

**Financial statements for
the Year ended 31
December 2025 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 91. have been approved by the Management Board for submission to the Supervisory Board on 31 March 2026.

For and on behalf of the Management Board



Chairperson of the Bank's Management Board



Independent Auditor's Report

Grant Thornton d.o.o. Banja Luka

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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 2025, 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 2025, 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
<p>As stated in Note 16, the value of loans to customers is stated in the gross amount of BAM 720.525 thousand, that is, the net value in the amount of BAM 662.740 thousand and the impairment for expected credit losses in the amount of BAM 57.785 thousand (Note 11).</p> <p>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.</p> <p>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.</p> <p>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 2025</p> <p>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 .</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Based on a sample, we tested the calculation the Bank made for expected credit losses for loans which have been impaired on a group-level basis.</p> <p>Based on a 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.</p> <p>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.</p> <p>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.</p>

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.

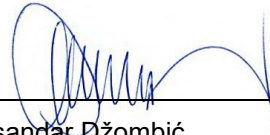
From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation preclude 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 2026



Isidora Stevandić
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 2025
(In BAM thousand)

	Note	2025	2024
Interest income calculated based on the effective interest rate	5	54.096	55.659
Interest expenses calculated based on the effective interest rate	6	(16.793)	(15.344)
Net interest income		37.303	40.315
Fee and commission income	7	17.793	15.082
Fee and commission expenses	8	(4.396)	(3.363)
Net fee and commission income		13.397	11.719
Other operating income	9	2.843	5.759
Other operating expenses	10	(33.790)	(37.532)
Exchange rate differences, net		(103)	18
Impairment and provisions (net provisions)	11	(2.961)	(5.959)
Profit from operations before taxes		16.689	14.320
Income tax	12	(1.979)	(1.859)
Net profit of the current year		14.710	12.461
Other comprehensive income		1.187	(1.336)
Changes in the fair value of debt instruments that are measured at fair value through OCI		1.187	(1.336)
Total comprehensive income for the accounting period		15.897	11.125
Earnings per share:			
- Basic earnings per share (in BAM)	24	28,76	24,37

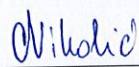
Notes in the following pages form an integral part of these financial statements.

The accompanying financial statements were adopted by the Bank's Management Board on 31 March 2026.

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 2025
(In BAM thousand)

	<u>Note</u>	<u>31 December 2025</u>	<u>31 December 2024</u>
ASSETS			
Cash funds and assets held with banks	13	141.490	102.335
Assets held with the Central Bank – obligatory reserve	14	78.462	67.409
Placements with other banks	14.1	196	-
Securities	15	69.442	48.589
Loans to customers	16	662.740	590.081
Property and equipment	17	5.009	4.837
Intangible assets	17	893	1.020
Investment property	17.1	4.258	4.321
Leased business premises	17.2	4.292	5.830
Other assets	18	3.319	3.170
Total assets		<u>970.101</u>	<u>827.592</u>
LIABILITIES AND EQUITY			
Liabilities			
Deposits to banks	19	10.071	9.593
Deposits to customers	19	750.357	644.297
Liabilities per taken loan	20	57.730	36.005
Subordinated debt	21	13.830	13.838
Other liabilities	22	11.231	13.188
Provisions for employee benefits and contingent liabilities	11 c)	1.020	706
Total liabilities		<u>844.239</u>	<u>717.627</u>
Equity			
Share capital	23	51.141	51.141
Share premium		1.307	1.307
Equity reserves	23	4.186	2.376
Accumulated profit/(loss)		54.518	42.680
Profit of the current period		14.710	12.461
Total equity		<u>125.862</u>	<u>109.965</u>
Total liabilities and equity		<u>970.101</u>	<u>827.592</u>
Contingent liabilities and commitments	25	169.783	184.070

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2025
(In BAM thousand)

	<u>Share capital</u>	<u>Share premium</u>	<u>Equity reserve</u>	<u>Accumulated profit/ (loss)</u>	<u>Total</u>
Balance, 1 January 2024	51.141	1.307	3.252	43.140	98.840
Allocation of reserves debited to accumulated profit	-	-	460	(460)	-
Total transactions with owners	-	-	460	(460)	-
Net profit of the current period	-	-	-	12.461	12.461
Revaluation reserves based on securities	-	-	(1.336)	-	(1.336)
<i>Comprehensive income for the accounting period</i>	-	-	(1.336)	12.461	11.125
Balance, 31 December 2024	51.141	1.307	2.376	55.141	109.965
Allocation of reserves debited to accumulated profit	-	-	623	(623)	-
Total transactions with owners	-	-	623	(623)	-
Net profit of the current period	-	-	-	14.710	14.710
Revaluation reserves based on securities	-	-	1.187	-	1.187
<i>Comprehensive income for the accounting period</i>	-	-	1.187	14.710	15.897
Balance, 31 December 2025	51.141	1.307	4.186	69.228	125.862

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2025
(In BAM thousand)

	Year ended	
	31 December 2025	31 December 2024
Cash flows from operating activities:		
Interest receipts	53.597	55.369
Fee and commission receipts	15.395	11.461
Interest paid	(10.434)	(11.959)
Fee and commission paid	(4.396)	(3.363)
Collection of written-off receivables	1.361	2.273
Payments to employees and suppliers	(28.559)	(22.454)
	26.964	31.327
Net cash from operating activities		
Changes in operating assets and liabilities:		
Net increase in loans due from customers	(78.739)	(53.202)
Investments in other banks	(195)	-
Income tax paid	(2.321)	(1.985)
Net increase in deposits due to customers	103.228	70.503
	48.937	46.643
<i>Net cash from/(used in) operating activities</i>		
Cash flows from investing activities:		
Interest receipts	1.626	1.475
Purchase of intangible assets	(125)	(847)
Purchase of fixed assets	1.084	1.408
Purchase of other investments	(19.824)	(905)
	(17.239)	1.131
<i>Net cash (used in) investing activities</i>		
Cash flows from financing activities:		
Commitments per loans	39.989	1.162
Repayments per loans	(21.336)	(48.973)
	18.653	(47.811)
<i>Net cash from/(used in) financing activities</i>		
Net increase in cash funds	50.351	(37)
Calculated interest on the amount of the obligatory reserves	5	2
Effects of exchange rate changes	(103)	18
Effects of value adjustment change	(45)	81
	169.744	169.680
Cash funds, beginning of the year		
	219.952	169.744
Cash funds, end of the year		
	219.952	169.744
Cash funds comprise of the following items:		
Cash funds and assets held with banks	141.490	102.335
Assets held with the Central Bank – obligatory reserve	78.462	67.409
	219.952	169.744

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 2024. On 29 March 2025, „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 2025, the Bank operates in its headquarters in Banja Luka, Aleja Svetog Save street 61 and in affiliates in Banja Luka, Prijedor, Doboje, 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, Derвента, Gračanica, Živinice, Visoko, Bugojno, Srebrenik, Velika Kladuša i via counter in Omarska, Petrovo, Kostajnica, Sokolac and Trn.

As at 31 December 2025, the Bank had 346 employees (31 December 2024: 348 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 2025, the management bodies of the Bank consist of the following:

Supervisory Board as of 01 July 2025:

- Sandra Lonco, chairperson
- Ranko Travar, independent member
- Frieder Wohrmann, independent member
- Srećko Bogunović, independent member
- Aleksandar Čolić, independent member

Supervisory Board from 28 March 2024 to 25 March 2025:

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

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

Management Board as of 30 December 2025:

- Aleksandar Kremenović, chairperson
- Milijana Čavić, member
- Snežana Miletić, member

Management Board from 14 August to 30 December 2025:

- Aleksandar Kremenović, chairperson
- Milijana Čavić, member
- Snežana Miletić, acting member

Management Board from 4 June 2024 to 15 July 2025:

- Aleksandar Kremenović, chairperson
- Milijana Čavić, member
- Radenko Derkuća, member

Audit Board as at 31 December 2025:

- Đurđica Dragojević, chairperson,
- Zoran Đukić, member
- Sanja Brkić, member
- Aleksa Marinković, 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 2.437 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 31.12.2025 and 31.12.2024 are as follows:

	(In BAM thousand)	
	31 December	
	2025	2024
- Application of minimum rates of impairment prescribed in Article 23. of the Decision for credit risk exposures 1 – Stage 1	1.356	1.786
- Application of minimum rates of impairment prescribed in Article 24. of the Decision for credit risk exposures 2 – Stage 2	306	1.817
- Application of minimum rates of impairment prescribed in Article 25. of the Decision for credit risk exposures 3 – Stage 3	1.133	643
- 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	(358)	(315)

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

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.

2.5. 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

At the date of approval of these separate financial statements, the following standards and amendments to existing standards are in effect:

- IAS 21 "Lack of Exchangeability" (amendments to IAS 21) as of 1 January 2025.

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

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:

- Annual Improvements to IFRS Accounting Standards – Volume 11, as of 1 January 2026;
- Contracts Referencing Nature-dependent Electricity (amendments to IFRS 9 and IFRS 7), dated 1 January 2026;
- IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments – Disclosure" (1 January 2026);
- IFRS 18 "Presentation and Disclosure in Financial Statements" (1 January 2027);
- IFRS 19 Subsidiaries without Public Accountability: Disclosures (1 January 2027);
- IFRS 19 - Subsidiaries without Public Accountability: Disclosures (Amendments), as of 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.

On 1 January 2026, the new Law on Accounting and Auditing (Official Gazette of the Republic of Srpska No. 115/25) entered into force. The Bank will align its future reporting and operations with the provisions of the new law within the stipulated deadlines.

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

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 included setting goals in the area of environmental sustainability, building internal capacities and implementing a process for monitoring and reporting on ESG indicators, which was also transparently demonstrated through the preparation of the Bank's first ESG report for the period 2024-2025.

In addition to implementing the ESG Strategy, the Bank regularly monitors resource consumption through an internally developed tool, initially in the form of an Excel spreadsheet, and since 2026 in the form of an application, with a module that enables the calculation of the CO2 footprint on a quarterly basis. 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 methodology is updated annually.

Through the verification of NACE codes and the application of a specialized ESG questionnaire for clients from the medium, corporate and public segments, the Bank actively assesses the impact of clients' operations on the environment and adequately categorizes the risks taken.

Based on previous internal assessments, 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 analyzing and managing these types of risks, in accordance with the Roadmap defined in the ESG Strategy.

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:

	<u>Rate (%)</u>	<u>Useful Life (years)</u>
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:

	<u>Rate (%)</u>	<u>Useful life (years)</u>
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 2025 and 2024, 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, 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 (legal entity, entrepreneurs and individuals),
- 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 using the so-called work-out estimation method, which is based on the analysis of historical cases of the collection process after the occurrence of a default status. For each such case, the corresponding series of cash flows that occur during the collection process (e.g. inflows based on debtor payments, collection of debtor funds from collateral related to the exposure, regardless of whether the collateral is considered acceptable, as well as outflows related to internal and external direct costs of the collection process itself) are discounted with a weighted effective interest rate at the portfolio level (for a period of one year), in order to obtain the present value of the collection after the occurrence of a default status.

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.

In accordance with the change in the systematization of tasks, starting from December 2024, the collection of non-performing exposures is under the responsibility of the Non-Performing Exposure Management Function within the Sector for Assessment and Monitoring of Credit Risk and Management of Non-Performing Exposures.

By the procedures for the actions of 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 is done when the debtor, during the defined recovery period, continuously:

- for restructured exposures and POCL 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	
	2025	2024
Interest income from:		
- Banks and banking institutions	711	925
- Enterprises	34.798	34.309
- Retail	16.059	17.174
- Public sector	2.276	2.999
- Non-banking financial institutions	229	227
- Non-profit organizations	8	8
- Other	15	17
Total:	54.096	55.659

6. INTEREST EXPENSES CALCULATED BASED ON THE EFFECTIVE INTEREST RATE

	(In BAM thousand)	
	Year ended	
	31 December	
	2025	2024
Interest expenses from:		
- Retail	11.466	8.936
- Public sector	302	448
- Non-banking financial institutions	711	472
- Interest on subordinated debt	1.035	1.225
- Interest to financial institutions for loans received	2.192	3.259
- Enterprises	765	760
- Non-profit organizations	112	98
- Banks	195	130
- Other	15	16
Total:	16.793	15.344

7. FEE AND COMMISSION INCOME

	(In BAM thousand)	
	Year ended	
	31 December	
	2025	2024
Fee and commission income from domestic and international payment transactions	13.067	10.470
Income from foreign change transactions	1.558	1.685
Fees and commissions per loans that are not part of effective interest rate	1.317	1.116
Fees and commissions per off-balance transactions	1.851	1.811
Total:	17.793	15.082

8. FEE AND COMMISSION EXPENSES

	(In BAM thousand)	
	Year ended 31 December	
	<u>2025</u>	<u>2024</u>
Central Bank fees based on domestic payment transaction services	937	831
Fees based on card transactions	2.415	1.692
Fees based on sale and purchase of foreign exchanges	232	249
Fees for international payment transaction services	564	367
Fees based on loan processing	228	198
Other fees and commissions	<u>20</u>	<u>26</u>
Total:	<u>4.396</u>	<u>3.363</u>

9. OTHER OPERATING INCOME

	(In BAM thousand)	
	Year ended 31 December	
	<u>2025</u>	<u>2024</u>
Collected written-off receivables	1.434	3.179
Other income	<u>1.409</u>	<u>2.580</u>
Total:	<u>2.843</u>	<u>5.759</u>

10. OTHER OPERATING EXPENSES

	(In BAM thousand)	
	Year ended 31 December	
	<u>2025</u>	<u>2024</u>
Gross personal income	15.215	15.355
Remunerations to members of the Supervisory Board, Audit Committee, employees help	203	207
Professional education of employees	36	52
Materials and services	833	841
Business trips	379	354
Telecommunication and postage services	875	865
Equipment/software maintenance	2.181	1.609
Marketing and advertising	516	444
Leases	311	246
Membership fees	245	224
Representation	328	345
Assets' security services	1.779	1.575
Depreciation/Amortization (Note 17)	3.705	3.541
Taxes and contributions	389	338
Fees	1.666	1.570
Write-off of uncollectable receivables	1.450	6.403
Fees for third party engagements	447	331
Other	<u>3.232</u>	<u>3.232</u>
Total:	<u>33.790</u>	<u>37.532</u>

10. OTHER OPERATING EXPENSES (CONTINUED)

(In BAM thousand)

Gross personal income	Year ended 31 December	
	2025	2024
Net salaries	9.628	9.664
Taxes	831	835
Contributions	4.756	4.856
Total gross personal income:	15.215	15.355

11. IMPAIRMENT AND PROVISIONS

a) Debited to expenses

(In BAM thousand)

**Year ended
31 December**

	2025	2024
Cash funds and cash with other banks	(251)	(247)
Loans due from customers	(69.797)	(90.531)
Other assets and securities	(2.005)	(4.189)
Contingent liabilities and commitments	(4.388)	(4.794)
Total:	(76.441)	(99.761)

b) Reversal of provisions credited to income

(In BAM thousand)

**Year ended
31 December**

	2025	2024
Cash funds and cash with other banks	206	328
Loans due from customers	65.468	85.697
Other assets and securities	3.732	3.052
Contingent liabilities and commitments	4.074	4.725
Total:	73.480	93.802
Net provisions	(2.961)	(5.959)

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 2023	230	51.421	7.013	49	637	59.350
Provisions during the year	247	90.532	4.176	-	4.794	99.749
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	64.150
Provisions during the year	251	69.797	1.983	-	4.388	76.419
Reversal of provisions	(206)	(65.468)	(3.731)	-	(4.074)	(73.479)
Reversal of provisions based on the sale of part of the loan portfolio	-	-	-	-	-	-
Provisions based on securities stated at fair value through other comprehensive income	-	-	-	22	-	22
Reversals based on securities stated at fair value through other comprehensive income	-	-	-	(1)	-	(1)
Accounting written-off receivables	-	(1.716)	(105)	-	-	(1.821)
Balance, as at 31 December 2025	194	57.785	6.221	70	1.020	65.290

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	
	2025	2024
Profit before taxes	16.689	14.320
Income tax calculated at the rate of 10%	1.669	1.432
Decrease/increase in income tax	(2.094)	(2.249)
Tax recognized/unrecognized expenses from impairment of loans and other assets	2.024	1.908
Other tax unrecognized costs	378	752
Unrecognized tax credit	2	16
Total income tax	1.979	1.859
Income tax RS	1.688	1.513
Income tax realized in the branch office in Brčko District	46	73
Income tax realized in the branch offices in FBiH	245	273
Total income tax	1.979	1.859
<i>Effective income tax rate</i>	11,86%	12,98%

For the business year 2025, 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 2024.

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)

	<u>31 December 2025</u>	<u>31 December 2024</u>
Cash funds:		
- in BAM	18.777	18.130
- in foreign currencies	9.194	7.658
	<u>27.971</u>	<u>25.788</u>
Funds at the Central Bank of BiH in BAM:		
- Gyro account	59.912	57.181
- Foreign cash funds	23.095	3.150
	<u>83.007</u>	<u>60.331</u>
Assets with other banks:		
- domestic banks	354	1.183
- foreign banks	30.272	15.115
- interest due on funds with foreign banks	1	-
	<u>30.627</u>	<u>16.298</u>
Gross value	141.605	102.417
Value adjustment	(115)	(82)
Total:	<u>141.490</u>	<u>102.335</u>

14. ASSETS HELD WITH THE CENTRAL BANK - OBLIGATORY RESERVE

(In BAM thousand)

	<u>31 December 2025</u>	<u>31 December 2024</u>
Assets held with the Central bank:		
- obligatory reserve	78.514	67.453
- due interest on the obligatory reserve held with CBBH	27	23
	<u>78.541</u>	<u>67.476</u>
Gross value:	78.541	67.476
Value adjustment of cash funds held with the Central bank - obligatory reserve	(79)	(67)
Total:	<u>78.462</u>	<u>67.409</u>

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.

14.1. PLACEMENTS WITH OTHER BANKS

(In BAM thousand)

	<u>31 December 2025</u>	<u>31 December 2024</u>
Placements with foreign banks:		
- short-term deposits in foreign currency	195	-
- interest due on placements with banks	<u>1</u>	<u>-</u>
Gross value:	196	-
Value adjustment	<u>-</u>	<u>-</u>
Total:	<u>196</u>	<u>-</u>

15. SECURITIES

(In BAM thousand)

	<u>31 December 2025</u>	<u>31 December 2024</u>
Securities - war damage stated at fair value through other comprehensive income	951	1.076
Securities – Republic of Srpska government bonds, stated at fair value through other comprehensive income	67.377	46.478
Calculated due and accrued interest	<u>1.114</u>	<u>1.035</u>
Total:	<u>69.442</u>	<u>48.589</u>

Debt securities as at 31 December 2025 in the amount of BAM 69.442 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)

Securities	31 December 2025			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities stated at fair value through other comprehensive income	20.082	49.360	-	69.442
Total:	<u>20.082</u>	<u>49.360</u>	<u>-</u>	<u>69.442</u>
Securities	31 December 2024			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities stated at fair value through other comprehensive income	-	48.589	-	48.589
Total:	<u>-</u>	<u>48.589</u>	<u>-</u>	<u>48.589</u>

15. SECURITIES (continued)

	Level 1	Level 2	Level 3	Total
Fair value as at 1 January 2025	<u>-</u>	<u>48.589</u>	<u>-</u>	<u>48.589</u>
Purchased principle instruments	20.005	-	-	20.005
Purchased interest instruments	-	-	-	-
Sold principle instruments	-	(3)	-	(3)
Sold interest instruments	-	-	-	-
Repaid principle instruments	-	(178)	-	(178)
Repaid interest instruments	-	(1.626)	-	(1.626)
Accrued interest	82	1.407	-	1.489
Change in fair value of principle	(5)	956	-	951
Change in fair value based on discount / premium depreciation	(1)	216	-	215
Fair value as at 31 December 2025	<u>20.081</u>	<u>49.361</u>	<u>-</u>	<u>69.442</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fair value as at 1 January 2024	<u>-</u>	<u>48.518</u>	<u>-</u>	<u>48.518</u>
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	<u>-</u>	<u>48.589</u>	<u>-</u>	<u>48.589</u>

Movements in provisions for debt securities per expected loss level:

	Level 1	Level 2	Level 3	Total
Allowance as at 1 January 2024	<u>-</u>	<u>49</u>	<u>-</u>	<u>49</u>
Provision during the year	-	13	-	13
Reversal during the year	-	(13)	-	(13)
Allowance as at 31 December 2024	<u>-</u>	<u>49</u>	<u>-</u>	<u>49</u>
Allowance as at 1 January 2025	<u>-</u>	<u>49</u>	<u>-</u>	<u>49</u>
Provision during the year	20	2	-	22
Reversal during the year	-	(1)	-	(1)
Allowance as at 31 December 31 December 2025	<u>20</u>	<u>50</u>	<u>-</u>	<u>70</u>

16. LOANS TO CUSTOMERS

(In BAM thousand)

	31 December 2025	31 December 2025
Short-term loans in BAM	124.375	137.766
Long-term loans in BAM	443.533	366.870
Long-term loans in foreign currencies	6	6
Guarantees paid	1.905	546
Current portion of long-term loans	150.706	140.065
Gross value:	720.525	645.253
Allowance for loans due from customers	(57.785)	(55.172)
Total:	662.740	590.081

During 2025, the accounting write-off of loans, interest and fees on loans in the amount of BAM 1.716 thousand and other receivables in the amount of BAM 105 thousand was carried out, that is, the transfer of their balance sheet exposure to off-balance sheet records, after the Bank recorded expected credit losses in the amount of 100% of the gross book value, and declared them fully due, in accordance with the Decision on Credit Risk Management and Determining Expected Credit Losses of the Banking Agency of the Republic of Srpska.

Until 31 December 2025, the Bank issued mostly long-term loans, and in smaller amount short-term loans, at annual interest rates ranging from 3,30%-19,00%. Loans with annual interest rate ranging from 2,30%-5,99% 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 2025 were issued to enterprises and population with an annual interest rate ranging from 3,60 to 10,99% for periods up to the maximum of 25 years.

An interest rate of 2,30% and 2,50% was granted to customers who secured a 100% deposit as loan security, while interest rates higher than 10,99% 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 2025, 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. 17,5%), city of Trebinje (cca. 10,6%), city of Sarajevo (cca. 9%), city of Bijeljina (cca. 5,4%), city of Zvornik (cca. 4,3%), city of Prijedor (cca. 4,2%).

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(In BAM thousand)

	Leasehold improve- ments	Equipment	Equipment in preparation	Total property and equipment	Intangible assets
Balance, 1 January 2024	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
Acquisitions in the period	-	-	1.666	1.666	124
Transfers from/to	530	1.251	(1.781)	-	-
Sale	(2)	(233)	-	(235)	-
Disposals	(1)	(211)	-	(212)	(1)
Balance, 31 December 2025	3.229	9.274	136	12.639	2.757
Accumulated depreciation/amortization					
Balance, 1 January 2024	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
Depreciation/amortization	377	1.090	-	1.467	251
Sale	(2)	(215)	-	(217)	-
Disposals	(1)	(202)	-	(203)	(1)
Balance, 31 December 2025	2.020	5.610	-	7.630	1.864
31 December 2024	1.056	3.530	251	4.837	1.020
31 December 2025	1.209	3.664	136	5.009	893

As at 31 December 2025 and 31 December 2024, 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 2024	4.861
Acquisitions in the period	-
Transfer	-
Balance, 31 December 2024	4.861
Acquisitions in the period	-
Transfer	-
Balance, 31. decembra 2025	4.861
Accumulated depreciation	
Balance, 1 January 2024	477
Depreciation	63
Balance, 31 December 2024	540
Depreciation	63
Balance, 31 December 2025	603
31 December 2024	4.321
31 December 2025	4.258

As at 31 December 2025, 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 2024.

17.2. LEASED BUSINESS PREMISES

	(In BAM thousand)
Balance as at 1 January 2024	6.522
New acquisitions	1.610
Contract termination	(1.942)
Depreciation	(491)
Allowance contract termination	131
Balance as at 31 December 2024	5.530
New acquisitions	958
Contract termination	(1.923)
Depreciation	(1.293)
Allowance contract termination	720
Balance as at 31 December 2025	4.292

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

	(In BAM thousand)	
	31 December 2025	31 December 2024
Less than a year	1.831	1.982
From one to five years	2.876	4.326
More than five years	-	8
Total contractual lease obligations	4.707	6.316
Lease obligations included in note 22 as at 31 December 2025	4.707	6.316

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

	(In BAM thousand)	
	Year ended 31 December 2025	Year ended 31 December 2024
Interest on lease obligations IFRS 16	263	318
Depreciation	1.923	1.942
Total lease expenses	2.186	2.260

18. OTHER ASSETS

	(In BAM thousand)	
	31 December 2025	31 December 2024
<i>In BAM:</i>		
- Funds acquired through collection of receivables	3.602	6.119
- Accrued other expenses	353	328
- Fee and commission receivables	3.197	2.466
- Material inventories	78	141
- Given advances	49	53
- Other receivables	1.896	1.673
 <i>In foreign currencies:</i>		
- Advances in foreign currencies	5	13
- Other foreign currency receivables	360	451
Gross value:	9.540	11.244
 Value adjustment of other assets	(2.619)	(1.955)
Value adjustment of assets acquired through collection of receivables	(3.602)	(6.119)
 Total:	3.319	3.170

Movement on acquired tangible assets

Cost of acquired tangible assets

Balance, 1 January 2024	5.760
Acquisitions during the period	3.019
Sales during the period	(2.660)
Balance, 31 December 2024	6.119
Acquisitions during the period	728
Sales during the period	(3.245)
Balance, 31 December 2025	3.602
 Accumulated depreciation	
Balance, 1 January 2024	5.760
Acquisitions during the period	3.019
Sales during the period	(2.660)
Balance, 31 December 2024	6.119
Acquisitions during the period	728
Sales during the period	(3.245)
Balance, 31 December 2025	3.602

The estimated value of the acquired tangible assets as at 31 December 2025 is BAM 6.778 thousand (31 December 2024: BAM 10.050 thousand).

19. DEPOSITS TO BANKS AND CUSTOMERS

(In BAM thousand)

	31 December 2025	31 December 2024
Demand deposits in BAM:		
- Banks and banking institutions	3.571	93
- Government and state institutions	24.676	18.294
- Enterprises	83.453	65.725
- Non-profit organizations	4.491	3.126
- Non-banking financial institutions	30.465	21.811
- Residents/non-residents	109.870	86.944
- Other	652	1.611
	257.178	197.604
Demand deposits in foreign currencies:		
- Public sector	-	1
- Enterprises	25.202	13.119
- Non-profit organizations	140	303
- Non-banking financial institutions	12.121	9.954
- Residents/non-residents	22.710	17.563
- Other	112	13
	60.285	40.953
Short-term deposits in BAM:		
- Banks and banking institutions	-	9.500
- Government and state institutions	-	-
- Enterprises	15.465	3.420
- Non-banking financial institutions	1.002	3.904
- Residents/non-residents	7	29
- Other	-	40
	16.474	16.893
Short-term deposits in foreign currencies:		
- Residents/non-residents	10.757	-
	10.757	-
Long-term deposits in BAM:		
- Banks and banking institutions	6.500	-
- Government and state institutions	12.000	8.500
- Enterprises	15.045	15.196
- Non-profit organizations	5.167	4.081
- Non-banking financial institutions	24.050	21.395
- Residents/non-residents	150.139	147.029
- Other	500	500
	213.401	196.701
Long-term deposits in foreign currencies:		
- Enterprises	4.334	4.507
- Non-banking financial institutions	2.065	2.065
- Residents/non-residents	195.543	194.776
- Non-profit organizations	391	391
	202.333	201.739
Total:	760.428	653.890

19. DEPOSITS TO BANKS AND CUSTOMERS (continued)

Current maturity of long-term deposits

(In BAM thousand)

	31 December 2025	31 December 2024
Long-term portion of long-term deposits, in BAM		
- Banks and banking institutions	-	-
- Government and state institutions	-	-
- Enterprises	9.557	11.674
- Non-profit organizations	1.043	2.927
- Non-banking financial institutions	6.400	7.225
- Residents/non-residents	69.356	79.327
- Other	-	-
	86.356	101.153
Long-term portion of long-term deposits, in foreign currencies		
- Enterprises	2.965	2.145
- Non-banking financial institutions	1.565	500
- Non-profit organizations	391	-
- Residents/non-residents	94.354	107.764
	99.275	110.409
Current maturity of long-term deposits, in BAM		
- Banks and banking group	6.500	-
- Government and state institutions	12.000	8.500
- Enterprises	5.488	3.522
- Non-profit organizations	4.124	1.154
- Non-banking financial institutions	17.650	14.170
- Residents/non-residents	80.783	67.702
- Other	500	500
	127.045	95.548
Current maturity of long-term deposits, in foreign currencies		
- Enterprises	1.369	2.362
- Non-banking financial institutions	500	1.565
- Non-profit organizations	-	391
- Residents/non-residents	101.189	87.012
	103.058	91.330

20. LIABILITIES PER LOANS

	(In BAM thousand)	
	31 December 2025	31 December 2024
In BAM:		
- „Fond za razvoj i zapošljavanje RS“	1.508	884
- „Fond stanovanja RS“	204	-
Total in BAM:	1.712	884
In foreign currency:		
- EFSE	52.807	27.382
- GGF	1.630	4.889
- ResponsAbility SICAV	1.304	2.608
Total in foreign currency:	55.741	34.879
Total loans:	57.453	35.763
Deferred interest liabilities in domestic currency per long-term loans of residents	2	1
Deferred interest liabilities in foreign currencies per short-term loans of non-residents	741	521
Deferred foreign currency loan processing fees included in the calculation of the effective interest rate	(466)	(280)
Total liabilities per loans:	57.730	36.005
Current maturities of loans:		
Total long-term portion of liabilities in BAM	1.618	850
Total long-term portion of liabilities in foreign currencies	33.528	16.625
	35.146	17.475
Current maturity in BAM:		
- IRB RS – “Fond za razvoj i zapošljavanje RS”	81	34
- IRB RS – “Fond stanovanja RS”	13	-
Current maturity in foreign currencies:		
- EFSE	19.279	13.691
- GGF	1.630	3.259
- ResponsAbility SICAV	1.304	1.304
Total current maturity of long-term liabilities:	22.307	18.288

As at 31 December 2025, 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 1.712 thousand (31 December 2024: BAM 884 thousand).

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 2026, 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.

In July 2025, the Bank concluded an agreement with the creditor EFSE, Luxembourg, for a loan in the amount of BAM 39.117 thousand (2 tranches of EUR 10 million each in July and October 2025), for a period of 4 years, which includes a grace period of 1 year, with semi-annual repayment and an agreed fixed interest rate of 5,23% for the first loan tranche, and 5,43% for the second loan tranche.

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 2025, 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)	
	<u>31 December 2025</u>	<u>31 December 2024</u>
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	(74)	(97)
Accrued liabilities for interest in foreign currency on long-term subordinated loans	213	244
Total:	<u>13.830</u>	<u>13.838</u>

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 2025, 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 2025	31 December 2024
In BAM:		
- deferred income	316	389
- trade payables	711	296
- deferred expenses	1.829	416
- lease liabilities – IFRS 16 (note 17.2)	4.707	6.316
- provisions for employee benefits and litigation	138	126
- other liabilities	2.898	4.357
In foreign currency:		
- trade payables	4	16
- accrued expenses	96	102
- other liabilities	512	1.170
Total:	11.231	13.188

Movements in provisions for employee benefits and litigation

(In BAM thousand)

	Employee benefits	Potential liabilities for litigation	Total
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
Allocation during the year	7	5	12
Reversal of provisions	-	(1)	(1)
Used provisions	-	-	-
Balance as at 31 December 2025	65	72	137

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 2025 amounts to BAM 51.141 thousand (as at 31 December 2024: 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 2025 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 2024, the structure of the Bank's share capital 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

Equity reserves

	31 December 2025	(In BAM thousand) 31 December 2024
Statutory reserves	3.091	2.469
Revaluation reserves based on value changes in securities	1.025	(142)
Revaluation reserves based on provisions / expected credit losses based on securities – IFRS 9	70	49
Total:	4.186	2.376

Equity reserves in the amount of BAM 3.091 thousand (31.12.2024: BAM 2.469 thousand) incurred from allocation of profit.

During 2025, based on the Supervisory Board's Decision no NO-103/2025 dated 30 April 2025 and the Decision of the Bank's Assembly no. 7/2025 dated 26 June 2025, a total of BAM 623 thousand was allocated to legal reserves.

24. EARNINGS PER SHARE

	(In BAM thousand)	
	31 December 2025	31 December 2024
Net profit of the period	14.710	12.461
Weighted average number of shares	511.410	511.410
Basic earnings per share (in BAM)	28,76	24,37

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 2025	31 December 2024
Payment guarantees	15.735	27.277
Contract execution guarantees	56.072	71.672
Irrevocable commitments for undrawn loans	76.498	71.635
Unused overdrafts on accounts and credit cards	21.478	13.486
Total	169.783	184.070
Value adjustment	(1.020)	(706)
Total	168.763	183.364

b) Litigation

As at 31 December 2025, the Bank has initiated 2.690 litigation. The total portfolio amount received by the Credit Risk Assessment and Monitoring and Non-Performing Exposure Management Department as at 31 December 2025 is BAM 58.885 thousand (as at 31 December 2024, the Banka has initiated 2.128 litigation, with a total portfolio amount of BAM 41.664 thousand).

As at 31 December 2025, there were 28 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 72 thousand (provisions for litigation amount to BAM 68 thousand as at 31 December 2024) – (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 2025, 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 2025:

	Parent company	Entities with joint control IAS 24, 19. (b)	Subsidiaries IAS 24, 19. (c) (d) (e)	Key management 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	-	6.822	-	500	783	8.105
Other receivables and accruals	-	5	-	1	-	6
Operating assets	-	6.827	-	501	783	8.111
Off-balance - irrevocable obligations	-	-	-	37	51	88
Off-balance – contingent liabilities	-	-	-	-	-	-
Off-balance sheet assets	-	-	-	37	51	88
TOTAL ASSETS	-	6.827	-	538	834	8.199
EQUITY AND LIABILITIES						
Liabilities						
Deposits of customers	8.977	33.153	-	2.282	11.844	56.256
Other liabilities and deferrals	16	4	-	48	77	145
Provisions for off-balance sheet items	-	-	-	-	-	-
Operating liabilities	8.993	33.157	-	2.330	11.921	56.401
Off-balance - irrevocable obligations	-	-	-	37	51	88
Off-balance – contingent liabilities	-	-	-	-	-	-
Off-balance sheet liabilities	-	-	-	37	51	88
TOTAL EQUITY AND LIABILITIES	8.993	33.157	-	2.367	11.972	56.489

26. TRANSACTIONS WITH RELATED PARTIES (continued)

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 management 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
Provisions for off-balance sheet items	-	-	-	-	-	-
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

26. TRANSACTIONS WITH RELATED PARTIES (continued)

Statement of comprehensive income of the business year 2025:

	Parent company	Entities with joint control IAS 24, 19. (b)	Subsidiaries IAS 24, 19. (c) (d) (e)	Key management 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	-	21	35	285
Interest expenses	-	(52)	-	(54)	(95)	(201)
Net interest income	-	177	-	(33)	(60)	84
Fee and commission income	2	800	-	4	50	856
Other operating income	-	520	-	1	3	524
Other operating expenses	(132)	(29)	-	(59)	(2.701)	(2.921)
Impairment	-	18	-	-	4	22
Profit of the current year	(130)	1.486	-	(87)	(2.704)	(1.435)

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 management 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	-	(35)	(3.185)	(2.103)

26. TRANSACTIONS WITH RELATED PARTIES (continued)

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

	<i>Year ended 31 December</i>	
	<i>2025</i>	<i>2024</i>
	<i>000 BAM</i>	<i>000 BAM</i>
Supervisory Board	142	137
Audit Board	12	12
Management Board	665	660
Total	819	809

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 or 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.

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 2025 were mostly influenced by the continued stable and moderate economic growth as one of the main macroeconomic variables, with weakened inflation and still present geopolitical uncertainties that are reflected in domestic conditions, or that can be transferred to banks through the impact on the real economy.

The International Monetary Fund (IMF) in its updated economic outlook (World Economic Outlook, update July 2025¹⁰) predicts that the growth trend of the world economy will experience a slight decline from 3,3% in 2024 to 3,0% in 2025, or 3,1% in 2026. However, this would still be below the historical average (achieved in the period from 2000 to 2019) of 3,7%, and global growth is expected to remain stable. According to the economic outlook, global inflation is expected to fall to 4,2% in 2025 and 3,6% in 2026, and US inflation is expected to remain above the inflation target, due to changes in US customs policy.

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 again recording modest growth, and the disinflation process is continuing. The growth of the EU economy, which started in the first quarter of 2024, continued in the second and third quarters, and GDP is expected to grow by 0,9% in the EU and 0,8% in the euro area 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.

On the domestic front, 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 2025 and 2024. 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 2025 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 Function identifies and assesses credit risk at the level of a client/group of related parties (individual application for a risky product) that the Bank has undertaken in its regular business operations. The Function is obliged to provide a written opinion for total exposures of a natural person (applicant JMBG) > BAM 30.000 and total exposures of a legal person (applicant JIB) > BAM 50.000.

The opinion of the Credit Risk Assessment Function is an integral part of the credit proposal, i.e. the subject matter considered by the competent credit committee.

The right of "veto" when deciding on individual proposals is held by the members of the Credit Committee of the UB responsible for risks and the member of the Management Board responsible for risk management.

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.

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 2025	31 December 2024
ASSETS:		
Cash funds and assets with banks	141.490	102.335
Assets with the Central bank - obligatory reserve	78.462	67.409
Placements with banks	196	-
ecurities	69.442	48.589
Loans to customers	662.740	590.081
Other assets	3.319	3.170
Total:	955.649	811.584
OFF-BALANCE SHEET ASSETS:		
Payment guarantees	15.598	27.025
Contract execution guarantees	55.953	71.431
Undertaken irrevocable commitments for undrawn loans	76.014	71.594
Overdrafts on accounts	21.198	13.314
Total:	168.763	183.364
Total risk exposure:	1.124.412	994.948

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 31.12.2025 and 31.12.2024

(In BAM thousand)

Participation in the total exposure as at 31.12.2025

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	190.490	1.820	0,96	2.077	1,09	-	-	-	-	-	139	0,07	1
Entrepreneurs	545.610	34.360	6,30	39.369	7,22	4.126	11.894	8.586	24.605	4,51	1370	0,25	6.900
Retail	170.256	6.096	3,58	11.687	6,86	346	1.623	1.983	3.952	2,32	441	0,26	1.090
Total	906.356	42.276	4,66	53.133	5,86	4.472	13.517	10.569	28.557	3,15	1.950	0,22	7.991

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

(In BAM thousand)

Participation in the total exposure as at 31.12.2024

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 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 31.12.2025 and 31.12.2024 (continued)

The following table shows changes in the gross book value of loans to customers as at 31.12.2024 and 31.12.2025

	Retail loans				Corporate loans				(In BAM thousand)
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	Balance as at 01.01.2025	115.753	21.343	10.365	147.461	335.718	129.013	43.021	507.752
Repaid loans (without write-off)	(17.545)	(3.500)	(1.088)	(22.133)	(150.122)	(54.588)	(4.427)	(209.137)	
Transfer to Stage 1 (from 2 to 3)	4.232	(4.001)	(231)	-	15.507	(15.329)	(178)	-	
Transfer to Stage 2 (from 1 to 3)	(6.930)	6.980	(50)	-	(14.162)	14.425	(263)	-	
Transfer to Stage 3 (from 1 to 2)	(1.219)	(2.980)	4.199	-	(2.936)	(4.845)	7.781	-	
Loans in repayment	(18.090)	(3.512)	(734)	(22.336)	(48.486)	(17.174)	(3.957)	(69.617)	
Write-offs	-	-	(1.256)	(1.256)	-	-	(1.968)	(1.968)	
Sale of NPLs	-	-	-	-	-	-	-	-	
Newly placed loans	62.868	2.903	450	66.221	296.262	44.266	1.057	341.585	
Total as at 31.12.2025	139.069	17.233	11.655	167.957	431.781	95.768	41.066	568.615	

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

	Retail loans				Corporate loans				(In BAM thousand)
	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	147.461	335.719	129.013	43.021	507.753	

* 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 01.01.2025	1.376	2.514	8.398	12.288	3.385	12.643	29.467	45.495
Repaid loans (without write-off)	(231)	(306)	(681)	(1.218)	(1.568)	(5.044)	(2.011)	(8.623)
Transfer to Stage 1 (from 2 to 3)	79	(76)	(3)	-	255	(246)	(9)	-
Transfer to Stage 2 (from 1 to 3)	(781)	787	(6)	-	(1.048)	1.091	(43)	-
Transfer to Stage 3 (from 1 to 2)	(803)	(1.969)	2.772	-	(1.926)	(2.610)	4.536	-
Changes in provisions of loans in repayment	1.187	1.104	115	2.406	2.193	197	2.825	5.215
Write-offs	-	-	(1.256)	(1.256)	-	-	(1.968)	(1.968)
Sale of NPLs	-	-	-	-	-	-	-	-
Newly placed loans	532	413	236	1.181	3.779	3.425	643	7.847
Total as at 31.12.2025	1.359	2.467	9.575	13.401	5.070	9.456	33.440	47.966

* 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 01.01.2024	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

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 31.12.2025 (POCI investments separately shown):

(In BAM thousand)

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2025	451.471	144.548	52.777	5.808	609	655.213
Repaid loans (without write-off)	(167.667)	(57.947)	(5.466)	(141)	(49)	(231.270)
Transfer to Stage 1 (from 2 to 3)	19.739	(19.330)	(409)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(21.092)	21.396	(313)	9	-	-
Transfer to Stage 3 (from 1 to 2)	(4.155)	(7.825)	11.868	-	112	-
Loans in repayment	(66.576)	(20.163)	(4.639)	(523)	(51)	(91.952)
Write-off	-	-	(3.203)	-	(21)	(3.224)
Sale of NPLs	-	-	-	-	-	-
Newly placed loans	359.130	47.169	1.507	-	-	407.806
Total as at 31.12.2025	570.850	107.848	52.122	5.153	600	736.573

(In BAM thousand)

Impairment of loans to customers

	Stage 1	Stage 2	Stage 3	POCI - S2	POCI - S3	Total
Balance as at 01.01.2025	4.761	14.473	37.343	685	521	57.783
Repaid loans (without write-off)	(1.799)	(5.333)	(2.665)	(17)	(27)	(9.841)
Transfer to Stage 1 (from 2 to 3)	334	(322)	(12)	-	-	-
Transfer to Stage 2 (from 1 to 3)	(1.829)	1.875	(49)	3	-	-
Transfer to Stage 3 (from 1 to 2)	(2.729)	(4.579)	7.282	-	26	-
Loans in repayment	3.380	811	2.985	490	(45)	7.621
Write-off	-	-	(3.203)	-	(21)	(3.224)
Sale of NPLs	-	-	-	-	-	-
Newly placed loans	4.311	3.821	879	17	-	9.028
Total as at 31.12.2025	6.429	10.746	42.560	1.178	454	61.367

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 31.12.2024 (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)

Maximum exposure to credit risk before collateral and other credit collateral as at 31 December 2025 and 2024

(In BAM thousand)

Financial instruments

	31 December 2025			31 December 2024		
	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	141.605	115	141.490	102.417	82	102.335
Assets with the Central bank – obligatory reserve	78.541	79	78.462	67.476	67	67.409
Placements with other banks	196	-	196	-	-	-
Securities	69.442	-	69.442	48.589	-	48.589
Loans to customers	720.525	57.785	662.740	645.253	55.172	590.081
Other assets	9.540	6.221	3.319	11.244	8.074	3.170
Total assets	1.019.849	64.200	955.649	874.979	63.395	811.584
Off-balance						
Unused credit liabilities	97.976	764	97.212	85.121	213	84.908
Guarantees	71.807	256	71.551	98.949	493	98.456
<i>Credit portfolio collateral</i>	<i>332.946</i>			<i>356.706</i>		
- <i>Securities pledged as collateral</i>	<i>3.417</i>			<i>3.562</i>		
Total off-balance	169.783	1.020	168.763	184.070	706	183.364
Total credit exposure	1.189.632	65.220	1.124.412	1.059.049	64.101	994.948

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 2025				
	Loan balance	Total exposure	Weighted exposure	Recognized amount of collateral	Expected credit loss (ECL) without other assets
Homogeneous groups					
Individuals	166.105	170.256	170.256	58.616	13.401
Legal entities	527.401	695.883	584.770	266.121	40.647
Entrepreneurs	34.719	40.217	39.197	12.368	7.319
Total:	728.225	906.356	794.223	337.105	61.367

(In BAM thousand) *

	31 December 2025				
	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

Measurement of expected credit losses

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	134.653	762	0	418	167	1.373	137.373
Entrepreneurs	384.952	4.663	1.595	1.341	5.550	26.646	424.747
Retail	155.062	1.370	607	1.267	1.675	6.125	166.106
Total	674.667	6.795	2.202	3.026	7.392	34.144	728.226

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Overview of expected credit losses (ECL) per segments

Sectors	31 December 2025		31 December 2024	
	Expected credit loss (ECL)	% share	Expected credit loss (ECL)	% share
Corporate and public customers	4.742	7,73	3.862	6,68
Entrepreneurs	43.224	70,44	41.634	72,05
Retail	13.401	21,84	12.288	21,27
Total Banka	61.367	100,00	57.784	100,00

(In BAM thousand)

Overview of loan balances by days of delay

Days of delay	31 December 2025		31 December 2024	
	Loan balance	% share	Loan balance	% share
Without delay	627.502	86,17	520.484	80,34
1-30 days	47.165	6,48	68.121	10,51
31-90 days	8.996	1,24	19.056	2,94
More than 90 days	44.562	6,12	40.238	6,21
Total Bank	728.225	100	647.899	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 31.12.2025 and 31.12.2024:
(In BAM thousand)

	As at	
	31 December	31 December
	2025	2024
Loans secured by special deposit	8.732	8.129
Loans secured by property	218.876	221.451
Loans secured by other collateral	492.917	415.673
Total:	720.525	645.253

Credit collateral for loans granted to legal entities and individuals

(In BAM thousand)

	Loans to customers		
As at 31 December 2025	Retail	Corporate	Total loans
Residential, commercial or industrial property	52.801	177.682	230.483
Pledge	3.255	28.240	31.495
Financial asset	2.182	11.068	13.250
Other	378	61.499	61.877
Total	58.616	278.489	337.105

(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

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Exposure overview by sectors and days of delay - Bank

(In BAM thousand)

Sectors	Days of delay	31 December 2025		
		Loan balance	Exposure	Allowance
Corporate and public customers	Without delay	134.653	187.648	2.832
	1-30 days	-	1	-
	31-90 days	762	767	38
	more than 90 days	1.958	2.075	1.872
Total		137.373	190.491	4.742
Entrepreneurs	Without delay	352.218	468.396	10.422
	1-30 days	32.735	34.618	2.531
	31-90 days	6.257	6.675	989
	more than 90 days	33.537	35.920	29.282
Total		424.747	545.609	43.224
Retail	Without delay	140.631	143.885	3.100
	1-30 days	14.430	14.689	1.449
	31-90 days	1.977	2.032	582
	more than 90 days	9.067	9.650	8.270
Total		166.105	170.256	13.401
Total exposure by sectors and days of delay		728.225	906.356	61.367

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)

Sectors	Days of delay	31 December 2025		
		Loan balance	Exposure	Allowance
Corporate and public customers	Without delay	116.728	168.299	1.494
	1-30 days	-	-	-
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		116.728	168.299	1.494
Entrepreneurs	Without delay	297.041	405.030	3.193
	1-30 days	15.763	17.352	384
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		312.804	422.382	3.577
Retail	Without delay	130.739	133.428	1.192
	1-30 days	7.664	7.813	167
	31-90 days	-	-	-
	more than 90 days	-	-	-
Total		138.403	141.241	1.359
Total exposure by sectors and days of delay		567.935	731.922	6.430

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

Exposure overview by sectors and days of delay - Stage 2

(In BAM thousand)				
31 December 2025				
Sectors	Days of delay	Loan balance	Exposure	Allowance
Corporate and public customers	Without delay	17.925	19.347	1.336
	1-30 days	-	1	-
	31-90 days	762	767	38
	more than 90 days	-	-	-
	Total		18.687	20.115
Entrepreneurs	Without delay	53.819	60.699	5.323
	1-30 days	16.715	16.980	2.006
	31-90 days	5.797	6.179	753
	more than 90 days	-	-	-
	Total		76.331	83.858
Retail	Without delay	8.560	9.025	927
	1-30 days	6.447	6.552	1.116
	31-90 days	1.706	1.751	423
	more than 90 days	-	-	-
	Total		16.713	17.328
Total exposure by sectors and days of delay		111.731	121.301	11.922

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

Exposure overview by sectors and days of delay - Stage 3

(In BAM thousand)				
31 December 2025				
Sectors	Days of delay	Loan balance	Exposure	Allowance
Corporate and public customers	Without delay	-	2	2
	1-30 days	-	-	-
	31-90 days	-	-	-
	more than 90 days	1.958	2.075	1.872
	Total		1.958	2.077
Entrepreneurs	Without delay	1.358	2.667	1.906
	1-30 days	257	286	141
	31-90 days	460	496	236
	more than 90 days	33.537	35.920	29.282
	Total		35.612	39.369
Retail	Without delay	1.332	1.432	981
	1-30 days	319	324	166
	31-90 days	271	281	159
	more than 90 days	9.067	9.650	8.270
	Total		10.989	11.687
Total exposure by sectors and days of delay		48.559	53.133	43.015

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

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

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

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	549
	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

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

Exposure overview by sectors and days of delay - Stage 3

(In BAM thousand)				
31 December 2024				
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

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

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

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

By sectors	31 December 2025									
	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	163.043	22.612	6.565	12.227	204.447	(4.624)	(16.046)	225.117	63.466	7.139
General consumption	74.443	8.668	3.357	3.774	90.242	(1.691)	(5.795)	97.728	11.987	1.883
Housing loans	41.915	2.918	961	127	45.921	(1.146)	(938)	48.005	24.445	795
Performing activities (entrepreneurs)	46.352	10.709	2.247	7.158	66.466	(1.748)	(8.221)	76.435	27.034	4.447
Other receivables	333	317	-	1.168	1.818	(39)	(1.092)	2.949	-	14
Balance sheet receivables - corporate	407.807	90.389	4.124	29.807	532.127	(12.777)	(26.900)	571.804	233.637	18.148
Corporate and public customers	117.285	18.783	224	1.853	138.145	(2.756)	(1.874)	142.775	83.495	845
Entrepreneurs 290.522	71.606	3.900	27.954	393.981	(25.026)	-	429.029	150.142	17.303	16.903
Receivables from other customers	-	-	-	-	-	-	-	-	-	-
Balance receivables from banks and financial institutions	-	-	-	-	-	-	-	-	-	-
By categories of receivables	570.850	113.001	10.689	42.033	736.573	(17.401)	(42.946)	796.920	297.102	25.287
Performing receivables	570.850	113.001	-	-	683.851	(17.401)	-	701.252	297.102	-
of which restructured	4.401	13.407	-	-	17.808	(1.546)	-	19.354	14.762	-
Non-performing receivables	-	-	10.689	42.033	52.722	0,00	(42.946)	95.668	-	25.287
of which restructured	-	-	1.994	8.575	10.569	0,00	(8.885)	19.454	-	5.787
Total balance sheet exposure	570.850	113.001	10.689	42.034	736.574	(17.401)	(42.946)	796.921	297.103	25.287
Total off-balance sheet exposure	161.072	8.299	411	-	169.782	(951)	(69)	170.802	14.594	122

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

		(In BAM thousand)		
Data on branch exposure concentration				
Method of calculation	31 December 2025			
	Stage1	Stage 2	Stage 3	
Balance sheet receivables - retail	163.043	22.612	18.791	
General consumption	74.444	8.668	7.130	
Housing loans	41.914	2.918	1.088	
Performing activities (entrepreneurs)	46.351	10.709	9.405	
Other receivables	334	317	1.168	
Balance sheet receivables - corporate	407.807	90.389	33.930	
Agriculture, forestry, fishing	8.770	2.181	344	
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	82.626	28.393	9.072	
Traffic, storage and communications, electricity supply, hotels and restaurants	85.695	6.090	5.512	
Construction	79.905	8.888	3.867	
Wholesale and retail trade, repair of motor vehicles and motorcycles	77.113	21.178	13.186	
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	62.592	20.967	1.898	
Receivables from other customers	11.106	2.692	51	
Financial institutions	-	-	-	
Total balance sheet exposure	570.850	113.001	52.721	
Total off-balance sheet exposure	161.072	8.299	411	

(In BAM thousand)

Data on branch exposure concentration

Method of calculation	31 December 2024		
	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 gross exposure to credit risk by sectors and categories of receivables and the number of days in arrears

Sectors	31 December 2025									
	Stage1/Stage2					Stage3				
	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	165.576	17.739	1.769	571	-	2.690	372	196	152	15.381
General consumption	73.633	8.300	774	405	-	546	165	42	111	6.266
Housing loans	42.807	1.569	456	-	-	630	-	-	-	459
Performing activities (entrepreneurs)	48.511	7.859	529	161	-	729	192	149	33	8.302
Other receivables	625	11	10	5	-	785	15	5	8	354
Balance sheet receivables - corporate	462.811	29.317	4.859	1.209	-	1.382	237	92	335	31.884
Corporate and public customers	135.300	1	767	-	-	2	-	-	-	2.075
Entrepreneurs	327.511	29.316	4.092	1.209	-	1.380	237	92	335	29.809
Receivables from other customers	-	-	-	-	-	-	-	-	-	-
Balance receivables from banks and financial institutions	-	-	-	-	-	-	-	-	-	-
By categories of receivables	628.388	47.056	6.628	1.780	-	4.072	609	288	488	47.265
Performing receivables	628.388	47.056	6.628	1.780	-	-	-	-	-	-
of which restructured	11.125	5.837	580	267	-	-	-	-	-	-
Non-performing receivables	-	-	-	-	-	4.072	609	288	488	47.265
of which restructured	-	-	-	-	-	755	294	75	-	9.445
Total balance sheet exposure	628.387	47.056	6.628	1.780	-	4.072	609	288	487	47.265
Total off-balance sheet exposure	167.439	1.643	144	145	-	29	1	1	0	380

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

Data on non-performing receivables

	31 December 2025						
	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	204.447	20.671	18.791	2.587	16.046	9,19%	7.139
General consumption	90.242	7.486	7.131	825	5.795	7,90%	1.883
Housing loans	45.921	2.084	1.088	-	938	2,37%	795
Performing activities (entrepreneurs)	66.466	9.970	9.404	1.749	8.221	14,15%	4.447
Other receivables	1.818	1.131	1.168	13	1.092	64,21%	14
Receivables - corporate	532.126	39.676	33.930	7.982	26.900	6,38%	18.148
Agriculture, forestry, fishing	11.295	534	344	98	263	3,05%	188
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	120.094	11.227	9.073	3.423	7.181	7,55%	3.813
Traffic, storage and communications, electricity supply, hotels and restaurants	97.297	5.886	5.512	811	4.617	5,66%	2.493
Construction	92.659	4.403	3.867	124	2.963	4,17%	2.212
Wholesale and retail trade, repair of motor vehicles and motorcycles	111.474	12.418	13.185	3.119	10.157	11,83%	8.607
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	85.458	4.475	1.898	407	1.670	2,22%	835
Receivables from other customers	13.849	733	51	-	49	0,37%	-
Balance sheet receivables from banks and financ. institutions	-	-	-	-	-	-	-
Total balance sheet exposure	736.573	60.347	52.721	10.569	42.946	7,16%	25.287
Total off-balance sheet exposure	169.783	1.020	411	-	69	0,24%	122

(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	-	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	-	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	-	68	0,12%	60

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 2025							
	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 - 3.46	132.899	3.843		118		136.860
Rating 5-7: Satisfactory	3.47 - 16.70	8.342	5.512		442		14.296
Rating 8-9: High risk	16.71 – 33.67		7.401		12		7.413
Rating 10: Risky	100			11.408		279	11.687
Weighted exposure		141.241	16.756	11.408	572	279	170.256
Allowance		(1.359)	(2.374)	(9.382)	(93)	(193)	(13.401)
Receivables from customers (homogeneous group of legal entities)							
Rating 1-4: Strong	0 – 3.78	365.811	28.133				393.944
Rating 5-7: Satisfactory	3.79 – 14.99	89.717	24.175				113.892
Rating 8-9: High risk	15.00 – 37.30		38.330		4.582		42.912
Rating 10: Risky	100			33.836		186	34.022
Weighted exposure		455.528	90.638	33.836	4.582	186	584.770
Allowance		(4.821)	(7.771)	(26.826)	(1.085)	(144)	(40.647)
Receivables from customers (homogeneous group of entrepreneurs)							
Rating 1-4: Strong	0 – 3.60	25.196	1.270				26.466
Rating 5-7: Satisfactory	3.61 – 19.12	1.478	1.348				2.826
Rating 8-9: High risk	19.13 – 43.60		2.790				2.790
Rating 10: Risky	100			6.980		135	7.115
Weighted exposure		26.674	5.408	6.980		135	39.197
Allowance		(249)	(600)	(6.352)		(118)	(7.319)
Weighted exposure		623.443	112.802	52.224	5.154	600	794.223
Allowance		(6.429)	(10.745)	(42.560)	(1.178)	(455)	(61.367)

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

(In BAM thousand)

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

Types of collateral	31 December 2025			
	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	547	-	61.165	6.418
General consumption	-	-	10.475	1.722
Housing loans	-	-	25.094	26
Performing activities (entrepreneurs)	547	-	25.583	4.670
Other receivables	-	-	13	-
Receivables - corporate	70.134	2.417	159.779	21.928
Corporate and public customers	58.512	1.844	21.126	2.857
Entrepreneurs	11.622	573	138.653	19.071
By categories of receivables	70.681	2.417	220.944	28.347
Performing receivables	68.879	2.417	201.820	23.987
of which restructured	54	-	13.438	1.270
Non-performing receivables	1.802	-	19.124	4.360
of which restructured	186	-	4.723	877
Total balance sheet exposure	70.681	2.417	220.944	28.346
Total off-balance sheet exposure	1.028	1.000	3.148	9.539

29. FINANCIAL INSTRUMENTS (continued)

29.4. Credit risk (continued)

Data on restructured receivables

	31 December 2025						
	(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	204.447	20.671	5.925	2.587	2.721	2,90%	4.037
General consumption	90.242	7.486	1.426	825	868	1,58%	708
Housing loans	45.921	2.084	-	-	-	-	-
Performing activities (entrepreneurs)	66.466	9.970	4.486	1.749	1.840	6,75%	3.316
Other receivables	1.818	1.131	13	13	13	0,73%	13
Receivables - corporate	532.126	39.676	22.453	7.982	7.711	4,22%	16.511
Agriculture, forestry, fishing	11.295	534	171	98	56	1,52%	171
Mining, manufacturing, water supply, wastewater management, waste disposal operations and similar activities	120.092	11.228	9.256	3.423	3.452	0,00%	6.475
Traffic, storage and communications, electricity supply, hotels and restaurants	97.297	5.886	3.082	811	922	3,17%	1.980
Construction	92.659	4.403	1.040	124	220	1,12%	940
Wholesale and retail trade, repair of motor vehicles and motorcycles	111.476	12.417	8.352	3.119	2.648	7,49%	6.784
Real estate activities, professional, scientific, innovation and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities	85.458	4.475	552	407	413	0,65%	161
Receivables from other customers	13.849	733	-	-	-	-	-
Balance sheet receivables from banks and financ. institutions	-	-	-	-	-	-	-
Total balance sheet exposure	736.573	60.347	28.378	10.569	10.432	3,85%	20.548
Total off-balance sheet exposure	169.783	1.020	180	-	1	-	80

(In BAM thousand)

Data on restructured receivables

	31 December 2024						
	Gross value of total receivables	Allowance of total receivables	Value of restructured receivables				Value of collateral for restr. receivables
			Gross value of restr. receivables	out of which: Stage3 receivables	Allowance of restr. receivables	% of 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	-	-	-	-	-
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	-	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)

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 2025	in %	31 December 2024	in %
Agriculture, forestry and fishing	11.059	2%	9.668	2%
Mining and stone extraction	8.979	1%	8.697	1%
Manufacturing industry	106.576	15%	71.125	11%
Production and supply of electricity, gas, steam and air conditioning	56.428	8%	46.623	7%
Water supply, sewerage, waste management and environmental remediation activities	2.050	0%	3.265	1%
Construction	91.057	13%	67.682	10%
Wholesale and retail trade; repair of motor vehicles and motorcycles	109.035	15%	115.814	19%
Traffic and storage	25.935	4%	25.962	4%
Accommodation, food preparation and serving activities; hotel and hospitality industry	13.075	2%	11.505	2%
Information and communication	4.764	1%	3.951	1%
Financial and insurance activities	8.848	1%	11.293	2%
Real estate business	7.782	1%	8.643	1%
Professional, scientific and technical activities	25.865	4%	22.995	4%
Administrative and support service activities	3.412	0%	2.510	-
Public administration and defense; compulsory social insurance	11.107	2%	14.448	2%
Education	370	0%	147	-
Health and social work activities	32.662	5%	36.980	6%
Arts, entertainment and recreation	1.083	0%	37	-
Other service activities	1.624	0%	2.072	-
Retail and entrepreneurs	198.814	28%	181.836	28%
Total:	720.525	100%	645.253	100%

Note: The total loan amount includes gross loan principal amounts, due interest and fees per loans, 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 2025	In %	31 December 2024	In %
Loans per transaction accounts	69.032	10%	81.735	13%
Consumer loans	106.600	15%	96.295	15%
Working capital loans	199.390	28%	150.913	23%
Investment loans	298.405	41%	277.826	43%
Housing loans	45.264	6%	37.999	6%
Investments for realized payments under guarantees	1.834	-	485	-
	720.525	100%	645.253	100%

29.4.2. Stress test

Portfolio as at 31 December 2025 in accordance with IFRS 9:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	673.510	6.430
Stage 2	121.301	11.922
Stage 3	53.133	43.015
Other exposure	58.412	-
Total	906.356	61.367

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 2025	Total exposure	Total exposure minus the deposit amount	Discounted value of collateral	Allowance
Pre-test	1.074.323	1.064.491	290.504	67.603
Post-test	906.356	896.524	337.105	61.367
Difference	167.967	167.967	(46.601)	6.236

Portfolio as at 31 December 2025 post stress test:

(In BAM thousand)

	Total exposure	Allowance
Stage 1	812.947	7.854
Stage 2	146.805	14.762
Stage 3	56.159	44.987
Other exposure	58.412	-
Total	1.074.323	67.603

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 2025, net:

	EUR	USD	CHF	GBP	Other	(In BAM thousand)		
						Total currencies	BAM	Total
Assets								
Cash funds and assets held banks	60.774	901	368	27	439	62.509	78.981	141.490
Assets with the Central Bank - obligatory reserve	2.065	-	-	-	-	2.065	76.397	78.462
Placements with banks	196	-	-	-	-	196	-	196
Securities	36.378	-	-	-	-	36.378	33.064	69.442
Loans due from customers	316.802	-	-	-	-	316.802	345.938	662.740
Property, equipment, intangible assets, investment property	-	-	-	-	-	-	10.160	10.160
Leased business premises IFRS 16	-	-	-	-	-	-	4.292	4.292
Other assets	358	-	-	-	-	358	2.961	3.319
	416.573	901	368	27	439	418.308	551.793	970.101
Liabilities								
Deposits to customers	346.322	791	709	2	12	347.836	412.592	760.428
Liabilities per loans	57.730	-	-	-	-	57.730	-	57.730
Subordinated debt	13.830	-	-	-	-	13.830	-	13.830
Lease liabilities IFRS 16	-	-	-	-	-	-	4.707	4.707
Other liabilities	597	-	15	-	-	612	5.912	6.524
Provisions for contingent liabilities	-	-	-	-	-	-	1.020	1.020
	418.479	791	724	2	12	420.008	424.231	844.239
Net foreign currency position	(1.906)	110	(356)	25	427	(1.700)	127.562	125.862

During 2025, 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 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	326.251	235	548	2	17	327.053	326.837	653.890
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

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 on 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.

Interest rate on Housing loan of MF Banka and Mortgage loan:

- are fixed for loan repayment terms of up to 60 months,
- are variable for repayment terms over 60 months, and
- are combined, in such a way that they are fixed for the first 60 months, and after the expiration of the period of 60 months 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%-2,80%	-
Loans to customers up to one year:		
- corporate	-	4,90%-13,99%
- retail	8,49%	4,00%-15,49%
Loans to customers more than one year:		
- corporate	-	3,00% - 13,99%+6M Euribor
- retail	9,49%+6M Euribor	0,20%+6M Euribor - 15,99%+6M Euribor
Liabilities		
Demand deposits corporate	-	0,00%-1,20%
Demand deposits retail	-	0,00%-1,00%
Short-term deposits:		
- corporate	0,00%-0,30%	0,00%-2,10%
- retail		
Long-term deposits:		
- corporate	0,00%-3,50%	0,00%-4,00%
- retail	0,00%-4,00%	0,00%-4,55%
Loans and subordinated debt:		
	6MEuribor+2,80%	
	6MEuribor+4,80%	
EFSE	6MEuribor+3,30 % 5,23% 5,40%	-
GGF	6MEuribor+2,80%	-
ResponsAbility	6MEuribor+3,10% 6MEuribor+5,30%	
„Fond za razvoj i zapošljavanje RS“	-	0,60%-1,80%
„Fond stanovanja RS“	-	0,60%-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 2025 and 31 December 2024:

	(In BAM thousand)		
	31 December 2025		
	Interest bearing	Non-interest bearing	Total
Monetary assets			
Cash funds and assets held banks	39.560	101.930	141.490
Assets with the Central Bank - obligatory reserve	78.462	-	78.462
Placements with banks	195	1	196
Securities	68.328	1.114	69.442
Loans due from customers	662.740	-	662.740
Equipment, intangible assets and investment property	-	10.160	10.160
Leased business premises IFRS 16	4.292	-	4.292
Interest, fee and other receivables	-	3.319	3.319
Total monetary assets	853.577	116.524	970.101
Monetary liabilities			
Deposits of customers	475.734	284.694	760.428
Received loans	57.453	277	57.730
Subordinated debt	13.691	139	13.830
Lease liabilities IFRS 16	4.707	-	4.707
Other liabilities	-	6.524	6.524
Provisions for contingent losses	-	1.020	1.020
Total monetary liabilities	551.585	292.654	844.239

	(In BAM thousand)		
	31 December 2024		
	Interest bearing	Non-interest bearing	Total
Monetary assets			
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

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)

31 December 2025	(In BAM thousand)				
	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	141.490	-	-	-	141.490
Assets with the Central Bank	78.462	-	-	-	78.462
Placements with banks	196	-	-	-	196
Securities	69.442	-	-	-	69.442
Loans due from customers	14.400	56.345	191.372	400.623	662.740
Equipment, intangible assets and investment property	-	-	-	10.160	10.160
Leased business premises IFRS 16	-	-	-	4.292	4.292
Other assets	2.934	-	-	385	3.319
Total assets	306.924	56.345	191.372	415.460	970.101
LIABILITIES					
Deposits	340.155	51.385	190.503	178.385	760.428
Liabilities per loans	36	7.227	15.785	34.682	57.730
Subordinated debt	-	116	23	13.691	13.830
Lease liabilities IFRS 16	-	465	1.366	2.876	4.707
Other liabilities	6.524	-	-	-	6.524
Provisions for contingent losses	-	-	-	1.020	1.020
Total liabilities	346.715	59.193	207.677	230.654	844.239
Liability gap	(39.791)	(2.848)	(16.305)	184.806	125.862
31 December 2024	(In BAM thousand)				
	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

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 2025, the Bank fulfilled the stated capital requirements.

As at 31 December 2025 and 2024, the Bank was in full compliance with all the prescribed capital indicators:

	(In BAM thousand)	
	As at	
	31 December 2025	31 December 2024
Regular share capital	125.349	109.593
Supplementary capital	8.819	11.555
Regulatory capital	134.168	121.148
Total amount of risk exposure	673.538	583.398
% share capital adequacy	18,61%	18,79%
% regulatory capital adequacy	19,92%	20,77%

By decision of the Bank's Shareholders' Assembly, the accumulated unallocated profit from 2024 was allocated to retained earnings and legal reserves in 2025. Increase in regulatory capital on the reporting 31.12.2025 was created by including and recognizing the profit of the current period of 2025 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. 03-200-2/26). 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 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 2025.

Based on the BARS Decision on the procedure for supervisory review and assessment of banks and the Methodology adopted by the regulator in 2025, the process of supervisory testing of the bank's stress resistance was carried out with a reference date as at 31 December 2024.

29. FINANCIAL INSTRUMENTS (continued)

29.8. Capital management (continued)

Supervisory stress testing of banks provides the BARS with a framework for consistent comparison and assessment of banks' resilience, i.e. their capital positions, providing additional information in the supervisory review and assessment process of banks, with the results of this testing being used to determine the capital recommendation for the bank (Pillar to Guidance, P2G).

The P2G capital recommendation by definition represents the result of determining the bank's capital adequacy under stress conditions, which the regulator assesses by conducting supervisory stress testing, with the results of this testing being used to determine the same and considered as part of the SREP process.

Group	Decrease of the rate of regular core capital in a stressed scenario	P2G range
Group 1	0% - 3%	0% - 1%
Group 2	3% - 6%	0,5% - 2%
Group 3	6% - 9%	1% - 2,75%
Group 4	>9%	>1,75%

In accordance with relevant regulations, unlike minimum capital requirements, the P2G capital recommendation is not binding.

30. POST-REPORTING DATE EVENTS


After 31 December 2025, there were no significant events that would require the adjustment of the Bank's financial statements as at 31 December 2025.

31. FOREIGN EXCHANGE RATES

The official foreign exchange rates used in the translation of statement of financial position items as at 31 December 2025 and 31 December 2024 were as follows:

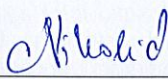
	31 December 2025	u BAM 31 December 2024
USD	1,6635	1,8727
CHF	2,1046	2,0730
EUR	1,9558	1,9558

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