Financial statements for the Year ended 31 December 2024 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 31 March 2025.

For and on behalf of the Management Board

Chairperson of the Bank's Management Board

MF banka AKCIONARSKO DRUŠTVO BANJA LUKA MF

Independent Auditor's Report

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

Opinion

We have audited the 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 2024, 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 2024, 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 Calculation of expected credit losses - Impairment of loans to customers	**Audit approach**
As stated in Note 16, the value of loans to customers is stated in the gross amount of BAM 645.253 thousand, that is, the net value in the amount of BAM 590.081 thousand and the impairment for expected credit losses in the amount of BAM 55.172 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. In addition, for reporting purposes to the Banking Agency of the Republic of Srpska, the Bank also applies 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 2024 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 and on a sample base, 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 Aleksandar Džombić, certified auditor.

Grant Thornton d.o.o. Banja Luka
Banja Luka, 31 March 2025

d.o.o. Grant Thornton Banja Luka

Isidora Džombić, Managing Partner – Director Grant Thornton d.o.o. Banja Luka	Aleksandar Džombić Certified auditor Grant Thornton d.o.o. Banja Luka

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2024
(In BAM thousand)

	Note	2024	2023
Interest income calculated based on the effective interest rate	5	55.659	51.242
Interest expenses calculated based on the effective interest rate	6	(15.344)	(11.521)
Net interest income		**40.315**	**39.721**
Fee and commission income	7	15.082	13.398
Fee and commission expenses	8	(3.363)	(2.917)
Net fee and commission income		**11.719**	**10.481**
Other operating income	9	5.759	3.424
Other operating expenses	10	(37.532)	(33.693)
Exchange rate differences, net		18	(35)
Impairment and provisions (net provisions)	11	(5.959)	(8.913)
Profit from operations before taxes		**14.320**	**10.985**
Income tax	12	(1.859)	(1.796)
Net profit of the current year		**12.461**	**9.189**
Other comprehensive income		(1.336)	246
Changes in the fair value of debt instruments that are measured at fair value through OCI		(1.336)	246
Total comprehensive income for the accounting period		**11.125**	**9.435**
Earnings per share:			
- Basic earnings per share (in BAM)	24	24,37	17,97

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 31 March 2025.

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

Aleksandar Kremenović
Chairperson of the Management Board

Nataša Nikolić
Head of the Accounting and Finance Sector

STATEMENT OF FINANCIAL POSITION
As at 31 December 2024
(In BAM thousand)

	Note	31 December 2024	31 December 2023
ASSETS			
Cash funds and assets held with banks	13	102.335	104.361
Assets held with the Central Bank – obligatory reserve	14	67.409	65.319
Securities	15	48.589	48.518
Loans to customers	16	590.081	548.185
Property and equipment	17	4.837	4.954
Intangible assets	17	1.020	373
Investment property	17.1	4.321	4.384
Leased business premises	17.2	5.830	6.522
Other assets	18	3.170	2.605
Total assets		**827.592**	**785.221**
LIABILITIES AND EQUITY			
Liabilities			
Deposits to banks	19	9.593	8.746
Deposits to customers	19	644.297	573.669
Liabilities per taken loan	20	36.005	79.144
Subordinated debt	21	13.838	13.829
Other liabilities and equity	22	13.188	10.356
Provisions for employee benefits and contingent liabilities	11 c)	706	637
Total liabilities		**717.627**	**686.381**
Equity			
Share capital	23	51.141	51.141
Share premium		1.307	1.307
Equity reserves	23	2.376	3.252
Accumulated profit/(loss)		42.680	33.951
Profit of the current period		12.461	9.189
Total equity		**109.965**	**98.840**
Total liabilities and equity		**827.592**	**785.221**
Contingent liabilities and commitments	25	184.070	154.082

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2024
(In BAM thousand)

	Share capital	Share premium	Equity reserve	Accumulated profit/ (loss)	Total
Balance, 1 January 2023	**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**
Allocation of reserves debited to accumulated profit	-	-	459	(459)	**-**
Total transactions with owners	***-***	***-***	459	(459)	**-**
Net profit of the current period	-	-	-	12.461	**12.461**
Revaluation reserves based on securities	-	-	(1.336)	-	**(1.336)**
Comprehensive income for the accounting period	***-***	***-***	***(1.336)***	***12.461***	***11.125***
Balance, 31 December 2024	**51.141**	**1.307**	**2.376**	**55.141**	**109.965**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2024
(In BAM thousand)

	Year ended 31 December 2024	31 December 2024
Cash flows from operating activities:		
Interest receipts	55.369	50.781
Fee and commission receipts	11.461	9.050
Interest paid	(11.959)	(4.924)
Fee and commission paid	(3.363)	(3.183)
Collection of written-off receivables	2.273	1.824
Payments to employees and suppliers	(22.454)	(30.330)
Net cash from operating activities	**31.327**	**23.218**
Changes in operating assets and liabilities:		
Net increase in loans due from customers	(53.202)	(84.293)
Investments in other banks		-
Income tax paid	(1.985)	(1.527)
Net increase in deposits due to customers	70.503	58.316
Net cash from/(used in) operating activities	***46.643***	***(4.286)***
Cash flows from investing activities:		
Interest receipts	1.475	1.422
Purchase of intangible assets	(847)	-
Purchase of fixed assets	1.408	(265)
Purchase of other investments	(905)	(798)
Net cash (used in) investing activities	**1.131**	**359**
Cash flows from financing activities:		
Commitments per loans	1.162	35.325
Repayments per loans	(48.973)	(26.286)
Net cash from/(used in) financing activities	***(47.811)***	***9.039***
Net increase in cash funds	**(37)**	**5.112**
Calculated interest on the amount of the obligatory reserves	2	21
Effects of exchange rate changes	18	(35)
Effects of value adjustment change	81	(23)
Cash funds, beginning of the year	**169.680**	**164.605**
Cash funds, end of the year	**169.744**	**169.680**
Cash funds comprise of the following items:		
Cash funds and assets held with banks	102.335	104.361
Assets held with the Central Bank – obligatory reserve	67.409	65.319
	169.744	**169.680**

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 23) 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 2023. On 29 March 2024, „MF grupa d.o.o." becomes the majority shareholder of the Bank. The ultimate parent company is "MF grupa d.o.o." Banja Luka. „MF grupa d.o.o." prepares consolidated financial statements.

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 2024, the Bank operates in its headquarters in Banja Luka, Aleja Svetog Save street 61 and in affiliates in Banja Luka, Prijedor, Doboj, Bijeljina, East Sarajevo, Tuzla, Cazin, Sarajevo Centar, Tešanj, Mostar 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 i via counter in Nova Topola, Omarska, Petrovo, Kostajnica and Trn.

As at 31 December 2024, the Bank had 348 employees (31 December 2023: 334 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 2024, the management bodies of the Bank consist of the following:

Supervisory Board as of 28 March 2024:

- Sandra Lonco, chairperson
- Dželila Huremović, member
- Frieder Wohrmann, independent member
- Srećko Bogunović, independent member
- Aleksandar Čolić, independent member

Supervisory Board from 1 February to 28 March 2024:

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

Supervisory Board from 3 November 2023 to 1 February 2024:

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

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

Management Board as of 4 June 2024:
- Aleksandar Kremenović, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

Management Board from 6 March to 4 June 2024:
- Aleksandar Kremenović, acting chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

Management Board from 19 April 2023 to 6 March 2024:
- Bojan Luburić, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

Audit Board as at 31 December 2024:
- Đurđica Dragojević, chairperson, independent member
- Zoran Đukić, member
- Sanja Brkić, member
- Ivana Živković, member
- Željko Pena, 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

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

2.1. Statement of compliance

The accompanying financial statements have been 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 3.931 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 31.12.2024 and 31.12.2023 are as follows:

	(In BAM thousand) **31 December**	
	2024	**2023**
- Application of minimum rates of impairment prescribed in Article 23. of the Decision for credit risk exposures 1 – Stage 1	1.786	1.271
- Application of minimum rates of impairment prescribed in Article 24. of the Decision for credit risk exposures 2 – Stage 2	1.817	1.378
- Application of minimum rates of impairment prescribed in Article 25. of the Decision for credit risk exposures 3 – Stage 3	643	807
- 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	(315)	(253)

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

2.2. Measurement basis and preparation of financial statements

The financial statements of the Bank have been prepared at cost (historical cost) principle, except for securities at fair value through other comprehensive income, as further described in the accounting policies.

Historical cost is generally based on the fair value of compensation paid in exchange for goods and services.

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

Upon preparation of the cash flow statements, the Bank used direct method of reporting on cash flows.

2.3. Functional and presentation currency

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

2.4. Going concern principle

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

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

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

Application of new and amendments to existing standards which came into force

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 current and non-current liabilities (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 – disclosures" – Amendments to supplier finance arrangements (1 January 2024);
- IFRS 16 "Leases" – Amendments to lease liability in a sale and leaseback (1 January 2024).

Adopting these standards, amendments to existing standards and interpretations had no significant impact on the Bank'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 21 „The Effects of Changes in Foreign Exchange Rates" – Lack of Exchangeability (1 January 2025);
- IFRS 9 „Financial instruments" IFRS 7 „Financial instruments: Disclosures " (1 January 2026);
- IFRS 18 „Presentation and Disclosure in Financial Statements " (1 January 2027);
- IFRS 19 „Subsidiaries without Public Accountability: Disclosures" (1 January 2027).

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 in the period of initial application.

2.6. Management of climate and environmental risks

In accordance with the Guidelines for Managing Climate and Environmental Risks of the Banking Agency of the Republic of Srpska, "MF banka a.d." Banja Luka has established a basic framework for identifying, assessing and managing climate and environmental risks within its ESG Strategy.

The Bank has defined a strategic approach that includes setting goals in the area of environmental sustainability, building internal capacities and implementing a process for monitoring and reporting on ESG indicators. Through the implementation of the ESG Strategy, the Bank has already initiated activities that include reducing the negative impact on the environment through rationalization of energy consumption, initiatives to reduce CO_2 emissions and achieving progressive emission neutrality in the coming years. At the same time, internal records of ESG data represent the basis for further development of procedures for quantifying climate risks and their integration into the Bank's risk management system. Also, during 2024, the Bank adopted an internal methodology for assessing the materiality of climate and environmental risks, which defines the method of conducting sensitivity analysis and assessing the materiality of ESG risks.

The Bank is aware of the importance of these risks and includes them in its risk catalogue, and consequently explains them through the internal capital adequacy assessment process. Based on the internal assessments to date, it was concluded that the current potential impact of climate risks does not pose a significant threat to the Bank's capital and liquidity position. However, taking into account the strategic commitment to sustainability, the Bank remains focused on strengthening its internal capacities for the analysis and management of these types of risks.

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 life:

	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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Impairment of non-current assets (continued)

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 2024 and 2023, based on the estimation of the management of the Bank, there are no indication of impairment of equipment, intangible assets and investment property.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Financial instruments (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Financial instruments (continued)

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.

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

Taxation of profit is carried out in accordance with the tax regulations of the Republic of Srpska, the regulations of the Federation of Bosnia and Herzegovina and the regulations of the Brčko District, since the Bank generates profits from operations in the Republic of Srpska, the Federation of Bosnia and Herzegovina and Brčko District.
During the year, the Bank pays income tax in the form of monthly advances, the amount of which is determined based on the tax return for the previous year. The final tax base, to which the prescribed income tax rate of 10% is applied, is determined by the Bank's tax balance. The tax base includes profit from the statement of profit or loss adjusted for certain expenses and income, in accordance with tax regulations and may be reduced by certain tax benefits.
Tax regulations of the Republic of Srpska do not provide for the possibility of tax losses from the current period being used as a basis for refunding taxes paid in previous periods. However, losses from the current period reported in the tax balance may be used to reduce the tax base of future accounting periods, but not 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Taxes and contributions (continued)

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.

3.10. 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 (statutory, 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.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

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

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/stages 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.

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

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

- The customer is late in repaying his obligations to the Bank for more than 90 days in a materially significant amount;
- Identified UTP conditions (unlikeliness to pay), i.e. the Bank considers it certain that the customer 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 customer's current financial difficulties, which will result in a reduction of the debtor's financial obligation,
- initiated bankruptcy proceedings or liquidation of the customer,
- if the customer 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 customer'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/stages are met,
- POCI assets during the initial designation (approval), at least in the first year,
- the customer's sources of income are reduced by more than 50%, and the same affects the ability to settle obligations to the Bank,
- the customer 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,

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)-

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

- significant deterioration of the customer'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 customer.
- in the case of natural persons, if a company or an independent business owned by the debtor is in default, and the customer guarantees the obligations of that company or independent business with personal assets.

When it comes to exposure modifications due to financial difficulties of customers, 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 customers 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/stage 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/stage 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 customer risk, and if BARS, through supervision, determines and orders the Bank to calculate expected credit losses on an individual basis.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Parameters of the internal model for calculating allowance for impairment - PD

To calculate the PD parameter, we divide the portfolio into:
- Legal entities,
- Individuals,
- Entrepreneurs.

In addition to dividing the portfolio into segments, the PD homogeneous group is also affected by the internal rating class, so we distinguish 30 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),
- customer segment,
- number of years in default.

By combining the first 2 criteria, we segment the portfolio into 6 basic LGD customer groups:
1. Legal entities with security
2. Legal entities without security
3. Individuals with security
4. Individuals without security
5. Entrepreneurs with security
6. Entrepreneurs without security

Depending on whether the customer has/does not have balances and collateral, and based on the number of years in default, we distinguish 282 LGD homogeneous groups.

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. The recovered amount is calculated for each lot on a monthly basis as the reduction in exposure less the amount of write-offs, discounted at the effective interest rate until the start of observation, that is entering default. Interest rates are given at the lot level of each customer.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

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,
- irrevocable guarantees from the Government of the RS, Brčko District and FBiH,
- Guarantees of the Guarantee Fond RS,

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

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, in accordance with the internal division and wide dispersion of risks.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Credit risk management (continued)

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 customers 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. There are 6 levels of authorization for approving loans in the Bank, the highest of which is the Bank's Supervisory Board, and the lowest is the Credit Committee of the branch/business center/function for COR and PUB. Processing of loan applications for all sectors or market segments is carried out decentralized, that is, within the relevant sales sectors. Processing of loan applications from receipt of loan applications to loan placement is carried out 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 stage 3 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 or exposures is centralized and organized through the work of the specific Sector for forced collection, within which the Collection and Restructuring Department and the Legal Collection Department were separated, until December 2024. With the new systematization of work at the beginning of December 2024, the collection of non-performing exposures is under the responsibility of the Non-Performing Exposure Management Function within the Credit Risk Assessment and Monitoring and Non-Performing Exposure Management Sector.

By the procedures for the actions of these two departments, and now the Non-Performing Exposure Management Function, the Bank has prescribed the tasks of taking over, monitoring and collecting all problematic placements for all market segments.

By obtaining the status of default (stage 3), the customer passes into the jurisdiction of the aforementioned Department/Function.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Transfer to the Non-Performing Exposure Management Function ("UNI" Function) is carried out after the regular monthly exposure classification by the Risk Management Sector. The Sales Support and Development Sector generates a decision containing a list of all exposures that meet the specified conditions for transfer to the "UNI" Function on the last day of the previous month. Based on the specified decision, the case is transferred from the sales sector to the "UNI" Function, and the relevant associates in the "UNI" Function are assigned to the specified cases.

The "UNI" Function acts on the specified cases within its jurisdiction with the aim of collecting and reducing non-performing exposures as efficiently as possible.

Various collection strategies are applied within the "UNI" Function.

Returning a customer from the "UNI" Function to the sales 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 on which the conditions from Article 20 of the "Decision on credit risk management and determination of expected credit losses" ceased to be met,
- proves regularity in repayment (makes repayment in accordance with the agreed repayment plan, without delay >30 days on the last day of the month) it is returned to the jurisdiction of the sales sector. The grace period is not recognized (not counted) in the recovery period.

The return procedure is the same as the customer transfer/takeover procedure, only it is carried out in the opposite direction.

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)
	Year ended 31 December	
	2024	**2023**
Interest income from:		
Banks and banking institutions	925	230
Enterprises	34.309	32.229
Retail	17.174	17.348
Public sector	2.999	1.133
Non-banking financial institutions	227	-
Non-profit organizations	8	27
Other	17	275
Total:	**55.659**	**51.242**

6. INTEREST EXPENSES CALCULATED BASED ON THE EFFECTIVE INTEREST RATE

		(In BAM thousand)
	Year ended 31 December	
	2024	**2023**
Interest expenses from:		
Retail	8.936	6.413
Public sector	448	224
Non-banking financial institutions	472	369
Interest on subordinated debt	1.225	785
Interest to financial institutions for loans received	3.259	3.275
Enterprises	760	277
Non-profit organizations	98	75
Banks	130	95
Other	16	8
Total:	**15.344**	**11.521**

7. FEE AND COMMISSION INCOME

		(In BAM thousand)
	Year ended 31 December	
	2024	**2023**
Fee and commission income from domestic and international payment transactions	10.470	8.558
Income from foreign change transactions	1.685	2.184
Fees and commissions per loans that are not part of effective interest rate	1.116	951
Fees and commissions per off-balance transactions	1.811	1.705
Total:	**15.082**	**13.398**

8. FEE AND COMMISSION EXPENSES

(In BAM thousand)

	Year ended 31 December 2024	2023
Central Bank fees based on domestic payment transaction services	831	731
Fees based on card transactions	1.692	1.293
Fees based on sale and purchase of foreign exchanges	249	360
Fees for international payment transaction services	367	315
Fees based on loan processing	198	187
Other fees and commissions	26	31
Total:	**3.363**	**2.917**

9. OTHER OPERATING INCOME

(In BAM thousand)

	Year ended 31 December 2024	2023
Collected written-off receivables	3.179	1.872
Other income	2.580	1.552
Total:	**5.759**	**3.424**

10. OTHER OPERATING EXPENSES

(In BAM thousand)

	Year ended 31 December 2024	2023
Gross personal income	15.355	12.410
Remunerations to members of the Supervisory Board, Audit Committee, employees help	207	409
Professional education of employees	52	76
Materials and services	841	886
Business trips	354	170
Telecommunication and postage services	865	869
Equipment/software maintenance	1.609	870
Marketing and advertising	444	667
Leases	246	557
Membership fees	224	203
Representation	345	328
Assets’ security services	1.575	1.376
Depreciation/Amortization (Note 17)	3.541	3.243
Taxes and contributions	338	233
Fees	1.570	1.299
Write-off of uncollectable receivables	6.403	6.897
Fees for third party engagements	331	287
Other	3.232	2.913
Total:	**37.532**	**33.693**

10. OTHER OPERATING EXPENSES (CONTINUED)

(In BAM thousand)

Gross personal income	**Year ended 31 December 2024**	**2023**
Net salaries	9.664	7.832
Taxes	835	648
Contributions	4.856	3.930
Total gross personal income:	**15.355**	**12.410**

11. IMPAIRMENT AND PROVISIONS

a) Debited to expenses

(In BAM thousand)

	Year ended 31 December 2024	**2023**
Cash funds and cash with other banks	(247)	(239)
Loans due from customers	(90.531)	(95.051)
Other assets and securities	(4.189)	(2.289)
Contingent liabilities and commitments	(4.794)	(3.943)
Total:	**(99.761)**	**(101.522)**

b) Reversal of provisions credited to income

(In BAM thousand)

	Year ended 31 December 2024	**2023**
Cash funds and cash with other banks	328	216
Loans due from customers	85.697	85.668
Other assets and securities	3.052	2.471
Contingent liabilities and commitments	4.725	4.254
Total:	**93.802**	**92.609**
Net provisions	**(5.959)**	**(8.913)**

11. IMPAIRMENT AND PROVISIONS (continued)

c) Movements during the year for impairment and provisions

(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 25)	Total
Balance, as at 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, as at 31 December 2023	**230**	**51.421**	**7.013**	**49**	**637**	**59.350**
Provisions during the year	247	90.531	4.176	-	4.794	99.748
Reversal of provisions	(328)	(78.252)	(3.039)	-	(4.724)	(86.343)
Reversal of provisions based on the sale of part of the loan portfolio	-	(7.445)	-	-	(1)	(7.446)
Provisions based on securities stated at fair value through other comprehensive income	-	-	-	13	-	13
Reversals based on securities stated at fair value through other comprehensive income	-	-	-	(13)	-	(13)
Accounting written-off receivables	-	(1.084)	(76)	-	-	(1.160)
Balance, as at 31 December 2024	**149**	**55.172**	**8.074**	**49**	**706**	**64.149**

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)	
	Year ended 31 December 2024	**2023**
Profit before taxes	14.320	10.985
Income tax calculated at the rate of 10%	1.432	1.098
Decrease/increase in income tax	(2.249)	(3.740)
Tax recognized/unrecognized expenses from impairment of loans and other assets	1.908	3.219
Other tax unrecognized costs	752	905
Unrecognized tax credit	16	314
Total income tax	1.859	1.796
Income tax RS	1.513	1.008
Income tax realized in the branch office in Brčko District	73	70
Income tax realized in the branch offices in FBiH	273	718
Total income tax	1.859	1.796
Effective income tax rate	12,98%	16,35%

For the business year 2024, 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 2023.

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 2024	31 December 2023
Cash funds:		
- in BAM	18.130	10.461
- in foreign currencies	7.658	6.708
	25.788	**17.169**
Funds at the Central Bank of BiH in BAM:		
- Gyro account	57.181	50.195
- Foreign cash funds	3.150	4.566
	60.331	**54.761**
Assets with other banks:		
- domestic banks	1.183	1.125
- foreign banks	15.115	31.471
	16.298	**32.596**
Gross value	**102.417**	**104.526**
Value adjustment	(82)	(165)
Total:	**102.335**	**104.361**

14. ASSETS HELD WITH THE CENTRAL BANK - OBLIGATORY RESERVE

(In BAM thousand)

	31 December 2024	31 December 2023
Assets held with the Central bank:		
- obligatory reserve	67.453	65.363
- due interest on the obligatory reserve held with CBBH	23	21
Gross value:	**67.476**	**65.384**
Value adjustment of cash funds held with the Central bank - obligatory reserve	(67)	(65)
Total:	**67.409**	**65.319**

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 obligatory reserve.

15. SECURITIES

(In BAM thousand)

	31 December 2024	**31 December 2023**
Securities - war damage stated at fair value through other comprehensive income	1.076	1.402
Securities – Republic of Srpska government bonds, stated at fair value through other comprehensive income	46.478	46.341
Calculated due and accrued interest	1.035	775
Total:	**48.589**	**48.518**

Debt securities as at 31 December 2024 in the amount of BAM 48.589 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 (Level 1 – Mark to market, Level 2 – Mark to model, Level 3 – Mark to management).

(In BAM thousand)

				31 December 2024
Securities	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities stated at fair value through other comprehensive income	-	48.589	-	48.589
Total:	**-**	**48.589**	**-**	**48.589**

	Level 1	**Level 2**	**Level 3**	**Total**
Fair value as at 1 January 2024	**-**	**48.518**	**-**	**48.518**
Purchased principle instruments	-	10.883	-	10.883
Purchased interest instruments	-	-	-	-
Sold principle instruments		(3.785)		(3.785)
Sold interest instruments		(147)		(147)
Repaid principle instruments	-	(5.804)	-	(5.804)
Repaid interest instruments	-	(1.476)	-	(1.476)
Accrued interest	-	1.736	-	1.736
Change in fair value of principle	-	(1.562)	-	(1.562)
Change in fair value based on discount / premium depreciation	-	226	-	226
Fair value as at 31 December 2024	**-**	**48.589**	**-**	**48.589**

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**

Movements in provisions for debt securities per expected loss level:

	Level 1	Level 2	Level 3	Total
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**
Allowance as at 1 January 2024	**-**	**49**	**-**	**49**
Provision during the year	-	13	-	13
Reversal during the year	-	(13)	-	(13)
Allowance as at 31 December 31 December 2024	**-**	**49**	**-**	**49**

16. LOANS TO CUSTOMERS

(In BAM thousand)

	31 December 2024	**31.decembra 2023**
Short-term loans in BAM	137.766	108.323
Long-term loans in BAM	366.870	351.030
Long-term loans in foreign currencies	6	26
Guarantees paid	546	509
Current portion of long-term loans	140.065	139.718
Gross value:	**645.253**	**599.606**
Allowance for loans due from customers	(55.172)	(51.421)
Total:	**590.081**	**548.185**

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

During 2024, an accounting write-off of loans, interest and fees per loans in the amount of BAM 1.084 thousand, was carried out, that is, the transfer of their balance exposures in the off-balance sheet, 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 2024, the Bank issued mostly long-term loans, an in smaller amount short-term loans, at annual interest rates ranging from 2,50%-19,69%. 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 well as consumer loans that, according to the current Catalog of Credit Products, earn interest in the specified range.

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 2024 were issued to enterprises and population with an annual interest rate ranging from 3,60 to 12,69% for periods up to the maximum of 25 years.

An interest rate of 2,50% was granted to customers who secured a 100% deposit as loan security, while interest rates higher than 12,70% refer to long-term consumer loans and loans for the micro segment and retail.

The majority of long-term retail placements were approved for the purpose of financing general consumption, purchase of housing units, construction and adaptation, and investments by individuals, while the purpose of long-term placements to legal entities was financing fixed assets, investments, and working capital.

As at 31 December 2024, 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 (cca. 20,6%), city of Sarajevo (cca. 10,00%), city of Trebinje (cca. 8,2%), city of Bijeljina (cca. 5,5%), city of Zvornik (cca. 4,4%), city of Prijedor (cca. 3,8%).

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 2023	**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**
Acquisitions in the period	-	-	1.233	1.233	847
Transfers from/to	278	1.140	(1.418)	-	-
Sale	-	(185)	-	(185)	-
Disposals	-	(190)	-	(190)	-
Balance, 31 December 2024	**2.702**	**8.467**	**251**	**11.420**	**2.634**
Accumulated depreciation/amortization					
Balance,1 January 2023	**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**
Depreciation/amortization	321	1.015	-	1.336	200
Sale	-	(173)	-	(173)	-
Disposals	-	(188)	-	(188)	-
Balance, 31 December 2024	**1.646**	**4.937**	**-**	**6.583**	**1.614**
31 December 2023	**1.099**	**3.419**	**436**	**4.954**	**373**
31 December 2024	**1.056**	**3.530**	**251**	**4.837**	**1.020**

As at 31 December 2024 and 31 December 2023, equipment is secured from general risks and the Bank is not charged and has no pledge on equipment and intangible investments.

17.1. INVESTMENT PROPERTY

(In BAM thousand)

Investment property	
Cost	
Balance, 1 January 2023	**4.856**
Acquisitions in the period	5
Transfer	-
Balance, 31 December 2023	**4.861**
Acquisitions in the period	-
Transfer	-
Balance, 31.decembra 2024	**4.861**
Accumulated depreciation	
Balance, 1 January 2023	**414**
Depreciation	63
Balance, 31 December 2023	**477**
Depreciation	63
Balance, 31 December 2024	**540**
31 December 2023	**4.384**
31 December 2024	**4.321**

As at 31 December 2024, the estimated market value of the investment property is BAM 5.420 thousand (in accordance with the assessment of an authorized court expert in the construction profession), and BAM 5.490 thousand as at 31 December 2023.

17.2. LEASED BUSINESS PREMISES

	(In BAM thousand)
Balance as at 1 January 2023	**7.106**
New acquisitions	1.407
Contract termination	(1.826)
Depreciation	(353)
Allowance contract termination	188
Balance as at 31 December 2023	**6.522**
New acquisitions	1.610
Contract termination	(1.942)
Depreciation	(491)
Allowance contract termination	131
Balance as at 31 December 2024	**5.830**

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

		(In BAM thousand)
	31 December 2024	**31 December 2023**
Less than a year	1.982	1.750
From one to five years	4.326	5.128
More than five years	8	121
Total contractual lease obligations	**6.316**	**6.999**
Lease obligations included in note 22 as at 31 December 2024	**6.316**	**6.999**

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

		(In BAM thousand)
	31 December 2024	**31 December 2023**
Interest on lease obligations IFRS 16	318	333
Depreciation	1.942	1.826
Total lease expenses	**2.260**	**2.159**

18. OTHER ASSETS

	31 December 2024	31 December 2023
	(In BAM thousand)	
In BAM:		
- Funds acquired through collection of receivables	6.119	5.760
- Accrued other expenses	328	240
- Fee and commission receivables	2.466	1.671
- Material inventories	141	77
- Given advances	53	99
- Other receivables	1.673	1.361
In foreign currencies:		
- Advances in foreign currencies	13	8
- Other foreign currency receivables	451	402
Gross value:	**11.244**	**9.618**
Value adjustment of other assets	(1.955)	(1.253)
Value adjustment of assets acquired through collection of receivables	(6.119)	(5.760)
Total:	**3.170**	**2.605**

Movement on acquired tangible assets

Cost of acquired tangible assets	
Balance, 1 January 2023	**6.360**
Acquisitions during the period	1.434
Sales during the period	(2.034)
Balance, 31 December 2023	**5.760**
Acquisitions during the period	3.019
Sales during the period	(2.660)
Balance, 31 December 2024	**6.119**
Accumulated depreciation	
Balance, 1 January 2023	**6.360**
Acquisitions during the period	1.434
Sales during the period	(2.034)
Balance, 31 December 2023	**5.760**
Acquisitions during the period	3.019
Sales during the period	(2.660)
Balance, 31 December 2024	**6.119**

The estimated value of the acquired tangible assets as at 31 December 2024 is BAM 10.050 thousand (31 December 2023: BAM 10.546 thousand).

19. DEPOSITS TO BANKS AND CUSTOMERS

(In BAM thousand)

	31 December 2024	**31 December 2023**
Demand deposits in BAM:		
- Banks and banking institutions	93	246
- Government and state institutions	18.294	21.311
- Enterprises	65.725	62.776
- Non-profit organizations	3.126	2.396
- Non-banking financial institutions	21.811	22.976
- Residents/non-residents	86.944	69.675
- Other	1.611	1.249
	197.604	**180.629**
Demand deposits in foreign currencies:		
- Public sector	1	-
- Enterprises	13.119	13.710
- Non-profit organizations	303	1.231
- Non-banking financial institutions	9.954	618
- Residents/non-residents	17.563	15.452
- Other	13	3
	40.953	**31.014**
Short-term deposits in BAM:		
- Banks and banking institutions	9.500	7.000
- Government and state institutions	-	2.375
- Enterprises	3.420	312
- Non-banking financial institutions	3.904	800
- Residents/non-residents	29	4
- Other	40	-
	16.893	**10.491**
Short-term deposits in foreign currencies:		
- Residents/non-residents	-	-
	-	**-**
Long-term deposits in BAM:		
- Banks and banking institutions	-	1.500
- Government and state institutions	8.500	22.375
- Enterprises	15.196	10.785
- Non-profit organizations	4.081	4.027
- Non-banking financial institutions	21.395	17.919
- Residents/non-residents	147.029	123.141
- Other	500	1.000
	196.701	**180.747**
Long-term deposits in foreign currencies:		
- Enterprises	4.507	4.259
- Non-banking financial institutions	2.065	2.065
- Residents/non-residents	194.776	172.819
- Non-profit organizations	391	391
	201.739	**179.534**
Total:	**653.890**	**582.415**

19. DEPOSITS TO BANKS AND CUSTOMERS (continued)

Current maturity of long-term deposits

(In BAM thousand)

	31 December 2024	31 December 2023
Long-term portion of long-term deposits, in BAM		
- Banks and banking institutions	-	-
- Government and state institutions	-	-
- Enterprises	11.674	6.640
- Non-profit organizations	2.927	2.733
- Non-banking financial institutions	7.225	9.595
- Residents/non-residents	79.327	62.889
- Other	-	-
	101.153	**81.857**
Long-term portion of long-term deposits, in foreign currencies		
- Enterprises	2.145	3.346
- Non-banking financial institutions	500	2.065
- Non-profit organizations	-	391
- Residents/non-residents	107.764	82.617
	110.409	**88.419**
Current maturity of long-term deposits, in BAM		
- Banks and banking group	-	1.500
- Government and state institutions	8.500	22.375
- Enterprises	3.522	4.145
- Non-profit organizations	1.154	1.294
- Non-banking financial institutions	14.170	8.324
- Residents/non-residents	67.702	60.252
- Other	500	1.000
	95.548	**98.890**
Current maturity of long-term deposits, in foreign currencies		
- Enterprises	2.362	913
- Non-banking financial institutions	1.565	-
- Non-profit organizations	391	-
- Residents/non-residents	87.012	90.202
	91.330	**91.115**

20. LIABILITIES PER LOANS

	31 December 2024	**31 December 2023**
		(In BAM thousand)
In BAM:		
- „Fond za razvoj i zapošljavanje RS“	884	11.209
- „Fond stanovanja RS“	-	7.582
- „Fond za razvoj istočnog dijela RS“	-	6.426
Total in BAM:	**884**	**25.217**
In foreign currency:		
- EFSE	27.382	39.116
- GGF	4.889	8.149
- KFW	-	2.282
- ResponsAbility SICAV	2.608	3.912
Total in foreign currency**:**	**34.879**	**53.459**
Total loans:	**35.763**	**78.676**
Deferred interest liabilities in domestic currency per long-term loans of residents	1	31
Deferred interest liabilities in foreign currencies per short-term loans of non-residents	521	893
Deferred foreign currency loan processing fees included in the calculation of the effective interest rate	(280)	(456)
Total liabilities per loans:	**36.005**	**79.144**
Current maturities of loans:		
Total long-term portion of liabilities in BAM	850	21.954
Total long-term portion of liabilities in foreign currencies	16.625	34.879
	17.475	**56.833**
Current maturity in BAM:		
- IRB RS	34	3.263
Current maturity in foreign currencies:		
- EFSE	13.691	11.735
- GGF	3.259	3.259
- KFW	-	2.282
- ResponsAbility SICAV	1.304	1.304
Total current maturity of long-term liabilities:	**18.288**	**21.843**

As at 31 December 2024, 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 884 thousand (31 December 2023: BAM 25.217 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%. During 2024, the Bank paid all obligations to the creditor KfW in accordance with the annuity maturity plan.

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 a contractual interest rate + 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 a contractual interest rate + 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 a contractual interest rate + 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 a contractual interest rate + 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 a contractual interest rate + 6M EURIBOR.

The funds received from loans are intended for lending to the bank's customers for the purchase of fixed assets, working capital, investments, initial business activities of small and medium enterprises and entrepreneurs, as well as financing renewable energy sources.

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 2024, the Bank met all financial indicators required by the terms of the Agreement with creditors: EFSE, Luxembourg, GGF, Luxembourg and ResponsAbility SICAV, Luxembourg.

21. SUBORDINATED DEBT

(In BAM thousand)

	31 December 2024	**31 December 2023**
EFSE, Luxembourg	6.845	6.845
ResponsAbility SICAV, Luxembourg	6.846	6.846
	13.691	**13.691**
Deferred fees for loan processing in foreign currency that are included in the calculation of the effective interest rate	(97)	(119)
Accrued liabilities for interest in foreign currency on long-term subordinated loans	244	257
Total:	**13.838**	**13.829**

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 a contractual interest rate + 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 a contractual interest rate + 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 2024, 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 2024	31 December 2023
In BAM:		
- deferred income	389	332
- trade payables	296	566
- deferred expenses	416	336-
- lease liabilities – IFRS 16 (note 17.2)	6.316	6.999
- provisions for employee benefits and litigation	126	110
- other liabilities	4.357	1.405
In foreign currency:		
- trade payables	16	48
- accrued expenses	102	55
- other liabilities	1.170	505
Total:	**13.188**	**10.356**

Movements in provisions for employee benefits and litigation

(In BAM thousand)

	Employee benefits	Potential liabilities for litigation	Total
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**
Allocation during the year	7	57	64
Reversal of provisions	-	(48)	(48)
Used provisions	-	-	-
Balance as at 31 December 2024	**58**	**68**	**126**

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 2024 amounts to BAM 51.141 thousand (as at 31 December 2023: BAM 51.141 thousand), and is 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 2024 was as follows:

	Number of shares	In thousands of BAM	%
MF grupa d.o.o., Banja Luka	485.185	48.519	94,87
GLS Alternative Investments Sicav, Luxembourg	26.225	2.622	5,13
	511.410	**51.141**	**100,00**

As at 31 December 2023, the structure of the Bank's share capital 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**

Equity reserves

(In BAM thousand)

	31 December 2024	31 December 2023
Statutory reserves	2.469	2.009
Revaluation reserves based on value changes in securities	(142)	1.194
Revaluation reserves based on provisions / expected credit losses based on securities – IFRS 9	49	49
Total:	**2.376**	**3.252**

Equity reserves in the amount of BAM 2.469 thousand (31.12.2023: BAM 2.009 thousand) incurred from allocation of profit.

During 2024, based on the Supervisory Board's Decision no NO-127/2024 dated 29 April 2024 and the Decision of the Bank's Assembly no. 141/2024 dated 27 June 2024, a total of BAM 459 thousand was allocated to legal reserves.

24. EARNINGS PER SHARE

(In BAM thousand)

	31 December 2024	31 December 2023
Net profit of the period	12.461	9.189
Weighted average number of shares	511.410	511.410
Basic earnings per share (in BAM)	**24,37**	**17,97**

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

(In BAM thousand)

	31 December 2024	31 December 2023
Payment guarantees	27.277	24.420
Contract execution guarantees	71.672	53.163
Irrevocable commitments for undrawn loans	71.635	61.746
Unused overdrafts on accounts and credit cards	13.486	14.753
Total	**184.070**	**154.082**
Value adjustment	(706)	(637)
Total	**183.364**	**153.445**

b) Litigation

As at 31 December 2024, the Bank has initiated 2.128 litigation. The total portfolio amount received by the Credit Risk Assessment and Monitoring and Non-Performing Exposure Management Department as at 31 December 2024 is BAM 41.664 thousand (31 December 2023: BAM 33.131 thousand).

As at 31 December 2024, there were 22 litigation initiated against the Bank. Considering the nature and status of the disputes against the Bank, in accordance with the Procedure for assessing the Bank's performance and determining provisions in proceedings against „MF banka a.d." Banja Luka, provisions are made for these litigation. The amount of the provisions for litigation amounts to BAM 68 thousand (provisions for litigation amount to BAM 59 thousand as at 31 December 2023) – (note 22).

c) Compliance with statutory 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 2024, 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

Statement of financial position for the year ended 31 December 2024:

	Parent company	*Entities with joint control IAS 24, 19. (b)*	*Subsidiaries IAS 24, 19. (c) (d) (e)*	*Key manage-ment personnel IAS 24, 19. (f)*	*Other related parties IAS 24, 19. (g)*	*Total*
	000 BAM	*000 BAM*	*000 BAM*	*000 BAM*	*000 BAM*	*000 BAM*
ASSETS						
Loans and receivables per loans	-	10.346	-	974	1.007	12.327
Other receivables and accruals	6	-	-	-	181	187
Operating assets	6	10.346		974	1,188	12.514
Off-balance - irrevocable obligations	-	-	-	32	41	73
Off-balance – contingent liabilities	-	-	-	-	21	21
Off-balance sheet assets				32	62	94
TOTAL ASSETS	**6**	**10.346**		**1.006**	**1.250**	**12.608**
EQUITY AND LIABILITIES						
Liabilities						
Deposits of customers	1.722	20.147		1.455	11.825	35.149
Other liabilities and deferrals	7	7	-	21	82	117
	-	-	-	-	-	-
Operating liabilities	1.729	20.154		1.476	11.907	35.266
Off-balance - irrevocable obligations	-	-	-	94	-	94
Off-balance – contingent liabilities	-	-	-		-	-
Off-balance sheet liabilities				94		94
TOTAL EQUITY AND LIABILITIES	**1.729**	**20.154**	**-**	**1.570**	**11.907**	**35.360**

Statement of financial position for the year ended 31 December 2023:

	Parent company	*Entities with joint control IAS 24, 19. (b)*	*Subsidiaries IAS 24, 19. (c) (d) (e)*	*Key manage-ment personnel IAS 24, 19. (f)*	*Other related parties IAS 24, 19. (g)*	*Total*
	000 BAM	*000 BAM*	*000 BAM*	*000 BAM*	*000 BAM*	*000 BAM*
ASSETS						
Loans and receivables per loans	4.000	-	-	733	1.354	6.087
Other receivables and accruals	59	-	-		171	230
Operating assets	4.059			733	1.525	6.317
Off-balance - irrevocable obligations	-	-	-	43	66	109
Off-balance – contingent liabilities	-	-	-		0	0
Off-balance sheet assets	-	-	-	43	66	109
TOTAL ASSETS	**4.059**		**-**	**776**	**1.591**	**6.426**
EQUITY AND LIABILITIES						
Liabilities						
Deposits of customers	18.120	-	-	1.063	9.561	28.744
Other liabilities and deferrals	10	-	-	6	99	115
	-	-	-	-	-	-
Operating liabilities	18.130	-	-	1.069	9.660	28.859
Off-balance - irrevocable obligations	-	-	-	43	66	109
Off-balance – contingent liabilities	-	-	-	-	-	-
Off-balance sheet liabilities	-	-	-	43	66	109
TOTAL EQUITY AND LIABILITIES	**18.130**			**1.112**	**9.726**	**28.968**

26. TRANSACTIONS WITH RELATED PARTIES (continued)

Statement of comprehensive income of the business year 2024:

	Parent company	***Entities with joint control IAS 24, 19. (b)***	***Subsidiaries IAS 24, 19. (c) (d) (e)***	***Key manage-ment personnel IAS 24, 19. (f)***	***Other related parties IAS 24, 19. (g)***	***Total***
	000 BAM	***000 BAM***	***000 BAM***	***000 BAM***	***000 BAM***	***000 BAM***
Interest income	-	229	-	45	50	324
Interest expenses	-	-	-	(42)	(120)	(162)
Net interest income	-	229	-	3	(70)	162
Fee and commission income	1	443	-	4	42	490
Other operating income	41	508	-	-	-	549
Other operating expenses	(76)	(29)	-	(42)	(3.157)	(3.304)
Impairment	-	-	-	-	-	-
Profit of the current year	**(34)**	**1,151**	**0**	**(35)**	**(3.185)**	**(2.103)**

Statement of comprehensive income of the business year 2024:

	Parent company	***Entities with joint control IAS 24, 19. (b)***	***Subsidiaries IAS 24, 19. (c) (d) (e)***	***Key manage-ment personnel IAS 24, 19. (f)***	***Other related parties IAS 24, 19. (g)***	***Total***
	000 BAM	***000 BAM***	***000 BAM***	***000 BAM***	***000 BAM***	***000 BAM***
Interest income	4	-	-	29	38	71
Interest expenses	(18)	-	-	(5)	(101)	(124)
Net interest income	(14)	-	-	24	(63)	(53)
Fee and commission income	240	-	-	4	47	291
Other operating income	571	-	-	-	33	604
Other operating expenses	(67)	-	-	-	(2.714)	(2.781)
Impairment						
Profit of the current year	730	-	-	28	(2.697)	(1.939)

Gross salaries paid to members of the Supervisory Board, Audit Board and Management Board of the Bank are as follows:

	Year ended 31 December 2024	
	2024	***2023***
	000 BAM	***000 BAM***
Supervisory Board	137	106
Audit Board	12	9
Management Board	660	635
Total	**809**	**750**

27. TAX RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several laws regulating various taxes as imposed by authorized bodies. The applicable taxes include value added tax, income tax and wage (social) taxes, among others. Additionally, the laws regulating these taxes were not enforced for a substantial period of time, in contrast to similar legislation in more developed market economies, while the regulations defining the implementation of these laws are often unclear on non-existent.

Consequently, with regards to tax issues, there is a limited number of cases that can be used as examples. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, which can lead to uncertainties and conflicts of interest. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by several authorities that are legally enabled to impose extremely severe fines and default interest.

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

During 2024, the Bank was inspected by the Tax Administration of the Republic of Srpska and no material additional liabilities were identified during the inspection.

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

The operations of the banking sector of the Republic of Srpska in the first half of 2024 were marked by the impacts of the main macroeconomic variables (growth of economic activity, value of real GDP and its components, growth of trade, personal consumption, etc.), the continued impact of economic and other risks coming from the geopolitical scene, as well as the weakening of inflationary pressures.

The International Monetary Fund (IMF) in its latest report from October (World Economic Outlook, update October 2024) forecasts that global growth will remain stable but insufficient, at 3,2% in 2024 and 2025, and 3,3% in 2026. Developed economies are expected to achieve economic growth of 1,8% in 2025 and 2026. Economic growth in developing countries is projected to be 4,2% in 2025 and 2026. According to the same source, the global inflation rate is expected to fall from 6,7% in 2023 to 5,8% in 2024, and 4,3% in 2025, with developed economies returning to their inflation targets faster than developing countries.

According to IMF projections, Bosnia and Herzegovina is expected to grow by 2,5%, 3% and 3% in 2024, 2025 and 2026, respectively, while inflation will slow down, as in most countries, and will amount to 2% in 2025 and 2026.

The European Commission, in its latest Autumn Economic Forecast 24, published in November 2024 (European Economic Forecast, Autumn 2024), announces a gradual recovery in an unfavorable situation. After a long period of stagnation, the European Union economy is recording modest growth again, and the disinflation process continues. The growth of the EU economy, which began in the first quarter of 2024, continued in the second and third quarters, so it is predicted that GDP will grow by 0,9% in the EU and 0,8% in the Eurozone in 2024. In 2025, economic activity will accelerate to 1,5% in the EU (1,3% in the eurozone), and in 2026 to 1,8% in the EU (1,6% in the eurozone). The main risks to the achievement of these projections are geopolitical uncertainty, which also endangers European energy security.

In the domestic plan, the main risk is structural challenges in the manufacturing sector, which could continue to weaken competitiveness, which would weigh on growth and the labor market.

Despite significant lending activities, the Bank did not have liquidity problems in 2024 and 2023. The Bank carefully and regularly monitors credit risk, liquidity risk, interest rate and foreign exchange risk. It is expected that the Bank's liquidity will also be at a satisfactory level in the future.

The Bank will also concentrate on managing its financial portfolio after 31 December 2024 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 strategies, 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 Bank

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 customers) 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

29.1. Financial risk management (continued)

Making decisions on placements below the amounts that are within the competence of the Credit Committee of the Bank's Management Board is the competence of the Sector Credit Committee and the Sector for Assessment and Monitoring of Credit Risk and Management of Non-Performing Exposures, the Sector Credit Committee and the Credit Risk Assessment Function, the Sector Credit Committee or the Branch/Business Center Credit Committee.

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 (in December 2024 these thresholds have been moved to BAM 30 thousand for natural persons and BAM 50 thousand 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 and Deputy Head of the Credit Risk Assessment and Monitoring and Non-Performing Exposures Management Department, as alternate 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 placements 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.

Operations, Assets and Support Department

The Operations, Assets and Support Sector 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 Board

The Loan Management Board continuously and systematically monitors credit risk and its subtypes to which the Bank is exposed or could be exposed through monitoring the compliance of credit operations. It also monitors the credit process in all its phases. In the event of identifying a "bottleneck", the members of the Board initiate the definition of measures, activities of organizational units and persons responsible for eliminating irregularities in work or propose measures in order to improve the credit process itself. The key role is the coordination and strategic direction of processes and activities between all business functions in the Bank that are involved in the credit process, in order to optimize the process in all its phases to achieve the set goals and planned values, along with regular control activities related to these processes.

Liquidity Committee

The Liquidity Committee consists of permanent members: the Chairperson of the Bank's Management Board, the Head of the Operations, Assets and Support Department, and the Head of the Risk Management Department. The Director of the Retail Sector, the Director/Deputy Director of the Small and Medium Enterprises Sector, and the Coordinator for Corporate Public Customers regularly attend and are invited to the Committee's meetings. The Committee meets at least once a month. More often if necessary, usually on a weekly basis. The Liquidity Committee monitors and assesses current, daily liquidity based on the liquidity plan for a given day, which the Operations, Funds and Support Sector submits on a daily basis to the members of the Commission 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 Chairperson of the Bank's Management Board, members of the Bank's Management Board, the Head and Deputy Head of the Risk Management Department, the Head of the Sales Support and Development Department and the Head of the Operations, Assets and Support Department, while on a quarterly basis the Committee is also attended by representatives of the banking group. The Committee holds meetings once a month. It continuously and systematically monitors all risks to which the Bank is exposed or could be exposed in its operations by monitoring compliance 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 risks

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 (model risk, reputational risk, information system risk and others);
- Maturity mismatch risk of financial assets and liabilities;
- Other significant risks.

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 2024	31 December 2023
ASSETS:		
Cash funds and assets with banks	102.335	104.361
Assets with the Central bank - obligatory reserve	67.409	65.319
ecurities	48.589	48.518
Loans to customers	590.081	548.185
Other assets	3.170	2.605
Total:	**811.584**	**768.988**
OFF-BALANCE SHEET ASSETS:		
Payment guarantees	27.025	24.251
Contract execution guarantees	71.431	52.974
Undertaken irrevocable commitments for undrawn loans	71.594	61.666
Overdrafts on accounts	13.314	14.554
Total:	**183.364**	**153.445**
Total risk exposure:	**994.948**	**922.433**

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 gross balance sheet and off-balance sheet exposure to customers without suspended interest as at 31.12.2023 and 31.12.2024

(In BAM thousand)

Participation in the total exposure as at 31.12.2024

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	197.215	1.385	0,70	4.202	2,13	-	-	-	-	-	103	0,05	361
Entrepreneurs	491.835	22.719	4,62	39.010	7,93	6.651	17.366	11.093	35.109	7,14	1520	0,31	2.366
Retail	150.233	6.149	4,09	10.395	6,92	270	2.213	2.556	5.039	3,35	454	0,30	802
Total	**839.283**	**30.253**	**3,60**	**53.607**	**6,39**	**6.921**	**19.579**	**13.649**	**40.148**	**4,78**	**2.077**	**0,25**	**3.529**

*** Total exposure includes gross on-balance sheet and off-balance sheet exposure to customers**

(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	28.709	6,21	7.446	10.572	7.995	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	**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**

** Total exposure includes exposure for principal, interest, fees, accruals and off-balance sheet.*

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

29.4.2. Total gross balance sheet and off-balance sheet exposure to customers without suspended interest as of as at 31.12.2023 and 31.12.2024 (continued)

The following table shows changes in the gross book value of loans to customers as at 31.12.2023 and 31.12.2024

(In BAM thousand)

	Retail loans				Corporate loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 01.01.2024	**106.176**	**14.180**	**11.401**	**131.757**	**316.359**	**130.529**	**29.450**	**476.338**
Repaid loans (without write-off)	(21.249)	(1.932)	(839)	(24.020)	(129.110)	(33.823)	(2.413)	(165.346)
Transfer to Stage 1 (from 2 to 3)	1.434	(1.422)	(12)	-	13.238	(13.215)	(23)	-
Transfer to Stage 2 (from 1 to 3)	(12.466)	13.033	(567)	-	(32.423)	32.686	(263)	-
Transfer to Stage 3 (from 1 to 2)	(1.186)	(2.387)	3.573	-	(5.796)	(12.459)	18.255	-
Loans in repayment	(16.142)	(2.355)	*(2.996)	(21.493)	(35.687)	(25.317)	(1.309)	(62.313)
Write-offs	-	-	(543)	(543)	-	-	(617)	(617)
Sale of NPLs	-	-	-	-	-	-	(7.411)	(7.411)
Newly placed loans	59.186	2.226	348	61.760	209.138	50.612	7.352	267.102
Total as at 31.12.2024	**115.753**	**21.343**	**10.365**	**147.460**	**335.719**	**129.013**	**43.021**	**507.753**

* including the transfer of SMA for the individual's portion that has not been fully repaid

(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	(11.978)	(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)	17.233	-
Loans in repayment	(16.302)	(1.450)	(491)	(18.243)	(45.151)	(11.823)	(1.459)	(58.433)
Write-offs	-	-	(960)	(960)	-	-	(2.943)	(2.943)
Sale of NPLs	-	-	-	-	-	-	(7.952)	(7.952)
Newly placed loans	37.868	1.629	102	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**

* Gross book values include principal, interest, fees per loans and other assets. Unamortized deferred compensation is not included, nor are loan advances received.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum exposure to credit risk

The following table shows changes in the impairment of loans (principal, interest, fees per loans and other assets) 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 01.01.2024	**1.689**	**1.158**	**9.259**	**12.106**	**4.617**	**15.066**	**21.492**	**41.175**
Repaid loans (without write-off)	(364)	(139)	(740)	(1.243)	(1.845)	(3.737)	(1.757)	(7.339)
Transfer to Stage 1 (from 2 to 3)	26	(26)	-	-	193	(193)	-	-
Transfer to Stage 2 (from 1 to 3)	(1.311)	1.409	(98)	-	(3.169)	3.200	(31)	-
Transfer to Stage 3 (from 1 to 2)	(629)	(1.549)	2.178	-	(2.959)	(6.972)	9.931	-
Changes in provisions of loans in repayment	1.431	1.414	*(1.916)	929	4.479	899	4.468	9.846
Write-offs	-	-	(543)	(543)	-	-	(617)	(617)
Sale of NPLs	-	-	-	-	-	-	(7.411)	(7.411)
Newly placed loans	534	247	258	1.039	2.069	4.380	3.392	9.841
Total as at 31.12.2024	**1.376**	**2.514**	**8.398**	**12.288**	**3.385**	**12.643**	**29.467**	**45.495**

* including the transfer of SMA for the individual's portion that has not been fully repaid

(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	(21)	(3)	-	139	(138)	(1)	-
Transfer to Stage 2 (from 1 to 3)	(650)	667	(17)	-	(4.941)	4.942	(2)	-
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	(153)	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	6.602	1.598	10.966
Total as at 31.12.2023	**1.689**	**1.158**	**9.259**	**12.106**	**4.618**	**15.066**	**21.490**	**41.174**

Impairment of loans to customers includes impairment of principal, interest, loan fees and other assets.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

The following table shows changes in the gross book value of loans (principal, interest, fees per loans and other assets) to customers as at 31.12.2024 (POCI investments separately shown):

(In BAM thousand)

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2024	422.535	142.677	39.857	2.032	994	608.095
Repaid loans (without write-off)	(150.359)	(35.416)	(3.204)	(339)	(48)	(189.366)
Transfer to Stage 1 (from 2 to 3)	14.671	(14.637)	(34)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(44.889)	45.720	(831)	-	-	-
Transfer to Stage 3 (from 1 to 2)	(6.982)	(14.847)	21.635	-	194	-
Loans in repayment	(51.829)	(31.787)	(4.260)	4.115	(45)	(83.806)
Write-off	-	-	(920)	-	(240)	(1.160)
Sale of NPLs	-	-	(7.165)	-	(246)	(7.411)
Newly placed loans	268.324	52.838	7.700	-	-	328.862
Total as at 31.12.2024	**451.471**	**144.548**	**52.778**	**5.808**	**609**	**655.214**

(In BAM thousand)

Impairment of loans to customers

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2024	**6.306**	**16.040**	**29.828**	**183**	**924**	**53.281**
Repaid loans (without write-off)	(2.208)	(3.837)	(2.455)	(39)	(42)	(8.581)
Transfer to Stage 1 (from 2 to 3)	219	(218)	(1)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(4.480)	4.609	(129)	-	-	-
Transfer to Stage 3 (from 1 to 2)	(3.587)	(8.521)	11.999	-	109	-
Loans in repayment	5.909	1.772	2.537	541	16	10.775
Write-off	-	-	(920)	-	(240)	(1.160)
Sale of NPLs	-	-	(7.165)	-	(246)	(7.411)
Newly placed loans	2.603	4.628	3.650	-	-	10.881
Total as at 31.12.2024	**4.762**	**14.473**	**37.344**	**685**	**521**	**57.785**

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	**405.487**	**93.553**	**27.727**	**2.763**	**3.360**	**532.890**
Repaid loans (without write-off)	(115.133)	(23.868)	(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**	**39.858**	**2.031**	**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	**9.628**	**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	-
Loans in repayment	9.298	4.132	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**	**29.827**	**184**	**924**	**53.281**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Maximum exposure to credit risk before collateral and other credit collateral as at 31 December 2024 and 2023

(In BAM thousand)

Financial instruments	**31 December 2024**			**31 December 2023**		
	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	102.417	82	102.335	104.526	165	104.361
Assets with the Central bank – obligatory reserve	67.476	67	67.409	65.384	65	65.319
Loans to customers	645.253	55.172	590.081	599.606	51.421	548.185
Other assets	11.244	8.074	3.170	9.618	7.013	2.605
Securities	48.589	-	48.589	48.518	-	48.518
Total assets	**874.979**	**63.395**	**811.584**	**827.652**	**58.664**	**768.988**
Off-balance						
Unused credit liabilities	85.121	213	84.908	76.499	279	76.220
Guarantees	98.949	493	98.456	77.583	358	77.225
Credit portfolio collateral	*356.706*			*365.068*		
- Securities pledged as collateral	*3.562*			*7.941*		
Total off-balance	**184.070**	**706**	**183.364**	**154.082**	**637**	**153.445**
Total credit exposure	**1.059.049**	**64.101**	**994.948**	**981.734**	**59.301**	**922.433**

Note: Exposure before impairment on a loan position includes gross loan principal amounts, interest and loan fees due, accrued interest, less accrued loan processing fees collected in advance and advances received on loans.

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Measurement of expected credit losses

Financial risk management

(In BAM thousand) *

	31 December 2024				
	Loan balance	**Total exposure**	**Weighted exposure**	**Recognized amount of collateral**	**Expected credit loss (ECL) without other assets**
Homogeneous groups					
Individuals	145.627	150.233	150.158	59.008	12.288
Legal entities	465.490	646.802	510.485	286.242	37.382
Entrepreneurs	36.782	42.248	40.308	16.898	8.114
Total:	**647.899**	**839.283**	**700.951**	**362.148**	**57.784**

* The Bank applied a new internal rating model on 30.11.2024, and there is no historical data for another comparative period. The loan balance represents the gross amount of the loan principal.

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**	**more than 365 days**	**Status**
Corporate and public customers	114.586	2.971	3.509	21	-	949	122.036
Entrepreneurs	338.806	6.090	3.745	5.060	12.620	13.914	380.236
Retail	135.213	2.128	612	1.033	1.280	5.360	145.627
Total	**588.605**	**11.189**	**7.866**	**6.114**	**13.900**	**20.223**	**647.899**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Overview of expected credit losses (ECL) per segments

	31 December 2024		31 December 2023	
Sectors	**Expected credit loss (ECL)**	**% share**	**Expected credit loss (ECL)**	**% share**
Corporate and public customers	3.862	6,68	2.840	5,33
Entrepreneurs	41.634	72,05	38.335	71,95
Retail	12.288	21,27	12.106	22,72
Total Banka	**57.784**	**100,00**	**53.281**	**100,00**

(In BAM thousand)

Overview of loan balances by days of delay

	31 December 2024		31 December 2023	
Days of delay	**Loan balance**	**% share**	**Loan balance**	**% share**
Without delay	520.484	80,34	480.300	79,82
1-30 days	68.121	10,51	70.196	11,66
31-90 days	19.056	2,94	21.022	3,49
More than 90 days	40.238	6,21	30.283	5,03
Total Bank	**647.899**	**100**	**601.801**	**100**

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 total exposure, analysis of collateral and credit security is presented below as at 31.12.2024 and 31.12.2023:

(In BAM thousand)

	As at 31 December 2024	31 December 2023
Loans secured by special deposit	8.129	7.362
Loans secured by property	221.451	213.250
Loans secured by other collateral	415.673	378.994
Total:	**645.253**	**599.606**

Credit collateral for loans granted to legal entities and individuals

(In BAM thousand)

	Loans to customers		
As at 31 December 2024	**Retail**	**Corporate**	**Total loans**
Residential, commercial or industrial property	52.173	181.223	233.396
Pledge	4.057	33.847	37.904
Financial asset	2.352	12.033	14.385
Other	425	76.038	76.463
Total	**59.007**	**303.141**	**362.148**

(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**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Exposure overview by sectors and days of delay - Bank

(In BAM thousand)

		31 December 2024		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	114.586	189.067	1.374
	1-30 days	-	4	2
	31-90 days	6.481	7.102	1.465
	more than 90 days	969	1.042	1.021
Total		**122.036**	**197.215**	**3.862**
Entrepreneurs	Without delay	285.444	387.684	10.766
	1-30 days	53.361	60.411	5.184
	31-90 days	9.836	10.386	1.795
	more than 90 days	31.594	33.354	23.889
Total		**380.235**	**491.835**	**41.634**
Retail	Without delay	120.454	124.215	2.992
	1-30 days	14.760	14.981	1.642
	31-90 days	2.739	2.827	776
	more than 90 days	7.674	8.210	6.878
Total		**145.627**	**150.233**	**12.288**
Total exposure by sectors and days of delay		**647.898**	**839.283**	**57.784**

The total loan exposure includes the gross amounts of the loan principal

Exposure overview by sectors and days of delay - Stage 1

(In BAM thousand)

		31 December 2024		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	110.561	179.527	823
	1-30 days	-	2	-
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**110.561**	**179.529**	**823**
Entrepreneurs	Without delay	207.058	301.976	2.235
	1-30 days	16.589	22.282	327
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**223.647**	**324.258**	**2.562**
Retail	Without delay	109.213	112.384	1.238
	1-30 days	5.918	5.990	139
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**115.131**	**118.374**	**1.377**
Total exposure by sectors and days of delay		**449.339**	**622.161**	**4.762**

Exposure overview by sectors and days of delay - Stage 2

				(In BAM thousand)
			31 December 2024	
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	4.026	9.537	548
	1-30 days	-	-	-
	31-90 days	3.380	3.947	349
	more than 90 days	-	-	-
Total		**7.406**	**13.484**	**898**
Entrepreneurs	Without delay	76.019	82.298	6.117
	1-30 days	36.456	37.796	4.658
	31-90 days	7.977	8.473	971
	more than 90 days	-	-	-
Total		**120.452**	**128.567**	**11.746**
Retail	Without delay	10.314	10.841	1.080
	1-30 days	8.218	8.360	1.054
	31-90 days	2.180	2.263	380
	more than 90 days	-	-	-
Total		**20.712**	**21.464**	**2.514**
Total exposure by sectors and days of delay		**148.570**	**163.515**	**15.158**

Exposure overview by sectors and days of delay - Stage 3

			31 December 2024	
				(In BAM thousand)
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	-	3	2
	1-30 days	-	2	2
	31-90 days	3.100	3.154	1.115
	more than 90 days	969	1.043	1.021
Total		**4.069**	**4.202**	**2.140**
Entrepreneurs	Without delay	2.368	3.411	2.415
	1-30 days	316	333	199
	31-90 days	1.859	1.912	823
	more than 90 days	31.594	33.354	23.889
Total		**36.137**	**39.010**	**27.326**
Retail	Without delay	926	990	674
	1-30 days	624	630	450
	31-90 days	559	565	396
	more than 90 days	7.674	8.210	6.878
Total		**9.783**	**10.395**	**8.398**
Total exposure by sectors and days of delay		**49.989**	**53.607**	**37.864**

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

		31 December 2023		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	100.536	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	278.410	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	16.755
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**	**53.280**

Exposure overview by sectors and days of delay - Stage 1

(In BAM thousand)

		31 December 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	2.873
	1-30 days	23.529	26.121	883
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		**224.130**	**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**

90.654 151.026

Exposure overview by sectors and days of delay - Stage 2

(In BAM thousand)

		31 December 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**	**14.084**
Retail	Without delay	5.886	5.983	419
	1-30 days	5.748	5.848	538
	31-90 days	2.350	2.404	201
	more than 90 days	-	-	-
Total		**13.984**	**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 December 2023		
Sectors	**Days of delay**	**Loan balance**	**Exposure**	**Allowance**
Corporate and public customers	Without delay	742	1.203	558
	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	3.174	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		**38.391**	**42.111**	**30.751**

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

	31 December 2024									
By sectors	**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	**137.915**	**29.960**	**7.933**	**9.992**	**185.799**	**(5.663)**	**(14.607)**	**165.530**	**67.245**	**7.842**
General consumption	63.989	10.911	2.203	3.917	81.019	(1828)	(5.239)	73.952	14.936	2.071
Housing loans	34.698	3.173	415	22	38.308	(1.010)	(318)	36.981	21.657	315
Performing activities (entrepreneurs)	38.999	15.489	5.315	5.208	65.011	(2.786)	(8.264)	53.961	30.651	5.442
Other receivables	229	387	-	845	1.461	(39)	(786)	636	1	14
Balance sheet receivables - corporate	**313.556**	**120.395**	**14.944**	**20.518**	**469.414**	**(13.619)**	**(23.189)**	**432.606**	**250.519**	**18.576**
Corporate and public customers	110.889	7.467	3.100	1.085	122.541	(1.441)	(2.135)	118.965	91.583	1.673
Entrepreneurs 202.667	112.928	11.844	19.433	346.873	(12.178)	(21.054)	313.641	158.936	16.903	16.903
Receivables from other customers	-	-	-	-	-	-	-	-	-	-
Balance receivables from banks and financial institutions	-	-	-	-	-	-	-	-	-	-
By categories of receivables	**451.471**	**150.355**	**22.877**	**30.510**	**655.213**	**(19.282)**	**(37.796)**	**598.135**	**317.763**	**26.418**
Performing receivables	451.471	150.355	-	-	601.827	(19.282)	-	582.545	317.763	-
of which restructured	6.891	19.578	-	-	26.468	(2.276)	-	24.192	19.649	-
Non-performing receivables	-	-	22.877	30.510	53.386	-	(37.796)	15.590	-	26.418
of which restructured	-	-	4.311	9.338	13.649	-	(9.850)	3.798	-	7.671
Total balance sheet exposure	**451.471**	**150.355**	**22.877**	**30.510**	**655.213**	**(19.282)**	**(37.796)**	**598.136**	**317.763**	**26.418**
Total off-balance sheet exposure	**170.690**	**13.160**	**221**	**-**	**184.070**	**(638)**	**(68)**	**183.364**	**17.906**	**60**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on branch exposure concentration

	31 December 2024		
Method of calculation	**Stage1**	**Stage 2**	**Stage 3**
Balance sheet receivables - retail	137.915	29.960	17.924
General consumption	63.989	10.911	6.120
Housing loans	34.698	3.173	437
Performing activities (entrepreneurs)	38.999	15.489	10.522
Other receivables	229	387	845
Balance sheet receivables - corporate	**313.556**	**120.395**	**35.462**
Agriculture, forestry, fishing	7.521	1.837	461
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	46.652	27.807	10.005
Traffic, storage and communications, electricity supply, hotels and restaurants	70.751	9.165	5.086
Construction	40.884	26.587	953
Wholesale and retail trade, repair of motor vehicles and motorcycles	71.729	29.698	16.108
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	63.916	22.077	2.802
Receivables from other customers	12.103	3.224	47
Financial institutions	-	-	-
Total balance sheet exposure	**451.471**	**150.355**	**53.386**
Total off-balance sheet exposure	**170.690**	**13.160**	**221**

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	**134.443**	**20.791**	**18.317**
General consumption	56.710	8.305	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	5.373
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	81.526	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 customers	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**

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 2024									
	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	**144.780**	**19.740**	**2.407**	**949**	**-**	**2.717**	**632**	**677**	**225**	**13.671**
General consumption	65.632	8.303	723	242	-	427	363	73	74	5.182
Housing loans	35.720	1.798	353	-	-	134	101	45	0	156
Performing activities (entrepreneurs)	42.847	9.625	1.318	699	-	1.552	163	551	145	8.112
Other receivables	581	14	13	8	-	604	5	8	7	221
Balance sheet receivables - corporate	**375.328**	**48.218**	**7.485**	**2.920**	**-**	**1.655**	**328**	**789**	**3.922**	**28.770**
Corporate and public customers	114.929	2	3.012	413	-	3	2	-	3.151	1.029
Entrepreneurs 260.399	48.216	4.473	2.507	-	1.652	326	789	771	27.740	27.740
Receivables from other customers	-	-	-	-	-	-	-	-	-	-
Balance receivables from banks and financial institutions	520.108	67.958	9.892	3.869	-	4.372	960	1.466	4.147	42.441
By categories of receivables	**520.108**	**67.958**	**9.892**	**3.869**	**-**	**4.372**	**960**	**1.466**	**4.147**	**42.441**
Performing receivables	520.108	67.958	9.892	3.869	-	-	-	-	-	-
of which restructured	16.086	8.856	1.380	146	-	-	-	-	-	-
Non-performing receivables	-	-	-	-	-	4.372	960	1.466	4.147	42.441
of which restructured	-	-	-	-	-	1.893	347	54	100	11.255
Total balance sheet exposure	**520.108**	**67.958**	**9.892**	**3.869**	**-**	**4.372**	**960**	**1.466**	**4.147**	**42.441**
Total off-balance sheet exposure	**175.706**	**6.473**	**616**	**1.054**	**-**	**32**	**5**	**14**	**4**	**166**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on non-performing receivables

	31 December 2024						
	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	**185.800**	**20.270**	**17.924**	**3.796**	**14.607**	**9,65%**	**7.842**
General consumption	81.019	7.067	6.120	1.321	5.239	7,55%	2.071
Housing loans	38.309	1.327	437	0	318	1,14%	315
Performing activities (entrepreneurs)	65.011	11.051	10.522	2.463	8.264	16,19%	5.442
Other receivables	1.461	825	845	12	786	57,81%	14
Receivables - corporate	**469.413**	**36.808**	**35.462**	**9.853**	**23.189**	**7,55%**	**18.636**
Agriculture, forestry, fishing	9.818	555	461	210	302	4,70%	290
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	84.463	11.219	10.005	4.956	7.444	11,85%	4.491
Traffic, storage and communications, electricity supply, hotels and restaurants	85.003	5.391	5.086	916	4.002	5,98%	2.086
Construction	68.425	3.004	953	131	761	1,39%	269
Wholesale and retail trade, repair of motor vehicles and motorcycles	117.535	11.521	16.108	3.021	8.422	13,70%	10.113
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	88.795	4.831	2.802	619	2.223	3,16%	1.384
Receivables from other customers	15.374	287	47	0	35	0,30%	3
Balance sheet receivables from banks and financ. institutions	-	-	-	-	-	-	-
Total balance sheet exposure	**655.213**	**57.078**	**53.386**	**13.649**	**37.796**	**8,15%**	**26.478**
Total off-balance sheet exposure	**184.070**	**706**	**221**	**0**	**68**	**0,12%**	**60**

(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**	**6.733**	**16.320**	**5,19%**	**11.212**
Agriculture, forestry, fishing	10.499	1.260	822	113	779	7,84%	451
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	80.363	8.524	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	53.879	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 customers	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**

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 2024						
	IFRS 9 PD scope	**Stage 1**	**Stage 2**	**Stage 3**	**POCI S2**	**POCI S3**	**Total**
Receivables from customers (homogeneous group of individuals)							
Rating 1-4: Strong	0 - 3.34	104.213	3.283	-	605	-	108.102
Rating 5-7: Satisfactory	3.35 - 16.66	14.086	7.672	-	81	-	21.838
Rating 8-9: High risk	16.67 - 34.94	-	9.616	-	207	-	9.823
Rating 10: Risky	100	-	-	10.181	-	214	10.395
Weighted exposure		118.299	20.571	10.181	893	214	150.158
Allowance		(1.376)	(2.410)	(8.191)	(104)	(206)	(12.288)
Receivables from customers (homogeneous group of legal entities)							
Rating 1-4: Strong	0 - 2.55	288.280	34.179	-	56	-	322.515
Rating 5-7: Satisfactory	2.56 - 11.59	62.458	37.447	-	4.845	-	104.751
Rating 8-9: High risk	11.60 - 32.42	-	47.763	-	6	-	47.769
Rating 10: Risky	100	-		35.234	-	216	35.450
Weighted exposure	-	350.738	119.389	35.234	4.907	216	510.485
Allowance	-	(3.132)	(10.502)	(23.029)	(580)	(139)	(37.381)
Receivables from customers (homogeneous group of entrepreneurs)							
Rating 1-4: Strong	0 - 4.22	22.791	1.470	-	7	-	24.267
Rating 5-7: Satisfactory	4.23 - 22.16	1.209	532	-	-	-	1.741
Rating 8-9: High risk	22.17 - 47.08		6.661	-	-	-	6.661
Rating 10: Risky	100	-	-	7.460	-	179	7.639
Weighted exposure	-	24.000	8.663	7.460	7	179	40.308
Allowance	-	(254)	(1.561)	(6.123)	(1)	(175)	(8.114)
Weighted exposure	-	493.037	148.623	52.875	5.807	609	700.951
Allowance	-	(4.762)	(14.473)	(37.344)	(685)	(521)	(57.784)

* The Bank implemented a new internal rating model as of 30.11.2024.

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 2024
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	**3.676**	**-**	**63.705**	**7.705**
General consumption	2.048	-	12.590	2.369
Housing loans	138	-	21.817	16
Performing activities (entrepreneurs)	1.490	-	29.286	5.318
Other receivables	-	-	12	2
Receivables - corporate	**80.911**	**3.562**	**158.042**	**26.580**
Corporate and public customers	70.107	2.979	15.456	4.714
Entrepreneurs	10.804	583	142.586	21.867
By categories of receivables	**84.587**	**84.587**	**221.747**	**34.285**
Performing receivables	81.856	3.562	202.385	29.961
of which restructured	40	-	17.431	2.177
Non-performing receivables	2.731	-	19.363	4.325
of which restructured	557	-	6.121	993
Total balance sheet exposure	**84.587**	**3.562**	**221.747**	**34.285**
Total off-balance sheet exposure	**2.700**	**-**	**11.648**	**3.618**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Data on restructured receivables

	31 December 2024						
	(In BAM thousand)						
			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**	**Value of collateral for restr. receivables**
Receivables - retail	**185.800**	**20.270**	**7.108**	**3.796**	**3.626**	**3,83%**	**4.931**
General consumption	81.019	7.068	2.213	1.321	1.359	2,73%	1.223
Housing loans	38.309	1.327	-	-	-	0,00%	-
Performing activities (entrepreneurs)	65.011	11.050	4.883	2.463	2.255	7,51%	3.696
Other receivables	1.461	825	12	12	12	0,80%	12
Receivables - corporate	**469.413**	**36.808**	**33.009**	**9.853**	**8.500**	**7,03%**	**22.389**
Agriculture, forestry, fishing	9.818	555	343	210	116	3,49%	299
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	84.463	11.219	12.367	4.956	3.862	0,00%	7.846
Traffic, storage and communications, electricity supply, hotels and restaurants	85.003	5.391	3.668	916	992	4,32%	2.311
Construction	68.425	3.004	1.840	131	307	2,69%	1.584
Wholesale and retail trade, repair of motor vehicles and motorcycles	117.535	11.521	9.642	3.021	2.023	8,20%	6.920
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	88.795	4.831	5.143	619	1.199	5,79%	3.423
Receivables from other customers	15.374	287	6	-	1	0,04%	6
Balance sheet receivables from banks and financ. institutions	-	-	-	-	-	-	-
Total balance sheet exposure	**655.213**	**57.078**	**40.117**	**13.649**	**12.126**	**6,12%**	**27.320**
Total off-balance sheet exposure	**184.070**	**706**	**31**	**-**	**-**	**-**	**-**

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on restructured receivables

	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**	**Value of collateral 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**	**6.733**	**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	8.524	11.667	2.655	2.453	14,52%	7.627
Traffic, storage and communications, electricity supply, hotels and restaurants	76.661	5.028	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 customers	11.023	118	92	-	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**

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.

29.4.1. 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)

Credit risk concentration per industry sector

The Bank has a diversified loan portfolio covering various industries:

(**In BAM thousand)**

	31 December 2024	in %	31 December 2023	in %
Agriculture, forestry and fishing	9.668	2%	10.353	2%
Mining and stone extraction	8.697	1%	9.797	2%
Manufacturing industry	71.125	11%	66.532	11%
Production and supply of electricity, gas, steam and air conditioning	46.623	7%	36.631	6%
Water supply, sewerage, waste management and environmental remediation activities	3.265	1%	2.866	-
Construction	67.682	10%	53.317	9%
Wholesale and retail trade; repair of motor vehicles and motorcycles	115.814	19%	118.086	19%
Traffic and storage	25.962	4%	28.370	5%
Accommodation, food preparation and serving activities; hotel and hospitality industry	11.505	2%	10.911	2%
Information and communication	3.951	1%	6.292	1%
Financial and insurance activities	11.293	2%	4.639	1%
Real estate business	8.643	1%	8.965	1%
Professional, scientific and technical activities	22.995	4%	22.132	4%
Administrative and support service activities	2.510	-	3.661	1%
Public administration and defense; compulsory social insurance	14.448	2%	16.840	3%
Education	147	-	193	-
Health and social work activities	36.980	6%	27.550	4%
Arts, entertainment and recreation	37	-	159	-
Other service activities	2.072	-	2.291	-
Retail and entrepreneurs	181.836	28%	170.021	28%
Total:	**645.253**	**100%**	**599.606**	**100%**

Note: The total loan amount includes gross loan principal amounts, accrued interest and loan fees, accrued interest, less accrued loan processing fees collected in advance and advances received on loans.

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 2024	In %	31 December 2023	In %
Loans per transaction accounts	81.735	13%	57.455	10%
Consumer loans	96.295	15%	68.712	11%
Working capital loans	150.913	23%	173.983	29%
Investment loans	277.826	43%	271.985	45%
Housing loans	37.999	6%	27.019	5%
Investments for realized payments under guarantees	485		452	-
	645.253	**100%**	**599.606**	**100%**

29.4.2. Stress test

Portfolio as at 31 December 2024 in accordance with IFRS 9:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	555.106	4.762
Stage 2	163.515	15.158
Stage 3	53.607	37.864
Other exposure	67.055	-
Total	**839.283**	**57.784**

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.

The results of the stress scenario for the Bank show an increase in total exposure by BAM 144.528 thousand, and the formation of higher allowance BAM 8.251 thousand.

(In BAM thousand)

Portfolio as at 31 December 2024	**Total exposure**	**Total exposure minus the deposit amount**	**Discounted value of collateral**	**Allowance**
Pre-test	983.811	972.988	362.148	66.025
Post-test	839.283	828.460	314.259	57.784
Difference	**144.528**	**144.528**	**(47.889)**	**8.241**

Portfolio as at 31 December 2024 post stress test:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	656.749	5.821
Stage 2	200.512	19.018
Stage 3	59.496	41.186
Other exposure	67.055	-
Total	**983.811**	**66.025**

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 customers 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 2024, net:

(In BAM thousand)

	EUR	USD	CHF	GBP	Other	Total currencies	BAM	Total
Assets								
Cash funds and assets held banks	24.158	1.728	379	20	362	26.647	75.688	102.335
Assets with the Central Bank - obligatory reserve	1.856	-	-	-	-	1.856	65.553	67.409
Securities	35.879	-	-	-	-	35.879	12.710	48.589
Loans due from customers	319.440	-	-	-	-	319.440	270.641	590.081
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	10.178	10.178
Leased business premises IFRS 16	-	-	-	-	-	-	5.830	5.830
Other assets	455	-	-	-	-	455	2.715	3.170
	381.788	**1.728**	**379**	**20**	**362**	**384.277**	**443.315**	**827.592**
Liabilities								
Deposits to banks	9.500	-	-	-	-	9.500	93	9.593
Deposits to customers	316.751	235	548	2	17	317.553	326.744	644.297
Liabilities per loans	36.005	-	-	-	-	36.005	-	36.005
Subordinated debt	13.838	-	-	-	-	13.838	-	13.838
Lease liabilities IFRS 16	-	-	-	-	-	-	6.316	6.316
Other liabilities	1.197	75	15	-	-	1.287	5.585	6.872
Provisions for contingent liabilities	-	-	-	-	-	-	706	706
	377.291	**310**	**563**	**2**	**17**	**378.183**	**339.444**	**717.627**
Net foreign currency position	**4.497**	**1.418**	**(184)**	**18**	**345**	**6.094**	**103.871**	**109.965**

During 2024, the Bank maintained an open individual foreign exchange position within the permitted limits for the EUR currency up to +/- 40% of the amount of recognized capital, and for the USD currency up to +/- 20% of the amount of recognized capital, while the total foreign exchange position was within the permitted limits (40% of recognized capital).

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, net:

(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**

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. FINANCIAL INSTRUMENTS (continued)

29.5. Market risk (continued)

29.5.2. Interest rate risk

The Bank is exposed to multiple risks, which, through the effects of changes in market interest rates, affect its financial position and cash flows. Interest rate risk represents the possibility of negative effects on the Bank's financial result and capital due to changes in interest rates.

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

Interest rates on loans depend on the movement of interest rates on the money market and the Bank's business policy.
Interest rates on loans:
- are fixed for loan repayment periods of up to 60 months,
- are variable for repayment periods over 60 months, and
- are combined, in such a way that they are fixed for the first 36 months, and after the expiration of the 36-month period they are variable.

The Bank has opted for a variable interest rate of 6-month EURIBOR rounded to the next higher tenth, which is adjusted twice a year, on 30.06. and 31.12.

Interest rates on deposits are fixed, while interest rates on loans from foreign creditors are variable and are linked to 6-month EURIBOR.

The basic principle of interest rate risk management is the principle of matching its assets and liabilities according to the type of interest rate (fixed interest rate or variable) and according to maturities or dates of interest rate repricing.

At the Bank level, care is taken to optimize the level of profitability and exposure to interest rate risk.

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%-13,99%
- retail	-	4,00% -15,49%
Loans to customers more than one year:		
- corporate	-	3,00%-13,99%+6M Euribor
- retail	9,49%+6M Euribor	2,50%-15,99%+6M Euribor
Liabilities		
Demand deposits corporate	0,00%	0,00%-0,50%
Demand deposits retail	0,00%	0,00-1,00%
Short-term deposits:		
- corporate	0,00%	0,00%-2,50%
- retail	0,00%	0,00%
Long-term deposits:		
- corporate	1,50%-3,50%	0,00%-4,00%
- retail	0,00%-4,00%	0,00%-4,55%
Loans and subordinated debt:		
EFSE	6MEuribor+2,80% 6MEuribor+4,80% 6MEuribor+3,30 %	-
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 2024 and 31 December 2023:

(In BAM thousand)

			31 December 2024
Monetary assets	**Interest bearing**	**Non-interest bearing**	**Total**
Cash funds and assets held banks	16.123	86.212	102.335
Assets with the Central Bank - obligatory reserve	67.409	-	67.409
Securities	47.554	1.035	48.589
Loans due from customers	590.081	-	590.081
Equipment, intangible assets and investment property	-	10.178	10.178
Leased business premises IFRS 16	5.830	-	5.830
Interest, fee and other receivables	-	3.170	3.170
Total monetary assets	**726.997**	**100.595**	**827.592**
Monetary liabilities			
Deposits of customers	428.560	225.330	653.890
Received loans	35.763	242	36.005
Subordinated debt	13.691	147	13.838
Lease liabilities IFRS 16	6.316	-	6.316
Other liabilities	-	6.872	6.872
Provisions for contingent losses	-	706	706
Total monetary liabilities	**484.330**	**233.297**	**717.627**

(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**

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.

The head of the Operations, Assets and Support department is responsible for monitoring the daily liquidity of the Bank, the Liquidity Committee is responsible for monitoring short-term liquidity, and the ALCO Committee (Asset and Liability Management Committee) is responsible for monitoring long-term liquidity.

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 2024	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	102.335	-	-	-	102.335
Assets with the Central Bank	67.409	-	-	-	67.409
Securities	48.589	-	-	-	48.589
Loans due from customers	14.886	50.619	195.545	329.031	590.081
Equipment, intangible assets and investment property	-	-	-	10.178	10.178
Leased business premises IFRS 16	-	-	-	5.830	5.830
Other assets	2.762	24	-	384	3.170
Total assets	**235.981**	**50.643**	**195.545**	**345.423**	**827.592**
LIABILITIES					
Deposits	256.135	20.169	170.514	207.072	653.890
Liabilities per loans	86	6.943	11.781	17.195	36.005
Subordinated debt	-	221	23	13.594	13.838
Lease liabilities IFRS 16	-	494	1.488	4.334	6.316
Other liabilities	6.872	-	-	-	6.872
Provisions for contingent losses	-	-	-	706	706
Total liabilities	**263.093**	**27.827**	**183.806**	**242.901**	**717.627**
Liability gap	**(27.112)**	**22.816**	**11.739**	**102.522**	**109.965**

(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	222.528	34.099	159.243	166.545	582.415
Liabilities per loans	386	7.767	14.589	56.402	79.144
Subordinated debt	-	-	-	13.829	13.829
Lease liabilities IFRS 16	-	302	1.448	5.249	6.999
Other liabilities	2.971	-	-	386	3.357
Provisions for contingent losses	-	-	-	637	637
Total liabilities	**225.885**	**42.168**	**175.280**	**243.048**	**686.381**
Liability gap	**21.940**	**634**	**(12.144)**	**88.410**	**98.840**

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,
- measurement/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:

- in terms 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 terms of the profit distribution, increase in the Bank’s total capital in accordance with the effective regulations,
- In terms of capital adequacy, when it falls below a certain limit defined by internal acts, the Bank undertakes activities to improve it through capital strengthening measures by directing credit activities towards exposure groups with lower capital requirements, deferring dividend payments, retaining profits and recapitalizing through share issuance.

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 addition to the minimum capital rates, the Bank should also maintain a protective layer for the preservation of capital in the form of regular basic capital in the amount of 2,5% of the total amount of risk exposure. In accordance with the Decision on the procedure of supervisory examination and assessment of banks, according to decision number 02-21-212-1795-8/23 dated 26 October 2023, BARS prescribed an additional requirement for capital to the Bank at the capital rates prescribed by the Decision on the calculation of banks' capital.
In addition to the stated rates, in the Decision on the rate and method of maintaining the protective layer of capital for structural systemic risk, the Agency prescribed a protective layer of 0%, 1% or 2%, depending on the combination of the NPL rate indicator and the NPL coverage rate with recorded expected credit losses (ECL), and the same is determined once a year, based on the annual average of the indicator. During 2024, the Bank fulfilled the stated capital requirements.

As at 31 December 2024 and 2023, the Bank was in full compliance with all the prescribed capital indicators:

	(In BAM thousand)	
	As at	
	31 December 2024	**31 December 2023**
Regular share capital	109.593	98.467
Supplementary capital	11.555	13.425
Regulatory capital	**121.148**	**111.892**
Total amount of risk exposure	583.398	517.082
% share capital adequacy	**18,79%**	**19,04%**
% regulatory capital adequacy	**20,77%**	**21,64%**

By decision of the Bank's Shareholders' Assembly, the accumulated unallocated profit from 2023 was allocated to retained earnings and legal reserves in 2024. Increase in regulatory capital on the reporting 31.12.2024 was created by including and recognizing the profit of the current period of 2024 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. 03-209-2/25). 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 legal restrictions, the Bank has undertaken an obligation under the contract with EFSE, Luxembourg to maintain net capital in the amount of not less than EUR 9 million and a capital adequacy ratio of no less than the regulatory requirement +1%. According to the contract concluded with ResponsAbility, the Bank has undertaken an obligation to maintain a capital adequacy ratio of not less than 16,5% or not less than the regulatory requirement +1%, and a core capital ratio of no less than 13,5% or not less than the regulatory requirement +1%. The Bank met the required ratios as at 31 December 2024.

30. POST-REPORTING DATE EVENTS

After 31 December 2024, 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. After 31.12.2024, there were changes within the Audit Board of the Bank.

As at 30 January 2025, the Audit Board comprise:
- Đurđica Dragojević, chairperson, independent member
- Zoran Đukić, member
- Sanja Brkić, member
- Jovan Matić, member
- Željko Pena, member

31. FOREIGN EXCHANGE RATES

The official foreign exchange rates used in the translation of statement of financial position items as at 31 December 2024 and 31 December 2023 were as follows:

		u BAM
	31 December 2024	**31 December 2023**
USD	1,8727	1,7700
CHF	2,0730	2,1121
EUR	1,9558	1,9558