/Stage2	Stage3
Balance sheet receivables - retail	**134.442**	**20.791**	**8.297**	**10.020**	**173.550**	**(3.661)**	**(14.363)**	**155.527**	**67.407**	**9.606**
General consumption	56.710	8.304	2.529	3.385	**70.928**	(1.509)	(5.084)	**64.335**	15.842	2.226
Housing loans	25.153	1.874	33	190	**27.249**	(514)	(218)	**26.518**	17.139	219
Performing activities (entrepreneurs)	52.204	10.569	5.736	5.892	**74.400**	(1.624)	(8.578)	**64.199**	34.425	7.160
Other receivables	376	43	-	554	**973**	(14)	(483)	**475**	-	1
Balance sheet receivables - corporate	**288.092**	**123.918**	**11.886**	**10.648**	**434.545**	**(18.300)**	**(16)**	**399.924**	**248.019**	**11.212**
Corporate and public customers	90.834	9.178	1.300	207	**101.520**	(1.616)	(997)	**98.906**	77.271	741
Entrepreneurs	197.258	114.740	10.586	10.441	**333.025**	(16.684)	(15.323)	**301.018**	170.748	10.471
Receivables from other customers	-	-	-	-	-	-	-	-	-	-
Balance receivables from banks and financial institutions	-	-	-	-	-	-	-	-	-	-
By categories of receivables	**422.535**	**144.709**	**20.183**	**20.668**	**608.095**	**(21.961)**	**(30.683)**	**555.451**	**315.426**	**20.818**
Performing receivables	422.535	144.709			**567.244**	(21.961)		**545.283**	315.426	
of which restructured	8.705	12.496			**21.201**	(1.967)		**19.234**	13.636	
Non-performing receivables			20.183	20.668	**40.851**		(30.683)	**10.168**		20.818
of which restructured			6.915	5.889	**12.805**		(9.839)	**2.966**		7.670
Total balance sheet exposure	**422.535**	**144.709**	**20.183**	**20.668**	**608.095**	**(21.961)**	**(30.683)**	**555.451**	**315.426**	**20.818**
Total off-balance sheet exposure	**136.259**	**16.564**	**1.259**	**-**	**154.082**	**(569)**	**(68)**	**153.445**	**28.374**	**449**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on branch exposure concentration

	31 December 2023.		
Method of calculation	**Stage1**	**Stage 2**	**Stage 3**
Balance sheet receivables - retail	**134.442**	**20.791**	**18.317**
General consumption	56.710	8.304	5.914
Housing loans	25.153	1.874	222
Performing activities (entrepreneurs)	52.204	10.569	11.627
Other receivables	376	43	554
Balance sheet receivables - corporate	**288.092**	**123.918**	**22.534**
Agriculture, forestry, fishing	3.781	5.896	823
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	40.623	34.366	5.374
Traffic, storage and communications, electricity supply, hotels and restaurants	64.257	7.323	5.080
Construction	25.318	27.600	961
Wholesale and retail trade, repair of motor vehicles and motorcycles	81.527	30.565	7.453
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	62.199	17.550	2.826
Receivables from other clients	10.388	618	18
Financial institutions	**-**	**-**	**-**
Total balance sheet exposure	**422.535**	**144.709**	**40.851**
Total off-balance sheet exposure	**136.259**	**16.564**	**1.259**

(In BAM thousand)

Data on branch exposure concentration

Method of calculation	Stage1	Stage 2	Stage 3
			31 December 2022.
Balance sheet receivables - retail	**145.308**	**19.624**	**12.249**
General consumption	61.471	5.281	4.960
Housing loans	23.367	718	225
Performing activities (entrepreneurs)	60.255	13.598	6.703
Other receivables	215	27	360
Balance sheet receivables - corporate	**260.178**	**76.692**	**18.839**
Agriculture, forestry, fishing	5.479	3.414	581
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	54.368	26.707	3.111
Traffic, storage and communications, electricity supply, hotels and restaurants	36.766	7.386	3.913
Construction	46.789	12.884	2.391
Wholesale and retail trade, repair of motor vehicles and motorcycles	82.207	18.010	7.425
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	26.717	7.543	1.392
Receivables from other clients	7.853	748	27
Financial institutions	**-**	**-**	**-**
Total balance sheet exposure	**405.486**	**96.317**	**31.087**
Total off-balance sheet exposure	**110.243**	**5.674**	**435**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

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

	31 December 2023									
	Stage1/Stage2					Stage3				
Sectors	0 days delay	1-30 days	31-60 days	61-90 days	More than 90 days	0 days delay	1-30 days	31-60 days	61-90 days	More than 90 days
Balance sheet receivables - retail	**128.659**	**22.831**	**2.910**	**833**	**-**	**2.124**	**269**	**172**	**728**	**15.024**
General consumption	54.580	8.724	1.216	493	-	261	194	30	310	5.120
Housing loans	24.865	1.930	191	40	-	33	-	-	-	190
Performing activities (entrepreneurs)	48.808	12.168	1.500	298	-	1.404	73	139	416	9.595
Other receivables	406	8	3	2	-	426	2	4	2	120
Balance sheet receivables - corporate	**349.631**	**47.194**	**9.210**	**5.976**	**-**	**3.380**	**704**	**1.312**	**256**	**16.882**
Corporate and public customers	100.009	-	4	-	-	743	-	469	-	295
Entrepreneurs	249.623	47.194	9.206	5.976	-	2.637	704	843	256	16.587
Receivables from other customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance receivables from banks and financial institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By categories of receivables	**478.290**	**70.026**	**12.119**	**6.809**	**-**	**5.505**	**972**	**1.484**	**984**	**31.906**
Performing receivables	**478.290**	**70.026**	**12.119**	**6.809**	**-**	**-**	**-**	**-**	**-**	**-**
of which restructured	15.798	4.806	266	331	-	-	-	-	-	-
Non-performing receivables	-	-	-	-	-	5.505	972	1.484	984	31.906
of which restructured	-	-	-	-	-	2.633	426	40	108	9.598
Total balance sheet exposure	**478.290**	**70.026**	**12.119**	**6.809**	**-**	**5.505**	**972**	**1.484**	**984**	**31.906**
Total off-balance sheet exposure	**145.590**	**5.927**	**1.126**	**179**	**-**	**712**	**8**	**-**	**1**	**538**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on non-performing receivables

	31 December 2023.						
	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	**173.550**	**18.024**	**18.317**	**6.072**	**14.363**	**10,55%**	**9.606**
General consumption	70.928	6.593	5.914	1.361	5.084	8,34%	2.226
Housing loans	27.249	732	222	-	218	0,82%	219
Performing activities (entrepreneurs)	74.400	10.202	11.627	4.711	8.578	15,63%	7.160
Other receivables	973	497	554	-	483	56,92%	1
Receivables - corporate	**434.545**	**34.620**	**22.534**	**6.732**	**16.320**	**5,19%**	**11.212**
Agriculture, forestry, fishing	10.499	1.261	823	113	779	7,84%	451
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	80.363	8.525	5.374	2.655	3.756	6,69%	2.510
Traffic, storage and communications, electricity supply, hotels and restaurants	76.660	5.029	5.080	938	3.498	6,63%	2.030
Construction	53.878	4.342	961	159	867	1,78%	534
Wholesale and retail trade, repair of motor vehicles and motorcycles	119.546	10.698	7.453	2.082	5.225	6,23%	4.126
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	82.575	4.649	2.826	786	2.179	3,42%	1.559
Receivables from other clients	11.023	118	18	-	16	0,16%	2
Balance sheet receivables from banks and financ. institutions	**-**	**-**	**-**	**-**	**-**	-	**-**
Total balance sheet exposure	**608.095**	**52.644**	**40.851**	**12.805**	**30.683**	**6,72%**	**20.818**
Total off-balance sheet exposure	**154.082**	**637**	**1.259**	**29**	**68**	**0,82%**	**450**

(In BAM thousand)

Data on non-performing receivables

	31 December 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	0	196	**0,93%**	223
Performing activities (entrepreneurs)	80.555	8.519	6.703	2.797	5.795	**8,32%**	3.515
Other receivables	603	315	360	0	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	0	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**	**46.756**	**31.087**	**9.382**	**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)

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

(in BAM thousand)

	31 December 2023.						
	IFRS 9 PD scope	**stage 1**	**stage 2**	**stage 3**	**POCI S2**	**POCI S3**	**Total**
Receivables - retail (homogeneous group with balances)							
Rating 1-4: Strong	0 - 3.05	339.451	44.393	-	372	-	384.216
Rating 5-7: Satisfactory	3.06 - 14.83	76.546	35.003	-	109	-	111.658
Rating 8-9: High risk	14.84 - 31.05	-	54.402	-	237	-	54.639
Rating 10: Risky	100	-	-	20.889	-	201	21.090
Total exposure		415.997	133.798	20.889	718	201	571.604
Allowance		(4.251)	(14.229)	(13.670)	(79)	(201)	(32.431)
Net exposure		411.746	119.569	7.219	638	0	539.172
Receivables - retail (homogeneous group without balances)							
Rating 1-4: Strong	0 - 1.10	51.487	2.160	-	148	-	53.795
Rating 5-7: Satisfactory	1.11 - 6.05	91.310	17.767	-	1.009	-	110.085
Rating 8-9: High risk	6.06 - 28.65	-	5.516	-	158	-	5.674
Rating 10: Risky	100	-	-	20.228	-	793	21.020
Total exposure		142.796	25.443	20.228	1.314	793	190.574
Allowance		(2.055)	(1.811)	(16.157)	(104)	(723)	(20.850)
Net exposure		140.742	23.632	4.070	1.210	70	169.724

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(in BAM thousand)

	31 December 2022.						
	IFRS 9 PD scope	**stage 1**	**stage 2**	**stage 3**	**POCI S2**	**POCI S3**	**Total**
Receivables - retail (homogeneous group with balances)							
Rating 1-4: Strong	0 - 4.63	250.727	34.719	-	584	-	286.031
Rating 5-7: Satisfactory	4.64 - 17.77	97.646	27.857	-	514	-	126.017
Rating 8-9: High risk	17.78 - 29.09	13.355	14.416	-	7	-	27.778
Rating 10: Risky	100	-	-	14.062	-	1.272	15.334
Total exposure		361.728	76.992	14.062	1.106	1.272	455.160
Allowance		(7.715)	(9.327)	(10.466)	(135)	(1.223)	(28.866)
Net exposure		354.013	67.665	3.596	971	49	426.294
Receivables - retail (homogeneous group without balances)							
Rating 1-4: Strong	0 - 1.13	48.895	4.408	-	266	-	53.569
Rating 5-7: Satisfactory	1.14 - 7.31	103.699	15.570	-	845	-	120.114
Rating 8-9: High risk	7.32 - 27.27	1.407	2.257	-	546	-	4.210
Rating 10: Risky	100	-	-	14.100	-	2.088	16.188
Total exposure		154.001	22.235	14.100	1.658	2.088	194.081
Allowance		(1.913)	(2.552)	(12.001)	(354)	(2.019)	(18.839)
Net exposure		152.088	19.683	2.099	1.304	69	175.243

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

	31 December 2023.			
Types of collateral	**Deposits and guarantees of the Guarantee Fund of the RS and the Guarantee Program of the Government of the RS**	**Securities**	**Residential and commercial real estate**	**Mobility**
Receivables - retail	**3.664**	**-**	**64.843**	**8.506**
General consumption	2.021	-	13.532	2.516
Housing loans	49	-	17.294	14
Performing activities (entrepreneurs)	1.595	-	34.016	5.974
Other receivables	-	-	-	1
Receivables - corporate	**80.064**	**4.224**	**148.441**	**26.502**
Corporate and public customers	67.964	-	9.040	1.009
Entrepreneurs	12.100	4.224	139.401	25.494
Receivables from other customers	**-**	**-**	**-**	**-**
Balance receivables from banks and financial institutions	**-**	**-**	**-**	**-**
By categories of receivables	**83.728**	**4.224**	**213.283**	**35.008**
Performing receivables	82.367	4.224	197.174	31.660
of which restructured	133	-	11.218	2.285
Non-performing receivables	1.361	-	16.109	3.348
of which restructured	496	-	6.249	925
Total balance sheet exposure	**83.728**	**4.224**	**213.283**	**35.008**
Total off-balance sheet exposure	**8.716**	**3.717**	**13.542**	**2.849**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Podaci o restrukturisanim potraživanjima

	31 December 2023.						
			Value of restructured receivables				
	Gross value of total receivables	**Allowance of total receivables**	**Gross value of restr. receivables**	**out of which: Stage3 receivables**	**Allowance of restr. receivables**	**% of restr. receivables**	**Vlaue of collaterial for restr. receivables**
Receivables - retail	**173.550**	**18.024**	**10.777**	**6.072**	**5.352**	**6,21%**	**7.278**
General consumption	70.928	6.593	2.904	1.361	1.351	4,09%	1.632
Housing loans	27.249	732	-	-	-	-	-
Performing activities (entrepreneurs)	74.400	10.202	7.873	4.711	4.001	10,58%	5.646
Other receivables	973	497	-	-	-	-	-
Receivables - corporate	**434.545**	**34.620**	**23.229**	**6.732**	**6.454**	**5,35%**	**14.028**
Agriculture, forestry, fishing	10.499	1.261	339	113	109	3,23%	300
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	80.363	8.525	11.668	2.655	2.453	14,52%	7.628
Traffic, storage and communications, electricity supply, hotels and restaurants	76.660	5.029	2.654	938	854	3,46%	1.289
Construction	53.878	4.342	441	159	138	0,82%	294
Wholesale and retail trade, repair of motor vehicles and motorcycles	119.546	10.698	6.906	2.082	2.409	5,78%	3.997
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	82.575	4.649	1.130	786	479	1,37%	429
Receivables from other clients	11.023	118	92	0	12	0,83%	92
Balance sheet receivables from banks and financ. institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total balance sheet exposure	**608.095**	**52.644**	**34.006**	**12.805**	**11.806**	**5,59%**	**21.306**
Total off-balance sheet exposure	**154.082**	**637**	**31**	**29**	**5**	**0,02%**	**15**

(in BAM thousand)

Podaci o restrukturisanim potraživanjima

	31 December 2022.						
			Value of restructured receivables				
	Gross value of total receivables	Allowance of total receivables	Gross value of restr. receivables	out of which: Stage3 receivables	Allowance of restr. receivables	% of restr. receivables	Vlaue of collaterial for restr. 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, wastewater management, waste disposal operations and similar activities	84.185	8.111	11.067	1.194	2.476	13,15%	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	107.642	10.040	5.913	1.988	2.012	5,49%	3.418
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	1.342	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)

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 Bank takes into account the value of collateral when reviewing the adequacy of placement value adjustments.

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 111 of the Law on Banks.

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.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.1. Concentration risk (continued)

Credit risk concentration per industry sector

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

	31 December 2023	In %	31 December 2022	In %
Agriculture, forestry and fishing	10.353	2%	9.367	2%
Mining and stone extraction	9.797	2%	8.528	2%
Manufacturing industry	66.532	11%	70.978	14%
Production and supply of electricity, gas, steam and air conditioning	36.631	6%	5.654	1%
Water supply, sewerage, waste management and environmental remediation activities	2.866	-	3.782	1%
Construction	53.317	9%	61.470	12%
Wholesale and retail trade; repair of motor vehicles and motorcycles	118.086	20%	106.411	20%
Traffic and storage	28.370	5%	32.392	6%
Accommodation, food preparation and serving activities; hotel and hospitality industry	10.911	2%	9.399	2%
Information and communication	6.292	1%	7.599	1%
Financial and insurance activities	4.639	1%	952	-
Real estate business	8.965	1%	8.527	2%
Professional, scientific and technical activities	22.132	4%	14.396	3%
Administrative and support service activities	3.661	1%	6.610	1%
Public administration and defense; compulsory social insurance	16.840	3%	2	-
Education	193	-	256	-
Health and social work activities	27.550	5%	2.098	-
Arts, entertainment and recreation	159	-	390	-
Other service activities	2.291	-	2.601	-
Retail and entrepreneurs	170.021	28%	174.218	33%
Total:	**599.606**	**100%**	**525.630**	**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 2023	U %	31 December 2022	U %
Loans per transaction accounts	57.455	10%	25.704	5%
Consumer loans	68.712	11%	69.524	13%
Working capital loans	173.983	29%	179.786	34%
Investment loans	271.985	45%	225.478	43%
Housing loans	27.019	5%	24.128	5%
Investments for realized payments under guarantees	452	-	1.010	-
Total:	**599.606**	**100%**	**525.630**	**100%**

29.4.2. Stress test

Portfolio as at 31 December 2023 in accordance with IFRS 9:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	519.755	6.306
Stage 2	151.798	16.223
Stage 3	41.569	30.751
Other exposure	49.056	-
Total	**762.177**	**53.281**

As part of the credit risk assessment, the Bank applied the worst possible scenario of the development of events for its portfolio. The Bank performed the stress test under the following assumptions: devaluation of the Convertible Mark by 30%, fall in the value of collateral by 30%, reduction of the total exposure by the amount of the deposit, and an increase in allowances on the total portfolio in accordance with the devaluation of the Convertible Mark and the increase in total exposure.

Portfolio as at 31 December 2023 after stress testing:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	619.234	7.750
Stage 2	188.463	20.366
Stage 3	47.410	34.308
Other exposure	49.056	-
Total	**904.164**	**62.425**

The results of the stress scenario for the Bank show an increase in total exposure by BAM 141.486 thousand, and the formation of larger value corrections by BAM 9.145 thousand.

(In BAM thousand)

Portfolio as at 31 December 2023	Total exposure	Total exposure minus the deposit amount	Discounted value of collateral	Allowance
Pre-test	904.164	894.639	318.005	62.425
Post-test	762.177	752.653	365.068	53.281
Difference	**141.986**	**141.986**	**(47.062)**	**9.144**

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 realized through the division and independent function of taking risks (front office) from their monitoring and management as well as support activities (back office).

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 Fund Management and Planning Department monitors the foreign exchange position on a daily basis and in cooperation with the sales sectors (corporate and public clients sector, entrepreneur sector and retail and counter sector) and the bank's management undertakes the appropriate activities mentioned above in order to maintain the foreign exchange 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 Fund Management and Planning 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 2023:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash funds and assets held banks	41.645	887	449	18	289	43.288	61.073	104.361
Assets with the Central Bank - obligatory reserve	-	-	-	-	-	-	65.319	65.319
Securities	38.167	-	-	-	-	38.167	10.351	48.518
Loans due from customers	322.567	-	-	-	-	322.567	225.618	548.185
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	9.711	9.711
Leased business premises IFRS 16	-	-	-	-	-	-	6.522	6.522
Other assets	403	-	-	-	-	403	2.202	2.605
	402.782	**887**	**449**	**18**	**289**	**404.425**	**380.796**	**785.221**
Liabilities								
Deposits to banks	3.500	-	-	-	-	3.500	5.246	8.746
Deposits to customers	309.017	10	494	2	29	309.552	264.117	573.669
Liabilities per loans	79.144	-	-	-	-	79.144	-	79.144
Subordinated debt	13.829	-	-	-	-	13.829	-	13.829
Lease liabilities IFRS 16	-	-	-	-	-	-	6.999	6.999
Other liabilities	560	48	-	-	-	608	2.749	3.357
Provisions for contingent liabilities	-	-	-	-	-	-	637	637
	406.050	**58**	**494**	**2**	**29**	**406.633**	**279.748**	**686.381**
Net foreign currency position	**(3.268)**	**829**	**(45)**	**16**	**260**	**(2.208)**	**101.048**	**98.840**

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 funds and assets held banks	30.645	741	369	26	290	32.071	75.367	107.438
Assets with the Central Bank - obligatory reserve	-	-	-	-	-	-	57.167	57.167
Securities	43.157	-	-	-	-	43.157	4.695	47.852
Loans due from customers	308.744	-	-	-	-	308.744	171.073	479.817
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	8.613	8.613
Leased business premises IFRS 16	-	-	-	-	-	-	7.106	7.106
Other assets	450	-	-	-	-	450	1.937	2.387
	382.996	**741**	**369**	**26**	**290**	**384.422**	**325.958**	**710.380**
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	79.892	-	-	-	-	79.892	21	79.913
Subordinated debt	6.801	-	-	-	-	6.801	-	6.801
Lease liabilities IFRS 16	-	-	-	-	-	-	7.543	7.543
Other liabilities	246	47	-	-	-	293	3.914	4.207
Provisions for contingent liabilities	-	-	-	-	-	-	948	948
	386.499	**119**	**548**	**2**	**101**	**387.269**	**233.706**	**620.975**
Net foreign currency position	**(3.503)**	**622**	**(179)**	**24**	**189**	**(2.847)**	**92.252**	**89.405**

29. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.1. Foreign exchange rate risk (continued)

During 2023, 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 60 months.

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, except for the loan taken from KFW where a fixed interest rate was agreed

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.

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	0,30%	0,50%
Funds over the obligatory reserve	-	-
Foreign currency accounts with international banks	0,00%-0,50%	-
Loans to customers up to one year:		
- corporate	-	2,50%-13,90%
- retail	8,49%	2,50% -15,50%
Loans to customers over one year:		
- corporate	-	3,00%-13,99%+6M Euribor
- retail	9,49%-10,99%+6M Euribor	2,50%-15,99%+6M Euribor
Liabilities		
Demand deposits corporate	0,00%	0,00%-0,10%
Demand deposits retail	0,00-0,50%	0,00-1,00%
Short-term deposits:		
- corporate	0,00%	0,00%-2,60%
- retail	0,00%	0,00%
Long-term deposits:		
- corporate	1,20%-2,40%	0,00%-3,90%
- retail	0,00%-4,50%	0,00%-5,00%
Loans:		
EFSE	6MEuribor+2,80% 6MEuribor+4,80%	-
KfW	2,90%	
GGF	6MEuribor+2,80%	-
ResponsAbility	6MEuribor+3,10% 6MEuribor+5,30%	
„Fond za razvoj i zapošljavanje RS“	-	0,50%-1,93%
„Fond stanovanja RS“	-	0,60%-1,80%
„Fond za razvoj istočnog dijela RS“	-	0,50%-1,80%

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 2023 and 31 December 2022:

(In BAM thousand)

		31 December 2023	
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash funds and assets held banks	17.865	86.496	104.361
Assets with the Central Bank - obligatory reserve	65.319	-	65.319
Securities	47.743	775	48.518
Loans due from customers	548.185	-	548.185
Equipment, intangible assets and investment property	-	9.711	9.711
Leased business premises IFRS 16	-	6.522	6.522
Interest, fee and other receivables	828	1.777	2.605
Total monetary assets	**679.940**	**105.281**	**785.221**
Monetary liabilities			
Deposits of customers	382.677	199.738	582.415
Received loans	78.676	468	79.144
Subordinated debt	13.691	138	13.829
Lease liabilities IFRS 16	6.999	-	6.999
Other liabilities	-	3.357	3.357
Provisions for contingent losses	-	637	637
Total monetary liabilities	**482.043**	**204.338**	**686.381**

(In BAM thousand)

		31 December 2022	
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash funds and assets held banks	66.305	41.133	107.438
Assets with the Central Bank - obligatory reserve	-	57.167	57.167
Securities	47.103	749	47.852
Loans due from customers	479.817	-	479.817
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	1.864	2.387
Total monetary assets	**593.748**	**116.632**	**710.380**
Monetary liabilities			
Deposits of customers	328.537	193.026	521.563
Received loans	79.751	162	79.913
Subordinated debt	6.779	22	6.801
Lease liabilities IFRS 16	7.543	-	7.543
Other liabilities	-	4.207	4.207
Provisions for contingent losses	-	948	948
Total monetary liabilities	**422.610**	**198.365**	**620.975**

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,
- Provision of arrangements with domestic and foreign banks on the mutual provision of loans for liquidity so that in case of excess liquidity, the funds would be placed at an appropriate interest rate, that is, in the case of a lack of funds for liquidity, they would be provided on favorable terms..

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

Day-today monitoring of the Bank's daily liquidity is the responsibility of the Head of the Fund Management and Planning Department and Liquidity Commission, and monitoring 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 2023	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash funds and assets held with banks	104.361	-	-	-	104.361
Assets with the Central Bank	65.319	-	-	-	65.319
Securities	48.518	-	-	-	48.518
Loans due from customers	27.557	42.802	163.135	314.691	548.185
Equipment, intangible assets and investment property	-	-	-	9.711	9.711
Leased business premises IFRS 16	-	-	-	6.522	6.522
Other assets	2.070	-	1	534	2.605
Total assets	**247.825**	**42.802**	**163.136**	**331.458**	**785.221**
LIABILITIES					
Deposits	246	1.000	7.500	-	8.746
Liabilities per loans	222.282	33.099	151.743	166.545	573.669
Subordinated debt	386	7.767	14.589	56.402	79.144
Lease liabilities IFRS 16	-	-	-	13.829	13.829
Other liabilities	-	302	1.448	5.249	6.999
Provisions for contingent losses	2.971	-	-	386	3.357
Total liabilities	**225.885**	**42.168**	**175.280**	**243.048**	**686.381**
Liability gap	**21.940**	**634**	**(12.144**	**88.410**	**98.840**

(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 funds and assets held with banks	107.438	-	-	-	107.438
Assets with the Central Bank	57.167	-	-	-	57.167
Securities	47.852	-	-	-	47.852
Loans due from customers	17.528	32.151	126.130	304.008	479.817
Equipment, intangible assets and investment property	-	-	-	8.613	8.613
Leased business premises IFRS 16	-	-	-	7.106	7.106
Other assets	2.387	-	-	-	2.387
Total assets	**232.372**	**32.151**	**126.130**	**319.727**	**710.380**
LIABILITIES					
Deposits	215.234	21.198	99.258	185.873	521.563
Liabilities per loans	905	5.426	16.215	57.367	79.913
Subordinated debt	22	-	-	6.779	6.801
Lease liabilities IFRS 16	-	420	1.212	5.911	7.543
Other liabilities	3.896	58	107	146	4.207
Provisions for contingent losses	-	-	-	948	948
Total liabilities	**220.057**	**27.102**	**116.792**	**257.024**	**620.975**
Liability gap	**12.315**	**5.049**	**9.338**	**62.703**	**89.405**

29. FINANCIAL INSTRUMENTS (continued)

29.7. Operational risk

Operational risk management is an important part of the Bank's operations, which ensures the minimization of adverse effects on the Bank's earnings and capital caused by failures (unintentional or intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of the information system or in case of external events.

Operational risk management includes:
- formation of a network of operational risk reporters by sectors and departments, who are in charge of carrying out activities in the field 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.

The process of operational risk management in the Bank takes place through four main stages:
- identification of operational risks,
- masurement/assessment of risks,
- mitigation (response to risk),
- continuous monitoring and report.

Reporting represents information on the key results of the operational risk management process. The purpose of consistent risk reporting is to ensure that the risk management process functions effectively and efficiently and that risk is managed in accordance with the risk tolerance policy. Adequate information and communication are an integral part of the risk management process and relate to all its stages. The process must ensure that all stakeholders have access to relevant information and a good overview of the risk situation.

Reporting on operational risks in the Bank includes a system of external and internal reporting.

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 17,1%, 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 the legal regulations, the Bank is obliged to maintain the capital rates prescribed by the Decision on capital calculation, 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 the Decision on the procedure of supervisory examination and evaluation of banks, according to decision number 02-21-212-1795-8/23 dated 26 October 2023. BARS prescribed an additional capital requirement for the Bank in the amount of 2% on the capital rates prescribed by the Decision on the Calculation of Bank Capital so that the minimum capital rates for the Bank are 14% for the regulatory capital rate, 11% for the core capital rate and 8.75% for rate of regular basic capital.

In addition to the minimum capital rates, the Bank should also maintain a protective layer for capital preservation in the form of regular basic capital in the amount of 2,5% of the total amount of risk exposure, so that the total capital requirements for the Bank, including the protective layer for capital preservation, amount to 16,5 % (12%+2%+2,5%) for regulatory capital items, 13,5% (9%+2%+2,5%) for basic capital items and 11,25% (6,75%+2 %+2,5%) for regular fixed capital items.

As at 31 December 2023, the Bank was in full compliance with all the prescribed capital indicators:

	As at 31 December 2023	31 December 2022
Regular share capital	98.467	89.131
Supplementary capital	13.425	6.845
Regulatory capital	**111.892**	**95.976**
Total amount of risk exposure	517.082	489.902
% share capital adequacy	**19,04%**	**18,19%**
% regulatory capital adequacy	**21,64%**	**19,59%**

By decision of the Bank's Shareholders' Assembly, the accumulated unallocated profit from 2022 was allocated to retained earnings and legal reserves in 2023. Increase in regulatory capital on the reporting 31.12.2023 was created by including and recognizing the profit of the current period of 2023 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 earnings.

In August 2023, the Bank realized a subordinated loan with the ResponsAbility fund in the amount of BAM 6.846 thousand, which additionally ensured an increase in regulatory capital through supplementary capital. By Decision No. 03-2198-4/23 dated 20 December 2023, the Banking Agency of the Republic of Srpska approved the inclusion of subordinated debt in the supplementary capital of the Bank in the amount of BAM 6.846 thousand.

In addition to the legal restrictions, the Bank undertook the obligation, based on the contracts with EFSE, Luxembourg and KfW Germany, to maintain net capital in the amount of no less than EUR 9 million and a capital adequacy ratio of no less than 16,5%+1% (EFSE). , that is, not less than 15% (KFW). According to the contract concluded with ResponsAbility Bank has undertaken the obligation to maintain a capital adequacy rate of no less than 16,5%, that is, no less than the regulatory requirement + 1%, and a core capital rate of no less than 13,5% or no less than the regulatory requirement + 1% .

29. POST-REPORTING DATE EVENTS

After 31 December 2023, there were no significant events after the reporting date that would require the adjustment of the Bank's financial statements as at 31 December 2023, 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 31.12.2023.*

The Bank's Management Board as at 31 December 2023 consists of the following:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

As at 6 March 2024, the Bank's Management Board consists of the following:
- Aleksandar Kremenović, acting chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

2. *There was a change within the Bank's Supervisory Board after 31.12.2023.*

The Bank's Supervisory Board as at 31 December 2023 consists of the following:
- Aleksandar Kremenović, chairperson
- Dželila Huremović, member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

As at 1 February 2024, the Bank's Supervisory Board consists of the following:
- Aleksandar Kremenović, chairperson
- Dželila Huremović, member
- Aleksandar Čolić, independent member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

As at 28 March 2024, the Bank's Supervisory Board consists of the following:
- Sandra Lonco, chairperson
- Dželila Huremović, member
- Aleksandar Čolić, independent member
- Freider Wohrmann, independent member
- Srećko Bogunović, independent member

3. *There was a change within the Bank's share capital structure after 31.12.2023.*

Capital structure as at 31 December 2023:

	Number of shares	In BAM thousand	%
MKD Mikrofin d.o.o. Banja Luka	229.373	22.937	44,85
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
GLS Alternative Investments Sicav, Luxembourg	26.225	2.623	5,13
	511.410	**51.141**	**100,00**

30. POST-REPORTING DATE EVENTS (continued)

Capital structure as at 29 March 2024:

	Number of shares	In BAM thousand	%
MF grupa d.o.o., Banja Luka	485.185	48.518	94,87
GLS Alternative Investments Sicav, Luxembourg	26.225	2.623	5,13
	511.410	**51.141**	**100,00**

4. After 31.12.2023, the Bank has been approved by the creditor KfW, Germany

On 27 March 2024, the Bank received approval related to non-fulfillment of the required financial indicator from the Agreement with the creditor KfW, Germany for the reporting date, until 31 March 2025.

5. Sale of the Bank's loan portfolio

On 28 March 2024, the Bank sold a part of the non-performing portfolio in the amount of BAM 7.445 thousand of balance receivables.

30. FOREIGN EXCHANGE RATES

The official foreign exchange rates used in the translation of statement of financial position items as at 31 December 2023 and 31 December 2022 were as follows:

		In BAM
	31 December 2023	**31 December 2022.**
USD	1,7700	1,8337
CHF	2,1121	1,9862
EUR	1,9558	1,9558