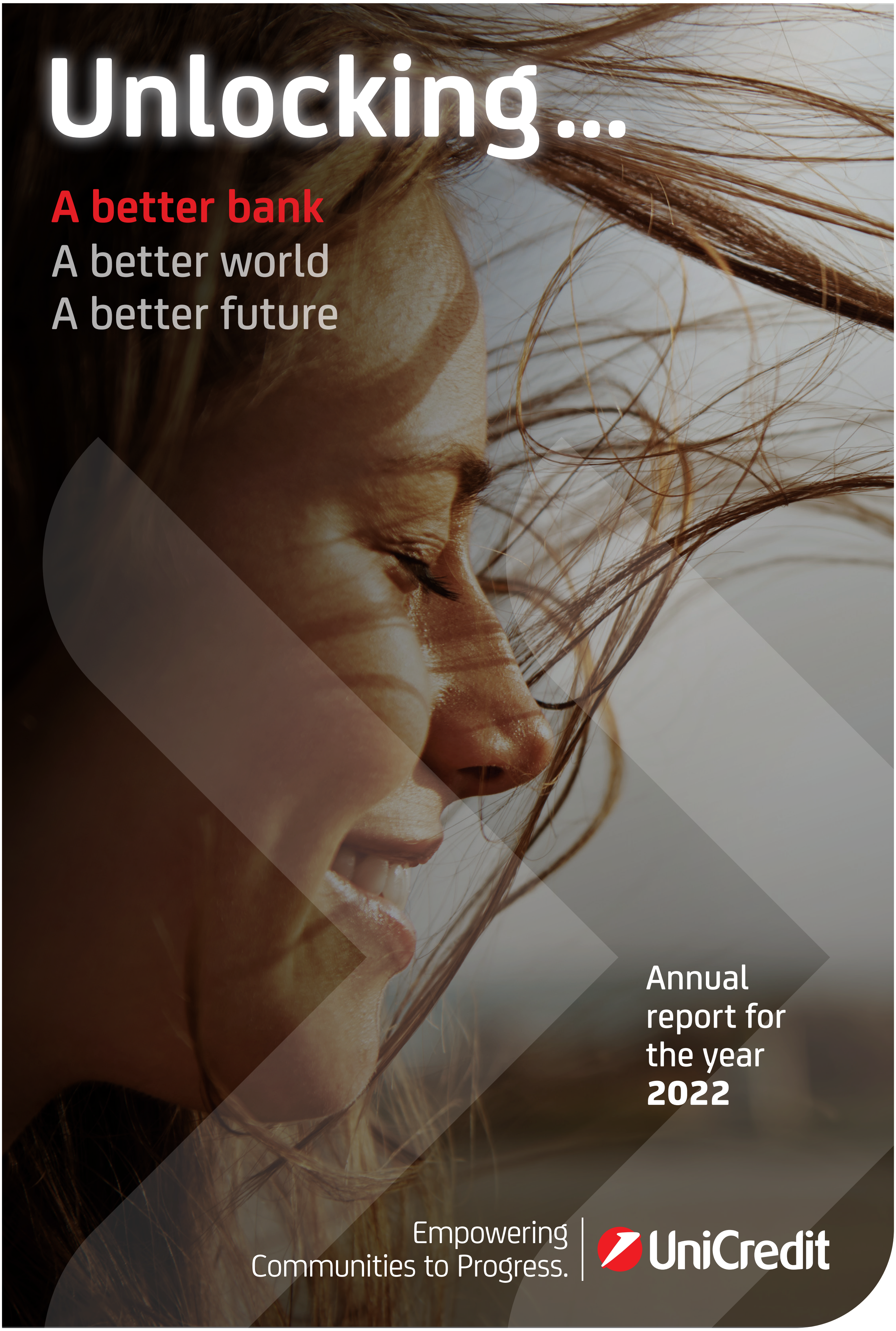

Unlocking...

A better bank
A better world
A better future

Annual report for the year **2022**

Empowering Communities to Progress.

UniCredit

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

Annual report for the year

2022

Empowering
Communities to Progress.

UniCredit

Contents

Management report

Financial statements

Appendices

Report of the President of the Board

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Acknowledgments and awards are always an incentive to be even better, and they have special significance when they come as a crown to another extremely demanding, yet successful business year.

Dear clients, shareholders and business partners,

We are pleased to present the business results that UniCredit Bank d.d. Mostar (hereinafter the Bank) achieved in 2022. Thanks to the determination and hard work of our employees to implement the UniCredit Unlocked strategy, as well as understanding and commitment to our clients and important financial criteria, we have justified the position of the leading bank in Bosnia and Herzegovina in 2022 and have once again proven that we have a very sustainable business model.

I want to highlight a few numbers that emphasize our strong performance. Revenue of KM 278,3 mln (+16,8% YoY) confirms our position as a regional leader with a highly profitable franchise. New loan origination was exceptional across all business lines as we regained our natural market share without relaxing our risk appetite, contributing to a +9.9% YoY growth of NII. Along with capital and liquidity, the quality of assets is the third factor in the overall success of the Bank, followed by the stability and quality of the portfolio for many years. Cost growth was moderate, +5,9% compared to the previous year, reaffirming best-in-class cost efficiency in a very demanding year, with a cost income ratio at 42.9%. Finally, profit before taxes reached KM 143,5 mln, with the strongest RoAC of over 24%. Being acutely aware of the deteriorating macroeconomic scenario, we have taken proactive measures to continue to meet our client's needs. We accelerated the introduction of capital-protected investment products and prudently adjusted our risk criteria to preserve the quality of our lending portfolio. We have also closely evaluated our costs, in order to maintain our efficiency in an environment of high inflation. Most importantly, we remained focused on our long-term objectives of strengthening our franchise and continued with simplifying our operations, investing in our talent, and growing the roots of our corporate culture based on Integrity, Ownership and Caring. We also introduced the FitPath program for our employees, with primary goal to encourage good habits in order to maintain the quality of life. We are proud of over 16,000 hours of education and the establishment of Local up-skilling (More2Know) program, which strengthens the sharing of knowledge and experience between all employees of the Bank.

Acknowledgments and awards are always an incentive to be even better, and they have special significance when they come as a crown to another extremely demanding, yet successful business year. I am honoured by the recognition of The Banker magazine, which singles out our high-quality service, excellent user experience, commitment to innovation as well as valuable efforts in empowering the local community to progress. In addition to The Banker magazine, we also received numerous recognitions such as from Euromoney and Global Finance magazines, which make us especially happy every year, because being among the best global players in this area is another example of how well UniCredit can assist companies in Bosnia and Herzegovina in their growth and prosperity. We are continuously improving the mobile application m-ba. Both our clients and the professional public have recognized this, and for the third year in a row, we hold the title of the best mobile application as chosen by the magazine "Banke&Biznis" as a part of the annual "Golden BAM" awards.

Our essence is to support our customers and the communities in which we operate. We tried to provide concrete solutions for clients who feel the consequences of the pandemic on their business. We implemented credit lines in cooperation with the ministries of the Sarajevo Canton, the Tuzla Canton, and the Una-Sana Canton, subsidizing interest costs for clients with the aim of stimulating the development of small businesses. We continued to support a large number of small and medium-sized enterprises in the tourism and, by signing the Support Plan with USAID Tourism, we provided them with access to the necessary funds to maintain business and preserve jobs. I would also like to point out the partnership with the German Development Bank (KfW), which will surely have a positive effect on micro, small and medium-sized enterprises and enable them, through financial support, without interest and compensation costs, to remedy the negative consequences caused by the pandemic. We also became a partner in the project of financing the digitization of small and medium-sized companies within the framework of EBRD program "Go Digital in B&H", in Bosnia and Herzegovina. I am sure that many companies will take advantage of this opportunity and strengthen their competitiveness both on the domestic and international markets, investing in innovative technologies, skills and services, in order to grow on a sustainable basis.

UniCredit Unlocked as strategic plan puts ESG at the heart of all our decisions and actions: from the environment, through governance, to the way we support the communities in which we operate. With our ecological missions, we support the activities of diving clubs in cleaning lakes and rivers in Bosnia and Herzegovina, where we also volunteer. We continuously conduct financial education aimed at our fellow citizens, and we provided students in the final years of economic faculties in Bosnia and Herzegovina, as part of the Mini MBA program, with additional knowledge upgrading through the practical experience of our experts, both from the Bank and from the UniCredit Group. We have been running the "My circle of support" campaign for the fourth year in a row. In order to expand the contribution of our pink mission, we started with financial education for members of Associations from the Think Pink network throughout B&H, with the aim of increasing the level of financial literacy of every woman while expanding long-term programs education and health promotion. In addition, we have introduced a number of credit lines with special conditions, enabling more efficient financial management through the establishment of our own solar energy production and the use of electric vehicles. Based on the knowledge and experience of UniCredit Group, the Bank is capable of providing strong support to clients for the transition to green energy through best practices from Europe and through innovative products and services, which will open new opportunities for our companies.

Given that our long-term growth and success is basis on UniCredit's solid foundation and ambitious digitalization plan, we have taken measures to implement change across three pillars on which we can build and accelerate our further growth: simplification, digitalisation and client centricity, and I am pleased to say that our results contribute to improvements on many levels. Digitization brings many benefits, but we still have a lot of work ahead of us, both in the legal framework, which is a big brake on digital transformation, and in changing habits in the direction of positive changes that digitization brings. At the same time, we work intensively on simplifying processes and services in order to provide our clients with the best user experience through the advantages we offer, and at the same time open up opportunities for our employees to improve their competences.

Without doubt, another challenging business year is ahead of us. In the up-coming period, we will adapt to the macro-economic circumstances, and continue to support our clients and communities which we are a part of, in order to ensure the sustainability of our business. At the same time, we follow through our ambition to set new benchmarks for banking, working tirelessly to serve all our partners.

We know that the success of our clients, our shareholders and our people are inextricably linked, and the best business strategy for our bank is the satisfaction of all involved parties.

On behalf of the Bank's Management and on my own behalf, I would like to thank all clients and business partners for the trust shown, as well as the contribution and dedication of all the Bank's employees who drive our business growth.

Sincerely yours,

Amina Mahmutović
President of the Board

Economic Environment in Bosnia and Herzegovina

Macroeconomic review of the year 2022

Although according to initial expectations, the year 2022 in the global economic sense was supposed to be marked by the end of the pandemic and become a year of complete economic recovery, the events that followed led to completely opposite effects. Along with Covid, the supply chain problems that plagued businesses and consumers began to subside, but at the end of February 2022, the war in Ukraine began. That war, which lasted throughout 2022, caused major disruptions in the world's energy markets. Especially for European countries that relied on Russian natural gas, and it contributed significantly to the problem of global inflation. War-induced fuel and food shortages are exacerbating post-pandemic inflation. Supply chain disruptions are also a major factor contributing to inflation, although some of the pressure on supply should actually be related to the sudden surge in demand. Before the conflict, Russia and Ukraine together accounted for a quarter of the world's wheat exports, and Russia is a major supplier of fossil fuels, especially in Europe

Due to Russia's invasion on Ukraine, Western countries imposed numerous economic and financial sanctions on Moscow during the year, with the European Union bringing as many as nine packages of punitive measures, the last of which was on December 16. Sanctions have resulted in skyrocketing prices on global energy markets. Across all regions, food and fuel accounted for more than half of inflation this year on average. On world stock exchanges in 2022, stock prices fell sharply due to a number of reasons, from the war in Ukraine to the weakness of the Chinese economy.

The energy position of Bosnia and Herzegovina is complex, but not too worrying. A cautious approach to supply and consumption is still recommended. Regarding electricity, Bosnia and Herzegovina is a net exporter of electricity, where approximately one third of the total production in normal years can be exported, making it less vulnerable than many Western European countries in terms of energy security. However, the authorities recommend a cautious approach to consumption due to high input prices and the drought that has affected production in hydroelectric plants.

For a long time, inflation in Bosnia and Herzegovina was below inflation in the Eurozone, but in this period it increased significantly due to the strong influence of a higher share of food and energy prices in the consumer basket. Food and energy prices in Bosnia and Herzegovina had already risen significantly even before the war in Ukraine started, which only accelerated further price increases. Bosnia and Herzegovina remains very exposed to higher commodity prices, slower economic growth in Europe, BiH's main trading partners. With the latest available official data (November 2022), the price level compared to the same month of the previous year is 16.3% higher.

The authorities in Bosnia and Herzegovina discussed possible measures to alleviate inflationary pressures in the sense of reducing VAT rates on certain groups of products, primarily food and medicine, while the drop in income would be compensated by the increase in total income due to the rise in prices and through the introduction of a special higher rate VAT for a group of luxury goods. Also, one of the initiatives referred to the abolition of excise duty on fuel in a certain period. However, none of these measures were implemented. Instead, entity governments introduced some other temporary measures that would at least partially ease life and business in conditions of high inflation, such as: increasing pensions higher than anticipated, banning the export of wood pellets and limiting pellet prices, subsidizing electricity bills for some categories of households, 20% of the upper limit of electricity prices for companies, tax-free amount for employees up to 1,080 KM. Bosnia and Herzegovina also counts on the European Union's energy package approved for the countries of the Western Balkans in the amount of 500 million euros, of which 70 million euros is intended directly for remediation of the consequences of rising energy prices for the economy and vulnerable households in Bosnia and Herzegovina.

Even with these completely extraordinary economic circumstances in 2022, economic growth proved to be strong in the first half of the year with GDP growth of 5.9%, driven by strong investments and higher private consumption. In the third quarter, growth slowed down to 2.6%. Domestic demand in 1H 2022 increased thanks to the strengthening of investments supported by infrastructure works and higher private consumption - investments were especially stimulated by infrastructure works and private investments.

In June 2022, the European Council expressed its readiness to grant Bosnia and Herzegovina the status of a candidate country. The commission conditionally recommended candidate status for BiH. The recommendation implies the fulfillment of eight conditions, of which reform of the judiciary is at the top of the priorities. In December 2022, six years after the application was submitted, Bosnia and Herzegovina was confirmed as a candidate for the European Union. It is important that BiH takes advantage of the reform stimulus of the confirmation of candidate status for EU membership.

During 2022, the credit rating of the country of Bosnia and Herzegovina was confirmed by Moody's and Standard&Poor's agencies. In February 2022, the international rating agency Standard and Poor's (S&P) confirmed the current credit rating of Bosnia and Herzegovina, "B" with a stable outlook. According to S&P analysts, Bosnia and Herzegovina's credit rating could be increased if domestic political conditions improve, including a greater level of consensus and less confrontation, with a focus on structural reforms and economic growth. In July 2022, Moody's Investor Service confirmed the credit rating of Bosnia and Herzegovina at B3 with a stable outlook. Moody's expects a significant slowdown in economic activity during the year, and estimates GDP growth at around 2.5% in 2022 and 2023. According to analysts, the credit rating could be increased if reforms are implemented that would strengthen the country's governance and address structural challenges that persist for many years, and lead to visible progress on the road to the European Union.

Expectations

The main drivers of the slowdown in economic growth in 2023 are likely to be a decline in real income (real wage growth is likely to remain negative in 2023), remittance inflows are slowing, along with a decline in external demand (as the main trading partners of the Eurozone countries are facing recession, while a significant slowdown in growth is expected in Croatia and Serbia). Inflation trends and prospects have worsened significantly in 2022 and are likely to extend their influence on price developments in 2023. Inflation is expected to moderate in late 2023 and 2024, driven by moderate energy and food prices, but is unlikely to fall to levels that prevailed before the recent price increase.

Business description

Banking Sector in 2022

During 2022, the banking sector of Bosnia and Herzegovina experienced major changes, both financially and structurally. The payment moratorium imposed by the EU bank restructuring authority on Sberbank, a Russian bank operating in Europe, led to a massive withdrawal of deposits in two branches of Sberbank operating in Bosnia and Herzegovina. Entity banking agencies quickly took control and sold branches to two domestic banks, thereby limiting the spread of the mass withdrawal trend to other banks. Banks in Bosnia and Herzegovina have maintained adequate protective layers of capital, solid profit, sufficient liquidity, as well as the trend of reducing the share of non-performing loans.

The number of banks on the market of Bosnia and Herzegovina has decreased by 1 compared to the end of 2021, and there are a total of 21 banks operating.

The American Central Bank (Fed) and the European Central Bank (ECB) have started increasing interest rates in 2022 in response to a significant increase in inflation. In July 2022, the ECB increased interest rates for the first time in 11 years. This was followed by an increase in interest rates in September, which was the largest in the history of the ECB. Thus, the European Central Bank (ECB) implemented four interest rate increases during 2022 (July, September, October and December), which brought rates out of negative territory for the first time since 2014. By increasing ECB interest rates, we contribute to the reduction of inflation and our planned future is gradually returning to the path of the target inflation rate of 2%.

Following the increase in interest rates, in September 2022, the Banking Agency of the Federation of Bosnia and Herzegovina adopted a Decision on temporary measures to mitigate the risk of interest rate growth, in order to be able to act in a timely manner on possible negative effects on the financial system, users of financial services and the economy of Bosnia and Herzegovina.

The increase in interest rates in Bosnia and Herzegovina did not have the same dynamics nor did it follow the same interest rate values as the ECB. In July, the Central Bank of Bosnia and Herzegovina passed a Decision reducing the fee on assets above the required reserve from -0.75% to -0.25%. Also, with this decision, the fee on mandatory reserve funds is reduced from the current -0.60% to -0.10% based on the base in foreign currency and in domestic currency with a currency clause. No fee is charged on mandatory reserve funds based on the base in local currency, KM. In December 2022, the Central Bank of Bosnia and Herzegovina passed a new Decision on the change in interest rates, which will enter into force on January 1, 2023, in such a way that reserves are required on funds based on the base in the local currency, KM - compensation is calculated and paid at the rate of 25 basis points, on the required reserve funds based on the base in foreign currencies and in domestic currency with a currency clause - calculates and pays compensation at the rate of 10 basis points. No fee is charged on funds above the mandatory reserve.

The latest available financial indicators of the banking sector of Bosnia and Herzegovina for 3Q 2022 show that the banking sector is stable and profitable. The total realized profit before tax in the nine months of 2022 was KM 421 million, which is a growth of 13.5% compared to the same period of the previous year. The total revenues of the sector recorded a double-digit annual growth, primarily driven by a significant increase in non-interest income (+18% y/y). The operational costs of the sector increased by 6.7% y/y, while provisioning costs recorded a growth of 48% y/y.

After a period of ten years, the growth rates of loan volume have finally exceeded the growth rates of total deposits on the market. The main reason for the change in trend can be found in the large outflow of household deposits in March 2022 in two branches of Sberbank operating in BiH. With the latest available data (November 2022), the volume of loans recorded a growth of +4.3% compared to the end of 2021. At the same time, the volumes of deposits recorded an increase of +3.2% compared to the end of 2021, as a result of a decrease in household deposits in the observed period by -2.8%, although the deposits of legal entities continued to grow at double-digit growth rates of 10%.

Expectations

With regard to macroeconomic projections, the banking sector will also operate in the conditions of a rather uncertain situation in the global environment in 2023. Given the slower economic growth in the country and the surrounding area, it is expected that loan growth rates will be somewhat slower than in 2022. It is a reflection of inflationary pressure on spending power and real wages, an increase in interest rates, but also a still uncertain environment for strengthening investment projects.

UniCredit Bank d.d. Mostar (hereinafter the “Bank”) is a licensed commercial bank headquartered in Bosnia and Herzegovina, and it is a part of UniCredit Group.

The Bank provides the full set of banking and financial services, including corporate banking, retail banking, financial institutions, international operations, investment banking services, and financial leasing services.

Map of the Branch Network

Retail Segment

Organisation

Retail offers a wide range of products and services to individual and small business clients, and manages a sales network and direct channels.

The sales network is divided into 9 regions, which are further divided into branches throughout Bosnia and Herzegovina, of which there were 70 at the end of 2022.

Business in 2022

The Bank's special focus is on managing the client experience, which clients recognized and confirmed by the increased level of satisfaction expressed according to the surveys conducted in 2022.

During 2022, the Bank continuously worked on simplifying the range of products for the needs of our Clients, with a special emphasis on improving and simplifying the process.

Clients recognize the Bank as a reliable partner, and a significant increase in the volume of loans was recorded during 2022.

In the Card business, the year was marked by the development of a new functionality within the m-ba application. The new functionality enables Deferred card and Revolving credit cardholders to split one-time transactions via m-ba application into instalments.

Annual growth in the acceptance of card transactions continues to record an upward trend in merchants who have agreed to accept cards with the Bank. A special focus in 2022 was dedicated to support in increasing the number of Internet stores that offer the possibility of card payments, and accordingly there has been an increase in card traffic with Internet merchants, who have enabled card acceptance at UniCredit Bank.

During 2022, we had increase of sale and use of the Standard, Silver and Gold packages, which replaced the existing Modula packages at the end of 2021. New type of account has been implemented, Current account with instruments of disposal, which implies the use of a current account with basic instruments of disposal, debit card, m-ba and e-ba service, and upon opening of such account, a Standard package is assigned to the client. With the introduction of this account, the process of opening an account and related services has been simplified and output documentation has been optimized.

In 2022, the new types of confirmations for clients were implemented, for which the issuance and collection of fees was automated, which improved the entire process from the client and Bank's employees perspective.

In 2022 Bancassurance introduced an IT module for the sale of insurance products as well as three new insurance products: Life protection, Travel Health Insurance and Life Insurance with periodic payment and coverage of 23 serious diseases. Single Life Insurance premium increased by over 5 million KM, and a significant increase in the contracting of CPI loans and real estate insurance was recorded, as well as an increase in the contracting of current account insurance compared to the previous year.

In accordance with the long-term strategy of the Bank in the field of development and improvement of digital business channels, during the 2022 we redesigned the existing m-ba application and continued with the development of new functionalities such as:

- Division of one-time transactions into installments
- Notifications for e-bills and rejected transactions

We strive to provide our clients with the highest quality digital business services, and to continuosly educate them about the advantages of such services. The focus on raising the awareness of our clients about the advantages of doing business through Mobile and Internet banking services in 2022, implemented through continuous sales and promotional activities, resulted in 223,000 active users of electronic services at the end of the year, which is a significant increase compared to the previous year. In the upcoming period, the Bank will continue to develop and improve electronic services in accordance with the needs and habits of clients.

Through the continuous process of optimizing and improving the Bank's website, which continued over the past year, we strive to improve the user experience. We have enabled business users to schedule a meeting through the website, an option that was previously available to the individual clients. Through the Bank's website redesign activities, we strive to provide users with a pleasant and simple navigation, i.e. searching for the desired information and content according to their needs.

The Bank's ATM network has a total of 269 ATMs, of which we have 82 cash deposit ATMs in production at the end of the year. At these ATMs, in addition to the basic functionality of cash withdrawals and the purchase of prepaid top-ups for mobile phones (!hey and ULTRA), it is also possible to deposit money into the account 24 hours a day, regardless of branch office hours.

Following the trend from previous years, we continued with organization of the Bank's business network in accordance with modern standards of functionality and design, with the aim of ensuring efficient and ultimately pleasant business for our clients.

The most important research and development activities for the Retail segment

- Increase in the number of active bank clients
- Improving the client experience in doing business with the Bank
- Simplifying the range of products and related processes for the needs of our Clients
- Increasing the use of direct channels

Corporate and Investment Banking Segment

In a significantly challenging fiscal year that has been shattered by RU-EU crisis on a global European and world market and while still experiencing negative consequences of COVID-19 pandemics, UniCredit Bank managed to achieve excellent results in business operations due to its stability, good business practises from previous years, and its capacity to adjust quickly.

Total loans of legal entities mark growth of 5,5% in comparasion with previous year and amount 1.570, mln KM. Afore mentioned growth reflected on growth of market share of Bank in the segment of legal entities, whereas Bank confirmed position of leading bank on the market and also the most important partner in financing of private companies and public sector in significant investments of all industry branches, specially in sectors of energy, production and trading, with keeping high quality of loan portfolio and as a result of applied high quality methods of risk management..

Deposits of clients legal entities in the end of 2022 amounted 2.192 million KM, evidence growth of market share and confirm UniCredit Bank as reliable and safe partner for financial funds of clients in any moment and specially in period of economic crisis and financial earthquakes.

In extremely complexed conditions, the base of our business and being was and still is to support our clients and our communities. So, also in this year, we tried to ensure concrete solutions for clients who feel consequences of pandemia on their business.We cooperated with ministries to realisate credit lines signed with Sarajevo Canton, Tuzla Canton and Una-Sana Canton, with subsidy of interest expenses for clients with goal to support small business. We continuated to support large number of small and mid companies in tourism sector and with signing of Plan of support with USAID Tourism, we offered approach to necessary funds for keeping of business and maintaining of working places.Beside that, it is significant partnership with German development bank (KfW), which will very significantly have positive impact on micro,small and mid companies and enable them, through financial support, without expenses of interest and fees to solve negative consequences caused by pandemia to strenght their position on the market and continue way of further growth and development for the benefit of local communities where they do business. Also, we became partner of project of financing digitalisation small and mid companies inside of 'Go Digital in BiH', EBRD program in BiH. The small and medium-sized companies, besides improving the productivity and decreasing the expanses while improving energy efficiency, will also have the opportunity to claim a financial benefit which is paid upon the successful verification of the project. In this way, companies which take the advantage of this opportunity will strenghten their competitivenes on both domestic and international market, in order to grow as a company on a sustainable basis.

Our clients are always on first place for us and it is our goal to ensure the best service for our clients, followed with excellent experience and proffesional care. Guided with mentioned goal, for many years we are keeping the quality of business which was recognisated on the market by the profession and clients through many awards. So we got awards of The Banker magasine, which underlines our high quality service, excellent user experience, commitment to inovations, support for economy development and worth efforts to strenght local community. Except The Banker magasine, we brought many awards: magasine Euromoney for market leader in categories of digital solutions, the best provider of transactional sales business, the best provider of Trade finance services,Global Finance – the best sub-custodian bank in Bosnia and Herzegovina and the best bank for trade finance in Bosnia and Herzegovina.In this way we showed that UniCredit can qualitative assist companies in Bosnia and Herzegovina in their growth and prosperity.

As a leading bank on the market, we aim to continue supporting our clients from private and public sector through better understanding of clients, recognizing their needs, with using the expertise and global presence of UniCredit Group in areas of all financial products and services. We will continue to serve our clients and our community, while continuously making the right choices.

The most important activities relating to

research and development for CIB segment

- We give support to clients and social community in transition to tenable society, promoting ESG culture and business activity. In association with Group we continue in achieving of progres in reducing of our own emission through Net-Zero Banking Alliance-u, and also improving in part of coal policy, oil and gas, supporting financing of green activities for the companies which are actively included in the phase of coal cancellation.
- Simplification of credit process through introducing of RPA (Robotic Process Automation – robot), with goal of accelaration total process of credit approvals and significant improving in leading of business relationship with client.
- Through process of Dematerialisation we contribute to envoronmental protection with goal to eliminate using of paper in business practice.

Estimation of expected future development

In the next period we will adjust ourselves to macro-economic opportunities and continue supporting our clients and community which we belong to, in order to ensure sustainability of our business. We will try to ensure that transactions we do could be efficient in using of our capital and give clients solutions and services that help them with confronting challenges we expect.

In 2023 in CIB we will focus on:

- Continuation of business excellence which will confirm CIB and Bank in total on the position of market leader by all crutial parameters of business;
- Increasing of market share of loans with focus on existing clients of Bank, but also on new potential clients;
- Continuation of partnership strenghten with state and its institution in key projects significant for further development of Bosnia and Herzegovina and also giving support to private companies through credit lines and guarantee funds;
- To follow group strategy UniCredit which puts ESG in center of all decisions and actions: from living environment, over management, so until the way that we support clients and communities whereas they do business. On this way we will give support to energy transition BiH and through higher flexibility in part of risk for financing of significant investments in pure renewable energy of big public companies;
- To retain high level quality of credit portfolio, to keep position of the most active/ attractive creditor on the market with innovative credit models, with continuous arrangement on promotion of services quality;
- Keeping focus on retaining of stabile business through additional promotion of our services and responsible risk management –creating individual models of approach for every client with direct communication to sales staff;
- Continuous activities for increasing of sold services for mobile and Internet banking through strict focus on selling in business network;
- Increasing of efficiency and productivity of business network;
- Further optimization of Risk-weighted assets and increasing of sEVA on client level;
- Increasing of efficiency through participating in Group and local initiatives and projects;
- Optimisation of liquidity and risk of interest rate;
- Continuation of digital transformation.

Information on the purchase of own shares or stakes

Own shares

In the process of integration in accordance with Article 11, item b ii of the decision of the General Assembly of Shareholders of the Bank on the status change of the merger of HVB Central Profit Bank d.d. with UniCredit Zagrebačka banka d.d. no. 01-514-4/08 of January 22th 2008, the Bank acquired 81 own shares (76 ordinary and 5 cumulative preference shares). The Bank reported to the Securities Commission (hereinafter: the Commission) on the acquisition of treasury shares, and submitted a request to the Securities Commission to register its own shares with the Commission, after which the Commission approved the registration of treasury shares with the obligation that the Bank must submit to the Register of Securities (hereinafter: the Register) an application for revocation of these shares in accordance with Article 229 Paragraph 2 and Article 230 of the Companies Act. The Bank submitted an application to the Registry for the revocation of acquired treasury shares, on the basis of which the Registry registered the revocation of treasury shares, which means suspending the right to participate in corporate governance, profit distribution and division of assets remaining after bankruptcy or liquidation. The Rulebook on the Manner of Acquisition and Trading of Own Shares (Official Gazette of FBiH, no. 39/98 and 36/99), Article 7 provides that a joint stock company has the right and duty to make a decision on the reduction of share capital for the amount of acquired treasury shares, in the manner prescribed by law, or to make a decision on the sale of treasury shares.

In order to meet above stated Rulebook, Bank's Menagement Board on April 26th 2022 adopted Decision on selling of own shres and 5 preferential shares Bank has sold and on May 25th 2022 Bank has sold 86 ordinary shares. On July 27th 2022 Bank submitted request for update of mentioned change in Security Register of Federation of Bosnia and Herzegovina by which Bank fulfilled its obligation related to own shares.During the year 2022 Bank did not execute additional buying of own shares so Bank as of December 31st 2022 don't have own shares anymore.

Financial Overview and Business Performance

In 2022, the Bank made a profit before tax in the amount of KM 126.1 million, which is KM 25.4 million higher compared to the previous year (+25.3%).

Profit after tax amounts to KM 112.5 million, which is KM 24.4 million higher compared to the previous year (+27.7%).

Income and expenses

The realized revenues of the Bank for 2022 amount to KM 278.3 million and compared to the previous year they record an increase of KM 40.1 million (+16.8%).

Total net interest income amounts to KM 153.3 million, and accounting for 55.1% of total income.

Net income from fees and commissions amounts to KM 93.8 million, accounting for 33.7%. of total income. Net gains from the purchase and sale of currencies and exchange rate differences and other revenues amount to KM 31.1million and account for 11.2% of total revenues.

Net interest income

Realized net interest income in 2022 amounts to KM 153.3 million, which is a increase (9.9%) compared to the previous year, mainly due to the growth of interest income based on liquidity placement and securities income, with a decrease in interest expenses on deposits.

Net fee and commission Income

Net income from fees and commissions amounts to KM 93.8 million and recorded an annual growth of KM 16.3 million (+21.0%).

The increase in income from fees and commissions was achieved mainly through the growth of income from card business and product packages.

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities

Net gains from the purchase and sale of currencies and exchange rate differences after the translation of monetary assets and liabilities revenues in 2022 amount to KM 20.7 million and recorded an increase of KM 6.3 million compared to last year.

Other income

Other revenues amount to KM 10.4million and are higher by KM 3.7 million compared to the previous year due to sale of tangible assets repossessed in lieu of uncollectable receivables.

Operating expenses

Total operating costs in 2022 amount to KM 134.7 million and are higher by KM 7.5 million (5.9%) compared to the previous year.

The share of operating expenses in operating income is 48,4%.

Impairment losses and provisions

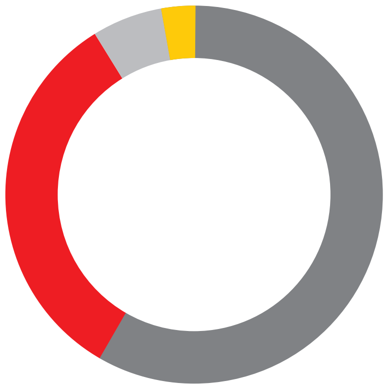
Total impairment lossess and provisions for 2022 amount to KM 17.4 million.

Impairment losses and provisions for loans and receivables amount to KM -0.4 million. The net cost of impairment of loans and receivables is the result of KM -3.1 million of the cost of provisions for the non-performing KM portfolio (of which KM -13.1 million relates to legal entities, and to citizens 10.0 million KM of reservation costs), and release of provisions in the amount of KM 2.7 million for the performing portfolio.

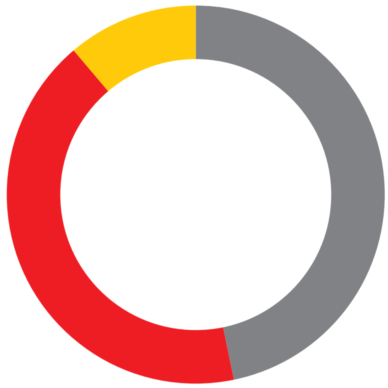
Other impairment losses and provisions amount to KM 17.8 million, cost of provisions for securities KM 0.3 million, cost of provisions for litigation KM 0.7 million, cost of tangible assets KM 0.2 million, the cost of provisions for assets repossessed in lieu of outstanding receivables KM 4.1 million, release of provisions for off-balance sheet items KM 13.8 million, release for other assets KM 0.5 million, and the release of provisions for banks KM 0.9 million.

Income and expenses structure for 2022

Structure of income



Structure of expenses

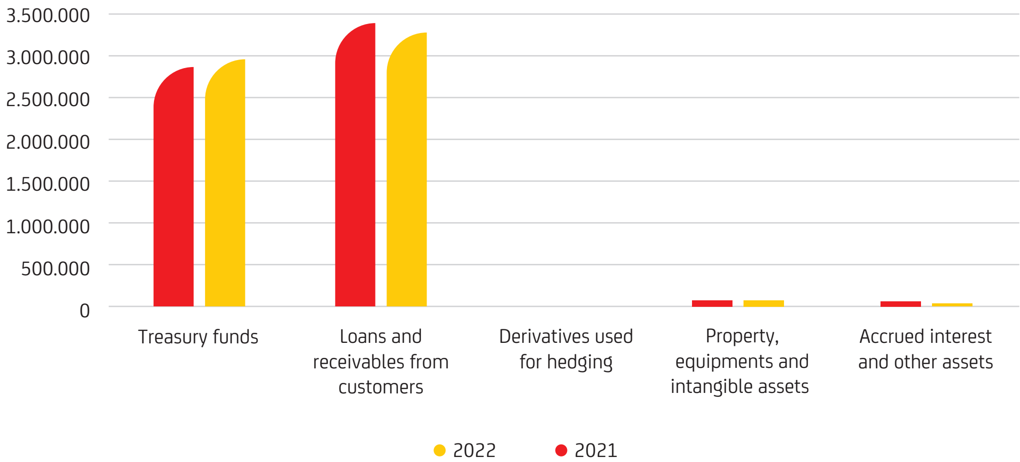


Bank’s assets and liabilities

Bank’s assets

The Bank's assets as at 31 December 2022 amount to KM 6,536.5 million and record an increase of KM 243.7 million (+3.9%) compared to the previous year. The significant growth of assets is mainly the result of the growth in assets and liabilities management (305.9million KM / +9.5%) and in loans and receivables from customers (-93.9 million /-3.2%), compared to the previous year.

Structure of the Bank's assets - comparable to last year in 000 KM



Assets managed by Asset and Liability Management

Assets of the Assets and Liabilities Management sector consist of: cash and cash equivalents, required reserves and free funds with the Central Bank of Bosnia and Herzegovina, loans and receivables from banks, and securities.

These assets account for 43.5% of the Bank's total assets, and amount to KM 2,841 million.

The structure of these assets is as follows:

(in KM '000)	31 December 2022	31 December 2021	Change
Cash and cash equivalents	980,392	827,658	18.5%
Obligatory reserve with CBBH	550,064	517,867	6.2%
Placements and loans to other banks	630,746	801,470	(21.3%)
Financial assets at FVOCI	679,757	787,867	(13.7)%
	2,840,959	**2,934,862**	**(3.2)%**

The Bank's liquidity was not endangered at any time, i.e. the Bank maintained liquidity significantly above the required limits of the Banking Agency of the Federation of Bosnia and Herzegovina and the Central Bank of Bosnia and Herzegovina throughout the year.

Loans and receivables from clients

The structure of loans and receivables from Bank's clients is as follows:

(in KM '000)	31 December 2022	31 December 2021	Change	%
Gross loans				
Corporate	1,571,715	1,489,635	82,080	5.5%
Retail	2,067,515	1,920,363	147,152	7.7%
Total	**3,639,230**	**3,409,998**	**229,232**	**6.7%**
Impairment				
Corporate	88,388	114,168	(25,780)	(22.6%)
Retail	97,266	87,187	10,079	11.6%
Total	**185,654**	**201,355**	**(15,701)**	**(7.8%)**
Net loans				
Corporate	1,483,329	1,375,467	107 860	7.8%
Retail	1,970,248	1,833,176	137,073	7.5%
Total	**3,453,577**	**3,208,643**	**244,933**	**7.6%**

Gross loans to customers, including receivables from financial lease recorded an increase of +229.2 million KM (+6.7%) on an annual basis, and at the end of 2022 amount to 3,639.2 million KM.

Gross loans to legal entities (including state and public institutions) at the end of 2022 amount to KM 1,571.7 million and have increased for KM 82.1 million (+5.5%). Their share in the total portfolio is 43.2%.

Gross loans to individuals at the end of 2022 amount to KM 2,067.5 million and increased by 147.2 million (+7.7%).

Their share in the total portfolio is 56.8%.

In the entire portfolio of loans to individuals, the largest portion refers to long-term non-purpose loans (66.68%), long-term housing loans (23.9%), and receivables based on current accounts (5.1%) and card loans (2.1%).

Long-term corporate loans participate with 65.6%, while short-term loans participate with 31.4% in total gross corporate loans.

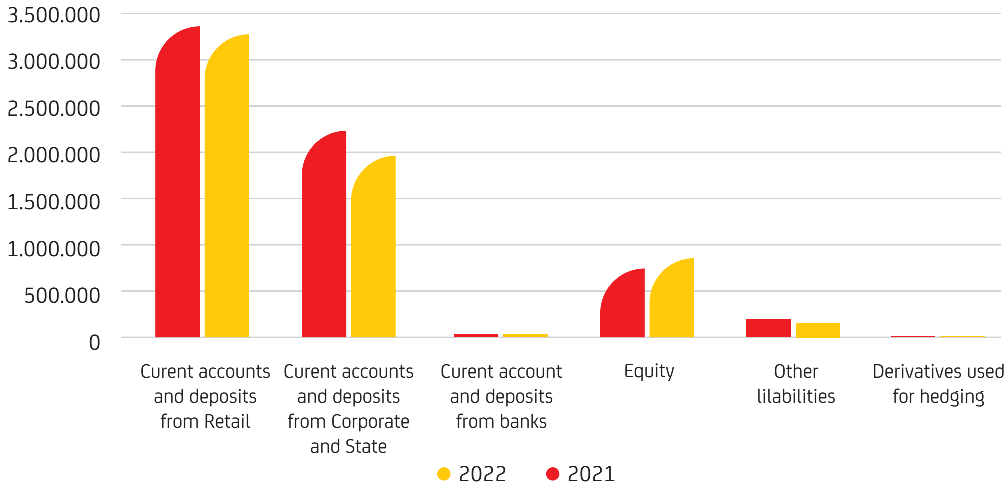
Net loans to customers amount to KM 3,453.6 million and recorded an increase of KM 244.9 million (+7.6%) compared to the previous year and they account for 52.8% of the Bank's total assets.

The Bank is continuously focused on preserving the quality of the loan portfolio, therefore non-performing loans are adequately monitored and covered by provisions.

Bank's liabilities

Liabilities, equity and reserves

Structure of Bank's liabilities, equity and reserves – comparison to the previous year in KM '000



Current accounts and deposits from clients

Current accounts and customer deposits at the end of 2022 amount to KM 5,516.7 million and are higher by KM 222.3 million (+4.2%) compared to the previous year. This position represents 84.4% of the Bank's total liabilities.

Current accounts and deposits of legal entities (including state and public institutions) amount to KM 2,192.9 million and are higher by KM 219.5 million (+11.1%) compared to the previous year. Their share in total current accounts and customer deposits is 39.8%.

Current accounts, savings and time deposits of citizens at the end of 2022 amount to KM 3,323.8 million and are higher than in the previous year by KM 2.8 million (+0.1%). Their share in total current accounts and customer deposits is 60.2%.

Current accounts and deposits with banks, and borrowings

Current accounts and bank deposits at the end of 2022 amounted to KM 8,9 million, and decreased by KM 19.9 million (-69.2%) compared to the previous year.

Borrowings of the Bank at the end of 2022 amount to KM 26.4 million and decreased by KM 9.4 million compared to the previous year due to servicing regular loan obligations.

The loans taken are liabilities to EBRD, IFC and KfW.

Equity and reserves

The Bank's capital amounts to KM 773.4 million, which is a decrease of KM 11.2 million compared to the end of the previous year as a result of dividend payment to shareholders of the Bank.

In total sources of financing, capital and reserves participate with 11.9%.

Capital adequacy ratio according to the methodology of the local regulator is 18.7%.

Key performance indicators

The ROE profitability ratio is 14.45% and the ROA is 2.0%.

The efficiency indicator (cost / revenue) is 42.9%.

The net loan-to-deposit ratio is 62.6% and continuously confirms the ability to maintain a high level of self-sustainability, i.e. loan financing through own sources.

Profitability per employee (gross operating profit per number of employees) amounts to KM 121.5 thousand.

Three were no significant events in period after financial date 31.12.2022. till signing of this Annual report.

Exposure of the Bank to Market, Credit, Liquidity Risk and Foreign currency risk

Credit risk management

Credit risk management integrates the organizational structure of the Bank on the basis of accurately defined authorities and responsibilities among employees, the system of internal acts, internal controls, and methods of measurement, monitoring and credit risk management.

Credit risk is managed in accordance with the applicable programs and policies of the Bank and the regulatory requirements of the Federal Banking Agency.

Credit exposure to portfolios and individual clients / groups is regularly reviewed taking into account the set limits.

Any proposed significant increase in credit exposure is considered by the Risk Management prior to its approval as well as during the credit exposure monitoring phase and is approved at the appropriate decision-making level.

The Credit Committee is regularly informed of any significant changes in the quantity and quality of the portfolio, including the proposed impairment losses. Credit risk is continuously monitored and reported, facilitating early recognition of impairment in the loan portfolio.

The Bank has established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

In order to manage the level of credit risk, the Bank operates with good credit rating clients, and where appropriate, security instruments are taken.

Most credit risk exposures are secured by collateral in the form of cash, guarantees, mortgages and other forms of collateral.

Liquidity risk

Liquidity risk is the potential risk that the Bank will not be able to meet its obligations as scheduled,in full and without delay. It arises in the Bank's financing activities and assets and liabilities management. Adjusting its business with regard to liquidity risk is achieved through compliance with the relevant legislation, internal policies for maintenance of liquidity reserves, compliance of assets and liabilities, setting limits and planned liquidity indicators.

Assets and Liabilities Management and Funding Department manages liquidity reserves on a daily basis, to enable the funding of clients' needs and to ensure an optimum balance between continuity and flexibility of financing through use of sources with different maturities.

The Bank has access to a diverse funding base including various types of retail and corporate and bank deposits, borrowings, subordinated debt, issued debt securities, share capital and reserves. These enhance funding flexibility and limit dependence on any one source of funds as well as generally ensure better funding cost management.

Liquidity needs are planned every month for a period of three months and controlled and matched on a daily basis.

Market risk

Market risk is defined as the effect that general and specific movements and market variable changes in the market have on the statement of profit or loss and other comprehensive income and statement of financial position of the Bank.

Basic risk factors include:

- interest rate risk;
- credit margin risk, and
- currency risk and

The aim of market risk management on Bank's level is management and control of market risk exposure within acceptable parameters to ensure the solvency of the Bank with the optimisation of risk return.

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement. Daily reports on market risk exposures are created together with defined limits of market risk exposure for the purpose of risk management. Revision of existing limits is conducted at least once a year. Alterations to the limits of the Bank are coordinated by Zagrebačka banka. In addition to development and implementation of techniques for measuring market risk, the Bank continuously works on improving its business processes and quality of data.

Foreign currency risk

Foreign currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, and trading activities. It is monitored daily in accordance with regulations and internally set limits per certain foreign currencies, and in the total amount for all assets and liabilities denominated in foreign currencies or tied to foreign currencies.

Foreign currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values.

The Bank direct bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits

Management and Corporate governance

Management and Corporate governance in 2022

Pursuant to the provisions of the Law on Banks, Companies Act, and the Statute of the Bank, managing bodies of the Bank are: General Assembly, Supervisory Board and Management Board.

General Assembly

The Assembly of the Bank is the highest body of the Bank. The General Meeting of the Bank consists of the Bank's shareholders.

The manner of work and decision-making of the Assembly is regulated by the Rules of Procedure of the Bank's Assembly.

As at 31 December 2022, the Bank had 43 shareholders. The largest shareholder is Zagrebačka banka d.d. Zagreb, Croatia with 118,189 ordinary shares and 176 preference cumulative shares representing 99.3% of the Bank's share capital.

The share capital of the Bank is determined in the amount of KM 119,195,000, and is divided into: 119,011 ordinary shares of series "A", with a nominal value of 1,000 KM per share and 184 priority cumulative shares of series "D" with a nominal value of 1,000 KM per share.

Ordinary Series A shares give the right to one vote in the Bank's Assembly, the right to manage the Bank in the manner determined by the Articles of Association, the right to participate in the Bank's profit in proportion to the nominal value of the share and other rights determined by the Articles of Association and applicable regulations.

The priority cumulative share of series "D" gives the right of priority collection of dividends and a proportional part of the rest of the assets after liquidation or bankruptcy, with limited voting rights. Priority cumulative shares of series "D" exercise the right to vote in cases and in the manner prescribed by the Companies Act when each priority cumulative share of series "D" gives the right to one vote.

Supervisory Board

The Supervisory Board performs a supervisory function in the Bank, and supervises the Bank's operations and the work of the Management Board. The Supervisory Board is competent to decide on issues determined by the Law on Banks, other relevant regulations, this Statute and other acts of the Bank. The Supervisory Board consists of 7 members, including one

Members of the Supervisory Board of the Bank in 2022 are:

1.	Chairman	Spas Blagovestov Vidarkinsky*	Zagrebačka banka d.d.
2.	Deputy Chairman	Helmut Franz Haller*	UniCredit S.p.A
3.	Member	Pierre-Yves Guegan*	UniCredit S.p.A
4.	Member	Laurence Fraissinet-Dubois - untill 4th November 2022	UniCredit S.p.A
	Member	Tatjana Antolić Jasnić* - from 5th November 2022	Zagrebačka banka d.d.
5.	Member	Graziano Cameli - until 22nd April 2022	UniCredit S.p.A
	Member	Pietro Campagna* - from 23rd April 2022	UniCredit S.p.A
6.	Member	Danimir Gulin*	neovisni član
7.	Member	Dražena Gašpar*	neovisna članica

* Members of the Supervisory Board on 31 December 2022

chairman, deputy chairman and at least 2 independent members, elected by the shareholders at the General Meeting of the Bank for a term not exceeding 4 years.

The manner of work and decision-making of the Supervisory Board is regulated by the Rules of Procedure of the Supervisory Board of the Bank.

Management Board

The Management Board organizes the work and manages the operations of the Bank.

The Management Board of the Bank consists of the President and members of the Management Board in accordance with the Law on Banks, appointed by the Supervisory Board, with the previously obtained consent of the Banking Agency of the Federation of BH. The term of office of the President of the Management Board is 4 years.

The manner of work and decision-making of the Management Board is regulated by the Rules of Procedure of the Management Board of the Bank.

Members of the Bank's Management Board in 2022 are:

1.	President	Amina Mahmutović
2.	Board Member for Retail	Dragan Ćavar
3.	Board Member for Corporate Banking	Almir Gredić
4.	Board Member for Risk Management	Željka Zubčević
5.	Board Member for Finance Management	Matteo Consalvi
6.	Board Member for Global Banking Support	Ornela Bandić
7.	Board Member for People and Culture – from 23rd April 2022	Ronald Sudić

Audit Committee

The Audit Committee provides expert assistance to the Bank's Supervisory Board in performing supervision over the Bank's operations and the work of the Bank's Management Board. The Audit Committee has 3 or 5 members appointed by the Supervisory Board for a period of 4 years.

The manner of work of the Audit Committee is regulated by the Rules of Procedure of the Audit Committee.

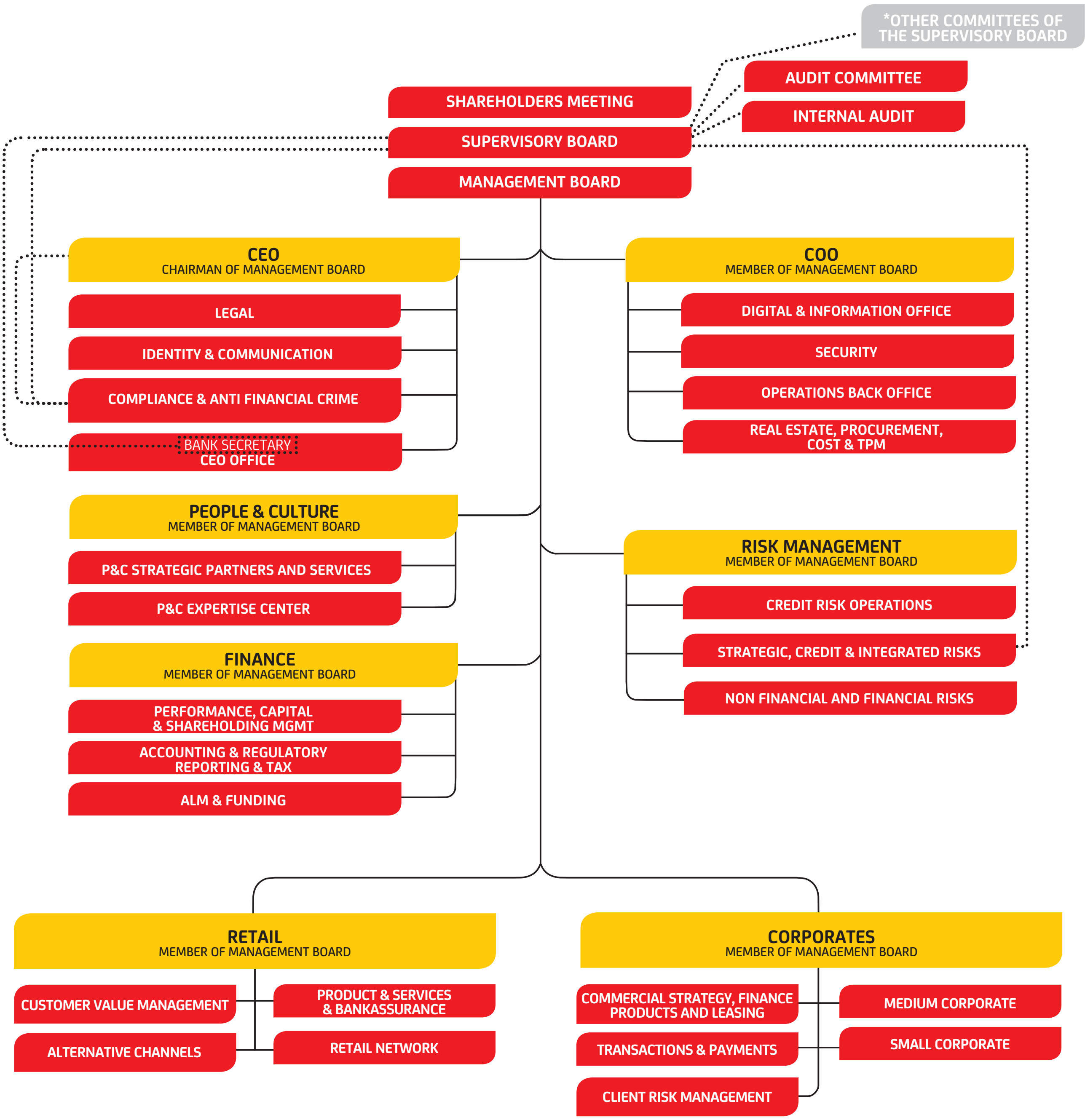
In 2022, members of the Audit Committee are as follows:

1.	Mirjana Hladika* (Independent), president
2.	Ante Križan* (Zagrebačka banka d.d.), Member
3.	Antonija Matošin - Member, until 18th January 2022
	Marijana Brcko* (Independent), Member, from 19th January 2022

* Members of the Audit Committee on 31 December 2022

Following the expiration of the term of the above-mentioned composition of the Audit Committee (as of 18 January 2022), on 17 December 2021, the Supervisory Board passed a Decision on appointing the Chairperson and members of the Audit Committee and approving contracts for them. By the above-mentioned Decision, the following were appointed to the Audit Committee for a term of four years, starting from 19 January 2022.

Bank's Organisational structure as of 31 of December 2022 – division into key organizational units of the Bank:



As of December 31, 2022, the Bank has 1,181 employees.

Caring for employees is at the heart of the human capital strategy of our business model, and they are our greatest value. We aim to encourage our employees to succeed, in the right way, within our values of integrity, ownership and care.

Activities that significantly affect the experience and motivation of employees are implemented through various programs, while promoting diversity, inclusion and equity, with the aim of improving the well-being of individuals and the long-term impact of our business strategy.

The bank pursues a policy of continuous training and internal mobility of employees with the aim of adapting the Bank to the requirements of regulators, as well as the economic environment and technological innovations, which creates a challenging and complex overall business environment. In order to be ready to respond to these challenges and the dynamism of the organization in the future, we proactively and continuously take care of the development of our employees, with development programs aimed at improving professional skills, as well as the quality and responsibilities of managers.

Along with the employee development plan, many initiatives are aimed at active action in the community through the ESG strategy and strengthening the culture of accountability and speak-up. We believe that by promoting gender equity and inclusion at all levels of the organization, we generate value not only for our employees, but also for our customers, owners and the community.

Rewarding employee performance

By upholding the standards of sustainable behaviours and UniCredit, the remuneration strategy contributes to the business strategy, long-term interests, and sustainability. In order to ensure sustainable variable remuneration, with the key objective of motivating and retaining employees, clear and transparent guidelines for determining variable remuneration have been defined.

The remuneration system is continuously revised and improved and harmonized with the applicable regulatory requirements that limit the assumption of risk to a level that does not exceed the level acceptable for the Bank, as well as the Group's guidelines.

Through appropriate remunaration mechanisms, the Bank aims to create a best-in-class inclusive work environment, fostering and unlocking individual potential. Individuals are rewarded based on merit and performance in terms of sustainable results, behaviours and Group values.

Top shareholders

As at 31 December 2022, the Bank had the following shareholder structure:

Shareholders		% Participation of all owned shares	Amount of equity in KM '000
1	Zagrebačka banka d.d., Zagreb, Hrvatska	99.30%	118,365
2	Other shareholders	0.70%	830
	TOTAL	**100.00%**	**119,195**

Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with the applicable accounting standards, which give a true and fair view of the financial position of the UniCredit Bank d.d. Mostar (the "Bank") and the results of its operations and cash flows, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

In preparing these financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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

The financial statements set out on pages 35 to 181 were authorised by the Management Board for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

Signed on behalf of the Management Board

UniCredit Bank dioničko društvo

President of the Board
Amina Mahmutović

Member of the Board for Finance Management
Matteo Consalvi

UniCredit Bank d.d.
Kardinala Stepinca b.b.
88000 Mostar
Bosnia and Herzegovina

16 February 2023

Independent Auditors' report

To the shareholders of UniCredit Bank d.d. Mostar

Opinion

We have audited the financial statements of UniCredit Bank d.d. Mostar ("the Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Federation of Bosnia and Herzegovina.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and receivables from customers

As at 31 December 2022, gross loans and receivables to customers: KM 3,639 million, related impairment allowance: KM 186 million and, for the year then ended, impairment release recognised in the statement of profit or loss and other comprehensive income: KM 0.3 million (31 December 2021: gross loans and receivables: KM 3,409 million, impairment allowance: KM 201 million and, for the year then ended, impairment loss recognised in the statement of profit and loss and other comprehensive income: KM 9.8 million).

Refer to Summary of significant accounting policies, Note 4 Critical accounting judgements and key sources of estimation uncertainty, Note 19 Loans and receivables from clients at amortised cost, and Note 38.1 Credit risk.

Key audit matter

Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and receivables from customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions.

The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina ("FBA"), which combines the requirements of IFRS 9 "Financial Instruments" with the FBA-prescribed minimum requirements for provisioning.

The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below KM 150 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information, as well as specific rules of the FBA regarding various minimum provisioning requirements (together "collective impairment allowance").

Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above KM 150 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the realization of the related collateral and the minimum period for collateral disposal, as well as the FBA's specific minimum provisioning requirements.

How our audit addressed the matter

Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management (FRM) and information technology (IT) specialists included, among others:

- Inspecting the Bank's ECL methods and assessing their compliance with the relevant requirements of the regulatory and financial reporting frameworks. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors;
- Making relevant inquiries of the Bank's risk management and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Bank's IT control environment for data security and access;
- Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances.
- For loss allowances calculated on a collective basis:
  - » Challenging the key risk parameters (PD, EAD and LGD) applied in the collective ECL model, by reference to the Bank's data on historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;
  - » Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information;

Key audit matter	How our audit addressed the matter
While the credit environment in 2022 reflected a recovery from the COVID-19 pandemic, it also reflected unfavourable changes in the economic outlook, disruptions to energy and other commodity markets and slowing economic growth as well as elevated inflationary pressures and increase in interest rates. In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	» Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of the industry and our understanding of the macro-economic situation; • For impairment allowances calculated individually: » For a sample of exposures, taking into account customer's business, market conditions and debt service, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3; • For loan exposures in totality: » Assessing the adequacy of the recognized ECLs against the various minimum provisioning requirements prescribed by the FBA; » Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposure and the non-performing loans provision coverage. » Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 February 2022.

Other Information

Management is responsible for the other information. The other information comprises Management report included in the Annual Report of the Bank, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina ("Law on Accounting and Auditing"). Those procedures include considering whether the Management Report has been consistent with financial statements for the same financial year.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management report. We have nothing to report in this respect.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

KPMG B-H d.o.o. za reviziju

Registered Auditors
Zmaja od Bosne 7-7a
71000 Sarajevo,
Bosna i Hercegovina

16 February 2023

Statement of profit or loss and other comprehensive income for the year ended 31 December

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2022	2021
Interest income calculated using the effective interest method	6	165,704	159,486
Other interest income	6	1,563	1,599
Interest expense	7	(13,952)	(21,599)
Net interest income		**153,315**	**139,486**
Fee and commission income	8	99,623	83,141
Fee and commission expenses	9	(5,801)	(5,600)
Net fee and commission income		**93,822**	**77,541**
Dividend income		-	36
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	20,707	14,356
Other income	11	10,417	6,748
Operating income		**278,261**	**238,167**
Depreciation and amortization	23. 24. 25	(15,270)	(14,400)
Operating expenses	12	(119,473)	(112,836)
Profit before impairment losses and income tax		**143,518**	**110,931**
Impairment losses on financial instruments	13	(13,331)	(9,279)
Other net impairment losses and provisions	14	(4,122)	(1,008)
Profit before taxation		**126,065**	**100,644**
Income tax expense	15	(13,541)	(12,553)
NET PROFIT		**112,524**	**88,091**

Statement of profit or loss and other comprehensive income for the year ended 31 December

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2022	2021
Profit for the year		**112,524**	**88,091**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Gross change in fair value of financial assets at fair value through other comprehensive income – debt instruments		(40,789)	(10,272)
Deffered taxes	15	4,073	1,027
Changes in impairment of financial assets at fair value through other comprehensive income – debt instruments	20	(110)	661
Other changes		6	
Items that will not be reclassified to profit or loss			
Changes in fair value of property and equipment	24	927	2,952
Deferred tax on changes in fair value of property and equipment	15	(76)	(295)
Change in fair value per actuarial gain/loss		43	(4)
Deferred tax on rev. reserves per actuarial gain/loss	15	(4)	12
Other changes		1	(117)
Total other comprehensive (loss) / income		**(35,929)**	**(6,036)**
TOTAL COMPREHENSIVE INCOME		**76,595**	**82,055**
Basic and diluted earnings per share (KM)	34	945,51	740,67

The accompanying notes form an integral part of these financial statements.

Statement of financial position as at 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	16	980,392	827,658
Obligatory reserve at the CBBH	17	550,064	517,867
Loans and receivables from banks at amortized cost	18	630,746	801,470
Loans and receivables from clients at amortized cost	19	3,453,577	3,208,643
Financial assets at fair value through other comprehensive income	20	679,757	787,867
Financial assets at fair value through profit or loss	21a	47	19
Hedging derivatives	21b	11,701	1,226
Financial assets at amortized cost	22	60,926	-
Other assets and receivables	23	64,485	48,741
Prepaid income tax		-	565
Deferred tax assets	15	3,102	-
Property and equipment	24	71,093	70,766
Right of use assets	25	9,172	6,916
Intangible assets	26	21,399	20,986
TOTAL ASSETS		**6,536,461**	**6,292,724**
LIABILITIES			
Current accounts and deposits from banks at amortized cost	27	8,846	28,739
Current accounts and deposits from clients at amortized cost	28	5,516,710	5,294,440
Financial liabilities at fair value through profit or loss	21a	28	1
Borrowings	29	26,379	16,982
Hedging derivatives	21b	156	-
Other liabilities	30	154,544	130,234
Lease liabilities	31	9,052	6,819
Provisions for liabilities and charges	32	43,627	29,807
Current tax liability	15	3,770	-
Deferred tax liability	15	-	1,125
TOTAL LIABILITIES		**5,763,112**	**5,508,147**
EQUITY			
Share capital	33	119,195	119,195
Treasury shares		-	(81)
Share premium		48,354	48,317
Fair value reserve for financial assets		(35,560)	1,260
Fair value reserve for actuarial gain/loss		(367)	(406)
Revaluation reserve for property and equipment		5,314	4,624
Retained earnings		636,413	611,668
TOTAL EQUITY		**773,349**	**784,577**
TOTAL LIABILITIES AND EQUITY		**6,536,461**	**6,292,724**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December

(all amounts are expressed in thousands of KM, unless otherwise stated)

	2022	2021
Cash flow from operating activities		
Interest received	178,376	163,312
Fee and commission received	99,940	82,653
Interest paid	(19,036)	(21,607)
Fee and commission paid	(5,801)	(5,600)
Operating expenses paid	(109,762)	(107,838)
Net proceeds from trading activities	20,707	14,356
Other proceeds	10,433	6,594
Net cash from operating activities before changes in operating assets and liabilities	**174,857**	**131,870**
(Increase) / decrease in operating assets:		
Obligatory reserve with Central Bank of BH	(31,447)	(24,042)
Loans and receivables from banks at amortized cost	170,139	122,881
Loans and receivables from clients and finance lease at amortized cost	(244,642)	(106,313)
Other assets	(28,655)	(4,912)
Net increase in operating assets	**(134,605)**	**(12,386)**
Increase / (decrease) in operating liabilities:		
Current accounts and deposits in banks	(19,893)	(655)
Current accounts and deposits from clients	227,349	(305,714)
Other liabilities	15,122	15,431
Net increase in operating liabilities	**222,578**	**320,490**
Net increase in cash from operating activities before corporate income tax	**262,830**	**439,974**
Corporate income tax paid	(9,441)	(10,454)
Net cash from operating activities	**253,389**	**429,520**
Cash flow from investing activities		
Acquisition of property and equipment	(6,821)	(8,507)
Proceeds from sale of property and equipment	796	670
Acquisition of intangible assets	(5,336)	(7,272)
Proceeds from the sale of financial assets at FVOCI	122,022	122,907
Acquisition of financial assets at FVOCI and Amortized cost	(129,767)	(295,897)
Proceeds from sale of associates	266	508
Dividend receipts	-	36
Net cash (used in) investing activities	**(18,840)**	**(187,555)**

Statement of cash flows for the year ended 31 December

(all amounts are expressed in thousands of KM, unless otherwise stated)

	2022	2021
Cash flows from financing activities		
Dividend paid	(88,091)	(214,873)
Repayment of long-term lease	(6,459)	(4,212)
Receipts from interest-bearing borrowings	21,514	-
Repayment of interest-bearing borrowings	(11,762)	(12,851)
Net cash (used in) financing activities	**(84,798)**	**(231,936)**
Net cash inflow	149,751	10,029
Effect of foreign exchange rate fluctuations on cash and cash equivalents	3,093	9,661
Net increase in cash and cash equivalents	152,844	19,690
Cash and cash equivalents at the beginning of the year	828,094	808,404
Cash and cash equivalents at the end of the year	980,938	828,094

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Bank	Share capital	Treasury shares	Share premium	Fair value reserve for financial assets	Fair value reserve at actuarial gain/ loss	Revaluation reserve for property and equipment	Retained earnings	Total
Balance as at 31 December 2020	**119,195**	**(81)**	**48,317**	**9,844**	**(297)**	**2,140**	**738,170**	**917,288**
Total comprehensive income	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	88,091	88,091
Items that are or may be reclassified subsequently to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment of financial assets at fair value through other comprehensive income (Note 20)	-	-	-	661	-	-	-	661
Gross change in fair value of financial assets at fair value through other comprehensive income	-	-	-	(10,272)	-	-	-	(10,272)
Deferred tax on financial assets at fair value through other comprehensive income (Note 15)	-	-	-	1,027	-	-	-	1,027
Items that will not be reclassified to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in fair value of property and equipment	-	-	-	-	-	2,952	-	2,952
Deferred tax on changes in fair value of property and equipment	-	-	-	-	-	(295)	-	(295)
Change in fair value at actuarial gain / loss	-	-	-	-	(4)	-	-	(4)
Deferred tax per rev. reserves for actuarial profit / loss (Note 14)	-	-	-	-	12	-	-	12
Other changes	-	-	-	-	(117)	-	-	(117)
Other comprehensive income	-	-	-	(8,584)	(109)	2,657	-	(6,036)
Dividend payment for the year	-	-	-	-	-	-	(214,873)	(214,873)
Transfer to retained earnings	-	-	-	-	-	(173)	280	107
Balance as at 31 December 2021	**119,195**	**(81)**	**48,317**	**1,260**	**(406)**	**4,624**	**611,668**	**784,577**
Total comprehensive income								
Net profit for the year	-	-	-	-	-	-	112,524	112,524
Items that are or may be reclassified subsequently to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment of financial assets at fair value through other comprehensive income (Note 20)	-	-	-	(110)	-	-	-	(110)
Other changes				6				6
Change in financial assets at fair value through other comprehensive income	-	-	-	(40,789)	-	-	-	(40,789)
Deferred tax on financial assets at fair value through other comprehensive income (Note 15)	-	-	-	4,073	-	-	-	4,073
Items that will not be reclassified to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in fair value of property and equipment	-	-	-	-	-	927	-	927
Deferred tax on changes in fair value of property and equipment	-	-	-	-	-	(76)	-	(76)
Other changes	-	-	-	-	-	1	-	1
Change in fair value at actuarial gain / loss	-	-	-	-	43	-	-	43
Deferred tax per rev. reserves for actuarial profit / loss (Note 15)	-	-	-	-	(4)	-	-	(4)
Other comprehensive income	-	-	-	(36,820)	39	852	-	(35,929)
Transfer to retained earnings	-	-	-		-	(162)	162	-
Sale of own shares	-	81	37		-	-	150	268
Dividend payment for the year	-	-	-	-	-	-	(88,091)	(88,091)
Balance as at 31 December 2022	**119,195**	**-**	**48,354**	**(35,560)**	**(367)**	**5,314**	**636,413**	**773,349**

The accompanying notes form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

1. REPORTING ENTITY

UniCredit Bank d.d. (the Bank) is a joint stock company incorporated and headquartered in Bosnia and Herzegovina. The registered office is at Kardinala Stepinca bb, Mostar. The Bank provides a full range of services including retail and corporate banking, treasury operations, and finance lease operations. The Bank is a member of Zagrebačka banka Group (Zagrebačka banka d.d., a bank headquartered in Zagreb, Republic of Croatia, is its immediate parent company) and UniCredit Group. The ultimate parent company is UniCredit Bank SpA., a bank headquartered in Milan, Italy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina ("FBiH") which are based on the FBiH Law on Accounting and Auditing, the FBiH Banking Law and bylaws of the Banking Agency of the Federation of Bosnia and Herzegovina ("Agency" or "FBA") adopted on the basis of the mentioned laws.

- The FBiH Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").The Law on Banks of the FBiH prescribes the preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing of the FBiH, this law, and bylaws adopted on the basis of both laws.The Agency adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (the "Decision"), applicable from 1 January 2020, and which resulted in certain differences resulting from the calculation of impairment for credit losses due to the application of minimum rates prescribed by the Decision, which are not required by IFRS 9: "Financial Instruments" ("IFRS 9"). The Decision also has an impact on the valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRSs). In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of KM 10,092 thousand (31 December 2021: KM 9,802 thousand) compared to the amount calculated by using the Bank's internal model in line with the requirements of IFRS 9. This difference was due to the following reasons:application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in the level of credit risk 1 (Stage 1) - difference in the amount of KM 5,789 thousand (2021: KM 5,273 thousand)
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in the level of credit risk 2 (Stage 2) - difference in the amount of KM 3,899 thousand (2021: KM 4,295 thousand),
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in the level of credit risk 3 (non-performing assets; Stage 3) - difference in the amount of KM 9 thousand (2021: KM 229 thousand) of which KM 2 thousand (2021: KM 190 thousand) relates to exposures covered by eligible collateral
- application of minimum impairement rates stipulated by the Article 26 of the Decision for trade receivables, receivables based on factoring and financial leasing and other receivables - the difference in the amount of KM 395 thousand (2021: KM 44 thousand).

In accordance with Article 32 of the Decision, the Bank presented lower value of repossessed assets by the amount of KM 432 thousand (2021: no difference) compared to the value of those assets that would be measured in accordance with IFRS.

The table below presents the effects of the previously described difference between the statutory accounting regulations applicable to banks in the FBiH and the requirements for recognition and measurement under International Financial Reporting Standards:

	31 December 2022	31 December 2021
Assets	(9,084)	(7,459)
Liabilities	1,286	2,013
Equity	(10,370)	(9,472)

The effects of differences between impairment calculated in accordance with IFRS requirements and recognized in accordance with FBA rules in the Statement of Profit or Loss for 2022 amount to KM 652 thousand (2021: KM 730 thousand).

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

The decision prescribes rules in the local regulation for "Accounting write-offs" under which the Bank is required to make an accounting write-off of balance sheet exposures two years after the bank has recorded the expected credit losses in the amount of 100% of its gross book value and declared them fully due.

Where accounting policies are consistent with International Financial Reporting Standards, there is a link in these financial statements to the relevant IFRSs.

These financial statements were authorizes by the Management Board as at 16 February 2023 for submission to the Supervisory Board.

2.2 Going concern

These financial statements have been prepared on the going concern basis, which assumes continuity of Bank's normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

2.3 Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss and debt securities which are stated at fair value and fair value of property and equipment.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank take into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liabilty at the measurement date. Fair value for measurement and/or disclosure purposes in these separate and consolidated financial statements is determined on such basis, except for measurement that have some similiarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Thesefinancial statements are presented in Convertible marks since that are the functional currency of the Bank. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

The preparation of nancial statements in compliance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina requires Management to make estimates and assumptions that affect the application of accounting policies and disclosed assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

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

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most significant impact on the amounts disclosed in these financial statements are disclosed in Note 4.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2.4 Changes in presentation of financial statements

For the purpose of better presentation of compliance with applicable accounting standards, in 2022, in relation to the published reports for 2021, the Bank carried out certain reclassifications of positions, which have no impact on the total result, total assets and capital of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in presentation of financial statements (continued)

Statement of Cash Flow

In 2022 the Bank reviewed the Statement of cash flows. The result of the review led to the changes in the Statement of cash flows and the following positions were reclassified: Dividend paid in the amount of KM 214,873 thousand is reclassified from investing activities to financing activities. In 2022 the Bank reviewed the Statement of profit or loss and other comprehensive income, which led to changes in the Statement of profit and loss and other comprehensive income and the following positions were reclassified: Other net impairment losses and provisionsin the amount to KM 1,008 thousand were reclassified from Impairment losses on financial instruments to Other net impairment losses and provisions.

2.5 Interest income and expense

Interest income and expense are recognised in the statement profit or loss and other comprehensive income for the accounting period to which they refer to using effective interest rate for all interest-bearing instruments, including those accrued at amortized cost at FVTPL, i.e. accrued at FVOCI. Effective interest rate is the rate that discounts estimated future cash flows (including all paid or received transaction costs, fees and points that form an integral part of the effective interest rate) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

Interest income and expense also includes fees and commission income and expense relating to loans and receivables from customers and banks, borrowings, finance leases, subordinated debt and debt securities issued, premium or discount amortization, as well as other differences between initial carrying amount of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method.

Interest income will be calculated using the effective interest method. This will be calculated by applying the effective interest rate to the gross carrying amount of financial assets except for:

- purchased or originated credit-impaired financial assets. For such financial asset, the entity applies an effective interest rate adjusted for credit risk to the amortized cost of financial assets from initial recognition.
- financial assets that are neither purchased nor originated credit-impaired financial assets, but subsequently become credit-impaired financial assets. For such financial assets, an entity applies the effective interest rate in the following reporting periods to the amortized cost of financial assets.

If, in the reporting period, interest income is calculated using the effective interest method at amortized cost of financial assets in accordance with the aforementioned, in the future reporting periods, the interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial instrument is improved so that the value financial assets no longer diminishes for credit losses, whereby improvement can be objectively linked to an event that has arisen following the application of the above (such as improving the credit rating of the borrower).

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

2.6 Fee and commission income and expense

Fees and commissions that are an integral part of effective interest rates on financial assets and financial liabilities are included in interest income and interest expense.

Other fee and commission income includes fees which relate to credit card business, the issue of guarantees, letters of credit, domestic and foreign payments and other services, and are recognised in the statement upon performance of the relevant service.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Other fee and commission expense, mainly service and transaction fees, are recognised as an expense upon incurrence of services.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers controls over a service to a customer.The table below shows the nature and timing of the satisfaction of performance obligation, including significant payment terms and related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Retail and corporate banking service	The Bank provides banking services to individuals and legal entities, including account management, foreign exchange transactions, domestic payment transactions, credit card fees and servicing fees. Fees for current account management are charged to the user's account on a monthly basis. Transaction-based fees for conversion, foreign currency transactions and overdrafts are charged to the customer's account when the transaction is completed. Fees for card memberships are charged from the client's account at the time of maturity, but are deferred for one year, while other fees for card transactions are charged when the transaction takes place.	Revenue from account management services and servicing fees are recognized in income at the end of the month when they are collected. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Custody services	The bank offers securities custody services (safeguarding of securities and settlement of custody transactions) on the FBiH, RS and developed markets (through sub-custodial banks of Group members). Fees are invoiced to clients at the end of the month and consist of a fee for custody of bondsand a fee for settled custodial transactions. In addition, the bank has a license to perform depository bank services in the FBiH issue. The agreed fee of the depository bank is invoiced to the client upon completion of the securities issue.	Revenue from administrative services is recognised at the point in time when the service takes place. Revenue related to transactions is recognised at the point in time when the transaction takes place.

(all amounts are expressed in thousands of KM, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases

A lease where the Bank , as lessor, transfers all essential risks and benefits related to the ownership of assets to the lessee, is classified as finance lease. All other lease forms are classified as operating lease.

Finance lease

The amount owed by lessees under finance lease are recorded as receivables in the amount of Bank net investment in leases equal to the present value of expected lease collections. The difference between the gross finance lease receivable and present value of future collections per finance lease receivable represents unearned financial income. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and reduce the amount of income over the lease term.

2.8 Employee benefits

On behalf of its employees, the Bank pay personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pay the tax and contributions in the favour of the pension and health funds of the Federation of Bosnia and Herzegovina (on federal and cantonal level) and Republika Srpska.

In addition, transport allowances, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognised in the statement of profit or loss and comprehensive income in the period in which the salary expense is incurred.

2.8.1 Long-term employee awards

Participants for each cycle of the Long-term Incentive Plan of the Bank is defined based on criteria related to their contribution to the banks long-term sustainable and growing profitability of the Bank.. The estimated amount is recognised as personnel costs in the statement of profit or loss and other comprehensive incomein the year when it is earned.

2.8.2 Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory severance payments, are recorded at the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The rate of average long-term borrowing of corporate clients is used as a discount rate in the absence of an active corporate debt securities market.

2.9 Foreign currency translation

Transactions in foreign currencies are translated into KM at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KM at the reporting date at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the statement of profit or loss, except in case of differences arising on non-monetary financial assets at FVOCI, which are recognised in other comprehensive income. Non-monetary assets and liabilities in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

The Bank value their assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina ("CBBH") valid at the reporting period date, which is approximate to market rates. The exchange rates set forth by CBBH and used in the preparation of the Bank statement of financial position at the reporting dates were as follows:

31 December 2022	EUR 1 = KM 1.95583	1 USD = 1.833705 KM
31 December 2021	EUR 1 = KM 1.95583	1 USD = 1.725631 KM

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

2.10 Cash and cash equivalents

For the purpose of preparation of the cash flow statement and statement of financial position, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts.

Cash and cash equivalents exclude the compulsory minimum reserve with CBBH as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

2.11 Financial instruments

Financial assets and financial liabilities are recognised when the Bank become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value increased for transaction costs that are directly attributable to the acquisition or issue except for financial assets and financial liabilities at fair value through profit and loss.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

2.11.1 Financial assets

With regard to the rules for the classification of financial instruments, IFRS 9 contains three major categories of measurement for financial assets:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL).

How financial assets are classified and measured depends on two grades:

- Bank's Business Model (BM) for financial assets management; and
- Contractual characteristics of financial assets cash flow. (SPPI test)

According to IFRS 9, the business model of the Bank refers to the Bank managing its financial assets in order to generate cash flow. That is, the business model of the Bank determines whether cash flows will result in the payment of contractual cash flows, or assets managed to collect contracted cash flows and the sale of financial assets.

Therefore, business models can be classified as:

- Hold
- Hold & Sell
- Other / residual

The assessment of the characteristics of cash flows aims to identify whether the contractual cash flows are "solely payment of principal and interest" (SPPI criterion).

If the SPPI criterion is met, the financial assets managed by the "Hold" Business Model will be measured at amortized cost, and funds managed under the Hold & Sell business model will be measured in the FVOCI. The financial assets by which the business model management "Other" will be measured as fair value through profit or loss, independent of the SPPI criteria.

A financial asset shall be measured at amortised cost if both of the following conditions are met

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through the statement of profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through the statement of profit or loss to present subsequent changes in fair value in other comprehensive income.

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

All financial assets (including regular-way purchases and sales of financial assests are recognised on a trade date, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised immediately in the statement of profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

2.11.1.1 Debt instruments

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income.

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI, and
- the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

2.11.1.2 Debt instruments at amortized cost or at fair value through other comprehensive income

The Bank assess the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determine the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

Reclassifications

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In accordance with if an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model. The Bank shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Bank financial assets during the current year or previous reporting periods.

The Bank have more than one business model for managing its financial instruments which reflect how the Bank manage their financial assets in order to generate cash flows. The Bank business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank consider all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank do not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank take into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determine whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank have not identified a change in their business models.

Derecognition

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to the statement of profit or loss and other comprehensive income. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See Note 19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

2.11.1.3 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in the statement of profit or loss and other comprehensive income.

Reclassifications

If the business model under which the Bank hold financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank hold financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

2.11.1.4 Impairment losses on loans and receivables

Under IFRS 9 for recognizing the amount of provisions for a financial instrument, entities may follow the General Approach or the Simplified Approach.

Under the general approach each legal entity is obliged to calculate either the 12-month or lifetime ECL of a financial instrument depending on the significance of changing the credit risk of the financial instruments in relation to the initial recognition.

In Simplified Approach, legal entities are not required to track changes in credit risk. Provisions are always equal to the expected lifetime credit loss on each reporting date, immediately after recognition.

2.11.2 Impairment

The Bank uses a simplified approach to the finance lease portfolio, and for the rest the general approach.

The Bank applies the "3-Stage" model, which is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, reflecting the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date.

Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

The Bank recognize loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks at amortized cost;
- loans and advances to customers at amortized cost;
- financial assets at fair value through other comprehensive income;
- financial guarantees and letters of credit;
- other undrawn commitments.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

More details on the calculation of expected credit losses and determination of a significant increase in credit risk are provided in Note 38.

2.11.2.1 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Bank measure ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual or a collective basis.

For loan commitments and financial guarantee contracts impairment is recognized as a provision. The Bank and disclose information on impairment losses on financial assets separately from those for loan commitments and financial guarantee contracts.

2.11.2.2 Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because assets are credit-impaired at initial recognition. For such assets, the Bank recognize all changes in lifetime ECLs since initial recognition as impairment losses, and all changes are recognized in the statement of profit or loss and other comprehensive income. Favorable changes for such assets create impairment gains.

2.11.2.3 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see Note 38).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment (continued)

2.11.2.3 Definition of default (continued)

The Bank consider the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the client or has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

Significant increase in credit risk

The Bank monitor all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compare the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank historical experience and expert credit assessment including forward-looking information.

See Note 37 Risk management for more details.

2.11.3 Recognition and derecognition of financial assets

The Bank initially recognize loans and receivables on the date when they occur

Purchase and sale of financial assets is recognized on a settlement date on a regular basis. The settlement date is the date when the asset was delivered to or by the Bank and the asset or liability in question was not recognized until the settlement date. Changes in the fair value of financial assets and liabilities at fair value through profit or loss (other than derivatives) and at fair value through other comprehensive income of financial assets are recognized as of the trading date. All other financial assets and liabilities are recognized at the trading date on which the Bank become a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs for all financial assets and liabilities that are not carried at FVTPL. Financial assets and liabilities at FVTPL are initially recognized at fair value, and transaction costs are recognized immediately in the statement of profit or loss and other comprehensive income.

Derecognition of financial assets due to significant modifications

The Bank derecognize a financial asset, such as a loan to a client, when the terms of business have changed to the extent that the contract becomes a new loan, where the difference is recognized in the profit or loss on derecognition, but to the extent that the impairment loss is not already recorded. Newly recognized loans are classified as Stage 1 for ECL measurement purposes unless the new loan is considered POCI.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

When assessing whether or not the loan is derecognized, the Bank considers, among other things, the following factors: change in the currency of a loan, introduction of ownership of a property, change of the other counterparty, or if the change is such that the instrument no longer meets the SPPI criterion.

Changes in financial assets that do not result in significantly different cash flows

If the change does not result in cash flows that are substantially different, the change does not result in derecognition. Based on the change in the cash flows discounted by the original EIR, the Bank record gain or loss on the change, to the extent that the impairment loss has not been recorded yet.

Financial assets (or any part thereof or part of a group of similar financial assets) are derecognised when the rights to receive cash flows from the financial asset have expired or when they are transferred, and or

- The Bank transfer almost all the risks and benefits associated with ownership, or
- The Bank neither transfer nor retain almost all of the risks and benefits associated with ownership and the Bank do not retain control.

The Bank consider that the control is transferred if and only if the acquirer has the practical ability to sell the asset to the wholly unrelated third party and is able to use that ability unilaterally and without introducing additional transfer restrictions.

The Bank enter into transactions in which it retains contractual terms for receiving cash flows from the asset but assumes the contractual obligation to pay these cash flows to other entities and transfers all risks and benefits. These transactions are recorded as "pass-through" arrangements that result in derecognition if the Bank:

- have no obligation to pay, unless it collects equivalent amounts from the original financial asset,
- have a ban on selling or pledging assets, and
- have the obligation to remit any money that is collected from the financial asset without any significant delay.

When the Bank have netiher transferred or retained almost all risks and benefits, and retained control of the assets, the assets continue to be recognized only to the extent of the continued participation of the Bank, in which case the Bank also recogniz the related obligation. Transferred assets and related liabilities are measured on a basis reflecting the rights and liabilities held by the Bank. The continuation of the collateral in relation to the transferred assets is measured at a lower value between the original carrying amount of the asset and the maximum amount of compensation that the Bank would be required to pay.

Collateral (such as shares and bonds) that the Bank issue under standard repurchase and securities lending agreements are not derecognized as the Bank retain all significant risks and rewards on a pre-determined purchase price and hence the criteria for termination of recognition are not met.

2.11.4 Write-off

Loans and debt securities are written off when the Bank have no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank enforcement activities are stated as other income in the statement of profit or loss and other comprehensive income. Additionaly the FBA Decision prescribes the regulation for Accounting write-off according to which the Bank is obliged to write off balace sheet exposure two year after the Bank has recorded expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

2.11.5 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see Statement of changes in equity);
- for loan commitments and financial guarantee contracts: as a provision

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6 Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank own equity instruments.

2.11.6.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank own equity instruments.

2.11.6.2 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in the statement of profit or loss and other comprehensive income to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in the statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL line item in the profit or loss account.

In making the determination of whether recognising changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Bank must assess whether they expect that the effects of changes in the liability's credit risk will be offset in the statement of profit or loss and other comprehensive income by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

2.11.6.3 Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.11.6.3.1 Borrowings

Interest-bearing loans are initially recognized at fair value, less any related transaction costs. After initial recognition, interest-bearing borrowings are stated at amortized cost, and any difference between receivables (less transaction costs) and redemption value is recognized in profit or loss for the duration of the borrowing period based on the effective interest rate.

2.11.6.3.2 Current accounts and deposits of banks and clients

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs and subsequently recognized at amortized cost using the effective interest rate method..

2.11.6.4 Derecognition of financial liabilities

The Bank derecognise financial liabilities when, and only when, the Bank obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchange with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank account for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

2.12 Debt securities

Debt securities are classified as financial assets at FVTOCI (with the disclosure of gains or losses on income or loss on derecognition) at FVTPL or at amortized cost, depending on the business model and the SPPI test.

2.13 Receivables from banks

Placements with banks are classified as financial assets at amortized cost and measured accordingly.

2.14 Cash and cash equivalents

For the purpose of preparation of the cash flow statement, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts

2.15 Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables. Loans and receivable arise when the Bank provide money directly to a debtor with no intention of trading with the receivable or disposal in the near future.

Loans and receivables are initially recognised at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any potential impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables include loans to and receivables from banks, loans and receivables from clients, cash and cash equivalents, and obligatory reserves with CBBH.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank is recognised at the proceeds received, net of direct issue costs.

2.17 Liabilities for contracts on financial guarantees, letters of credit and unused loans

Liabilities for financial guarantee contracts are initially measured at fair value and subsequently measured at greater than:

- amount of loss allowance (expected credit loss), or
- the amount initially recognized and, where appropriate, reduced by cumulative amortization recognized in accordance with the income recognition policies established above.

Unused loans and letters of credit are liabilities that, during the term of a liability, the Bank is obliged to provide a loan to a client under pre-determined conditions.

The nominal contractual value of financial guarantees, letters of credit and unused credit obligations, if the loan is agreed to be given to market conditions, is not shown in the statement of financial position (presented in the off-balance sheet).

2.18 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and they tend either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses are presented on a net basis only when that is allowed pursuant to IFRS, and for gains and losses from the group of similar transactions, e.g. based on trade activity.

2.19 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes. Derivatives not designated as heding instruments are classified as financial instruments held for trading.

Derivative financial instruments including foreign exchange forward contracts and foreign exchange swap contracts are initially recognised at trade date and subsequently measured at their fair value in the separate and consolidated statement of financial position. Fair values are obtained from discounted cash flow models.

All derivatives are classified as financial assets at fair value through profit or loss when their fair value is positive and as financial liabilities at fair value through profit or loss when it is negative.

Hedge accounting

As allowed by International Financial Reporting standard 9 (IFRS 9) Financial instruments (in force as of 01.01.2018), the UniCredit Group continues to apply rules of International Accounting Standard 39 (IAS 39) on hedge accounting.

For the purpose of hedge accounting, hedging may relate to:

- fair value hedging – protection of exposure from changes in the fair value of recognized assets or liabilities or unrecognized liabilities;
- cash flow hedging – protection of exposure to changes in cash flows associated with a specific risk associated with a recognized asset, liability or certain future transaction;
- hedging of net investments in foreign currency.

The Bank mainly use fair value hedging to protect themselves from exposure to changes in the fair value of individual assets and liabilities or part of individual assets and liabilities or the portfolio of financial assets and liabilities.

The Bank use derivative financial instruments to hedge its exposure to changes in fair value through interest rate risk.

(all amounts are expressed in thousands of KM, unless otherwise stated)

Such derivative instruments are initially recognized at their fair value and subsequently measured at fair value. Derivatives are presented as financial assets when their fair value is positive and as a financial liability when their fair value is negative.

When concluding a hedge accounting arrangement, the Bank and the formally determine and document the relationship for which they wish to apply hedge accounting and the objective and risk management strategy for undertaking the hedging itself. The documentation shall include the identification of the hedging instrument, the hedged item or transaction, the type of risk against which the Bank and hedge and how the Bank and the will monitor the effectiveness of changes in the fair value of the hedging instrument to compensate for changes in fair value or cash flow of the hedged exposure. Such hedges are expected to be effective in achieving compensatory changes in fair value or cash flows and are regularly tested over their lifetime to determine their effectiveness over the reporting periods for which they are designated.

2.20 Property and equipment

Property and equipment are initially stated at cost. Subsequent measurement of property is done at fair value, while equipment is held at cost, less accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred.

Depreciation is provided on all property and equipment except for land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write off the cost to estimated residual value over the estimated useful life of the asset. The estimated useful lives are as follows:

	31 December 2022	31 December 2021
Buildings	50 years	50 years
Computers	3.3 to 5 years	3.3 to 5 years
Leasehold improvement	Lease term	Lease term
Other equipment	6.6 to 14.2 years	6.6 to 14.2 years

Depreciation methods, the useful lives and residual values of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income as other income or other expense.

2.21 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Intangible assets except for intangible assets not yet brought into use are amortised on a straight-line basis over their estimated useful lives as follows:

	31 December 2022	31 December 2021
Software	5 years	5 years
Other intangible assets	5 years	5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Investment property

Investment property encompass property held for earning lease profits or for increase of value of capital property, or both. Investment properties are initially measured at cost (which is consistent with their market value at the acquisition date). Subsequent measurement is made using the fair value method. Changes in fair value are recognized in the separate and consolidated statement of profit or loss, and no depreciation is calculated.

2.23 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

2.23.1 Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

2.23.2 Deferred income tax

Deferred income taxes are recognised reflecting the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Deferred tax assets and liabilities are not discounted and are classified as a non-current assets and/or liabilities in the statement of financial position.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassess unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets, which are reduced to the extent at which it is no longer probable that tax benefits can be used.

2.24 Impairment of non-financial assets

Non-financial assets (other than deferred tax assets) of the Bank are tested for impairment only when there is indication of impairment and their recoverable amount is then estimated. An impairment loss is recognised in the statement of profit or loss and other comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of individual assets or cash-generating units is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. The recoverable amount of assets that do not generate independent cash flows (e.g. corporate assets) is determined by assessing cash flows of the group to which the asset belongs.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

2.25 Assets acquired in lieu of uncollectible receivables

The Bank assess the marketability of assets acquired in lieu of uncollectible receivables, loans and financial lease, the value of which can be measured reliably, and they are recognised as assets in the statement of financial position. The Bank intention is mainly to sell such assets, in which case they are classified as inventory, and not amortised. However, in certain limited cases they may end up being used by the Bank and amortised within buildings, which are part of property and equipment.

The items acquired based on lease, property and equipment agreements are included in assets acquired in lieu of uncollectible receivables of the Bank. Such properties are recognised at the lower of cost and net realizable value.

In accordance with the FBA Decision, the Bank recognizes repossessed assets at the lower of the following values:

a) The amount of the net carrying amount of the Bank's receivables. In this case the amount of booked valeu expected credit losses is equal to the amount of receivables, the Bank will record the repossessed tangible assets at the technical value in the amount of 1 KM.

b) Estimated fair value by an independent appraiser less expected selling expenses.

Impairment of assets is described under impairment of non-financial assets (Note 2.24).

2.26 Provisions

Provisions are recognised if the Bank have a present obligation (legal or constructive) as a result of a past event, if is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

2.27 Equity and reserves

2.27.1 Share capital

Share capital represents the nominal value of paid-in ordinary and preference shares and is denominated in KM.

2.27.2 Treasury shares

When the Bank purchases its own equity instruments (treasury shares), the consideration paid is deducted from equity until the shares are cancelled. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in issued share capital.

2.27.3. Retained earnings

Profit for the period after appropriations to owners is transferred to retained earnings.

2.27.4 Revaluation reserve for securities

Revaluation reserve for securities comprises changes in fair value of financial assets through OCI, net of deferred tax.

2.27.5 Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

2.28 Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enter into credit related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit card limits.

2.29 Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services rendered the Bank charges a fee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Segment reporting

The business results of the segments are regularly monitored by the Bank's Management Board and the Supervisory Board on the basis of financial management information.

A business segment is a distinguishable component of the Bank that is engaged in business activities, which may result in revenue or expenses. The Bank has identified four primary business segments: Retail, Corporate and Investment Banking, Assets and Liabilities Management, and Central Unit.

"Lease" operation in the segments notes is allocated to the segment of Retail or Corporate and Investment banking depending on where it belongs. Segmental results are measured inclusive of the application of internal transfer prices, based on specific prices, appropriate currencies and maturities, with embedded additional adjustments.

Segmental business result are regularly monitored by the Management and Supervisory Board, based on management financial information.

2.31 Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2.32 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

3. ADOPTION OF NEW AND REVISED STANDARDS

The following new standards, interpretations and amendments to existing standards, which may be applicable to the Bank, are mandatory for periods beginning on January 1, 2022:

Effective date	New standards or amendments
1 April 2021	Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendments to IFRS 16
1 January 2022	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
	Annual Improvements to IFRS Standards 2018-2020
	Property, Plant and Equipment, Proceeds before Intended Use (Amendments to IAS 16)
	Reference to Conceptual Framework (Amendments to IFRS 3)

The amendments to IFRS 16 Leases (Covid-19-Related Rent Concessions) extend the practical expedient in relation to Covid-19 related rent concession for any change in lease payments originally due on or before 30 June 2022. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. The Bank chose not to apply the practical expedient.

The collection of annual improvements to IFRSs 2018-2020 includes amendments to the following standards:

- The amendments to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent´s date of transition to IFRSs.
- The amendments to IFRS 9 clarify which fees an entity includes when it applies to "10 percent" test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other´s behalf.
- The amendment to IFRS 16 only regards changes in illustrative example 13 (no effective date is stated).

The amendments apply to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Bank.

The amendments to IFRS 3 update outdated references in IFRS 3 without significantly changing its requirements. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments do not result in any significant changes within the Bank.

The amendments to IAS 16 relate to revenue incurred before an item of property, plant and equipment is ready for use. Costs for test runs to check whether an item of property, plant and equipment is functioning properly continue to be directly attributable costs. If goods are already produced as part of such test runs, both the income from their sale and their production costs must be recognised in profit or loss in accordance with the relevant standards. It is therefore no longer permissible to offset the net proceeds against the cost of the item of property, plant and equipment. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments do not result in any significant changes within the Bank.

The amendments to IAS 37 clarify which costs should be considered as costs of fulfilling the contract when assessing whether a contract is onerous. Costs of fulfilling a contract comprise the costs that relate directly to the contract. They can be incremental costs of fulfilling a contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments do not result in any significant changes within the Bank

(all amounts are expressed in thousands of KM, unless otherwise stated)

3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

3.1 New Standards not yet effective

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

Effective date	New standards or amendments
1 January 2023	IFRS 17 Insurance Contracts
	Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
	Definition of Accounting Estimate - Amendments to IAS 8
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
1 January 2024	Lease Liability in a Sale and Leaseback - Amendments to IFRS 16
	Classification of Liabilities as Current or Non-current - Amendments to IAS 1
Available for optional adoption/effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

New IFRS 17 Insurance contracts will replace IFRS 4. It applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. Application of this standard in Federation of Bosnia and Herzegovina has been prolonged until 2026. This new standard as well as its amendments are not expected to result in any significant changes within the Bank.

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

The amendments to IAS 8 replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to IAS 12 provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

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

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in Note 2, the Bank is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1.1 Taxation

The Bank recognizes a tax liability in accordance with the tax regulations of the Federation of Bosnia and Herzegovina. Tax returns are approved by the tax authorities responsible for conducting ex-post control of taxpayers.

4.1.2 Impairment losses on loans and receivables and provisions for off-balance-sheet exposure

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis. Measuring level of impairements is an area that requires the application of complex models and significant assumptions about future economic conditions and customers credit behavior (eg, the probability that clients will enter default status and the resulting losses, etc).

The most significant judgments and key sources of estimation uncertainty in relation to measuring the level of impairements includes the following:

- determination of criteria for a significant increase in credit risk (SICR);
- selection of suitable models and assumptions for measuring ECL;
- determination of the number and relative weighting of future scenarios for all types of products/markets and associated ECL;
- determination of methodology for incorporating of forward looking information,
- Incorporation of geopolitical overlays;
- determination a group of financial assets for the purposes of measuring ECL.

Note 38.1 contains more detailed information on the methods of measuring expected credit losses, clarifies the concept of credit risk levels, input parameters, assumptions and assessment techniques, and the Bank's related judgments and assessments.

4.1.3 Legal proceedings

The Bank make individual assessment of all legal proceedings whose value exceeds KM 25 thousand. All legal proceedings below KM 25 thousand are monitored and provided for on a portfolio basis.

As of 31 December 2022 the Bank provided KM 13,210 thousand (2021: KM 12,722 thousand) which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Bank. Nature legal cases for which provisions are recognised are disclosed in the note 31 of these financial statements.

4.1.4 Fair value of financial instruments

As described in Note 41, the Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

4.1.5 Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. SEGMENT REPORTING

The segments of the Bank include:

1. "Retail": individuals, small business and sole traders, including finance lease.
2. "Corporate Banking": large and medium corporate clients, state and public sector, financial markets (trading activities), including finance lease.
3. "Assets and Liabilities Management": asset and liability management.
4. "Central Unit": other assets and liabilities not assigned to other segments.

Segmentation of positions of the statement of profit or loss and the statement of financial position is based on financial statements prepared for parent company reporting purposes.

Statement of profit or loss per segment

Year ended 31 December 2022	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Net interest income	106,339	35,349	7,773	8,260	157,721	(4,406)	153,315
Net fee and commission income*	60,961	30,571	(1,847)	2	89,687	4,135	93,822
Dividend income	-	-	-	-	-	-	-
Net gains from foreign exchange trading and translation of monetary assets and liabilities	12,058	8,662	(276)	(1)	20,443	264	20,707
Other income	3,209	746	-	2,122	6,077	4,340	10,417
Operating income	**182,567**	**75,328**	**5,650**	**10,383**	**273,928**	**4,333**	**278,261**
Depreciation and amortization	-	-	(10)	(14,542)	(14,552)	(718)	(15,270)
Operating expenses	(108,620)	(25,822)	(1,976)	16,703	(119,715)	242	(119,473)
Profit before impairment losses and taxation	**73,947**	**49,506**	**3,664**	**12,545**	**139,662**	**3,857**	**143,518**
Impairment losses on financial instruments and provisions, net	(9,315)	114	(3,422)	(492)	(13,115)	(4,338)	(17,453)
Profit before taxation	**64,632**	**49,620**	**242**	**12,053**	**126,547**	**(480)**	**126,065**
Income tax expense	(7,624)	(5,784)	(29)	(147)	(13,584)	43	(13,541)
NET PROFIT	**57,008**	**43,836**	**213**	**11,906**	**112,963**	**(437)**	**112,524**

* Disagregation of net fee and commission income is further presented in this note below.

Main adjustments between the Statement of profit or loss per reportable segments and the Bank's Statement of profits of loss mainly relates to different presentation/classification of certain positions as well as different criteria for measurement of financial assets at amortised costs and derivatives.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Year ended 31 December 2021	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Net interest income	87,625	31,020	12,167	10,818	141,630	(2,144)	139,486
Net fee and commission income*	55,898	22,503	(1,759)	899	77,541	-	77,541
Dividend income	-	-	-	36	36		36
Net gains from foreign exchange trading and translation of monetary assets and liabilities	8,133	5,943	-	163	14,239	117	14,356
Other income	3,784	2,012	-	(1,398)	4,398	2,350	6,748
Operating income	**155,440**	**61,478**	**10,408**	**10,518**	**237,844**	**323**	**238,167**
Depreciation and amortization	-	-	(8)	(13,918)	(13,926)	(474)	(14,400)
Operating expenses	(102,961)	(24,762)	(2,148)	16,567	(113,304)	468	(112,836)
Profit before impairment losses and taxation	**52,479**	**36,716**	**8,252**	**13,167**	**110,614**	**317**	**110,931**
Impairment losses and provisions, net	6,735	(16,802)	332	1,063	(8,672)	(1,615)	(10,287)
Profit before taxation	**59,214**	**19,914**	**8,584**	**14,230**	**101,942**	**(1,298)**	**100,644**
Income tax expense	(7,412)	(2,493)	(1,015)	(1,694)	(12,614)	61	(12,553)
NET PROFIT	**51,802**	**17,421**	**7,569**	**12,536**	**89,328**	**(1,237)**	**88,091**

* Disagregation of net fee and commission income is further presented in this note below.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

Statement of profit or loss per segment (continued)

The table below presents dissagregation of net fee and commission income per each reportable segment:

Year ended 31 December 2022	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Account services	23,438	1,272	-	-	24,709	2,740	27,450
Transactional	19,648	14,461	36	-	34,145	(234)	33,911
Asset management	57	841	-	-	898	-	898
Credit cards	17,397	11,280	-	2	28,679	3,888	32,567
Financial guarantee contracts and loan commitment	2,308	4,749	-	-	7,057	(2,260)	4,797
Total fee and commission income	**62,848**	**32,603**	**36**	**2**	**95,488**	**(4,135)**	**99,623**
Fee and commission expense	**(1,887)**	**(2,032)**	**(1,883)**	**-**	**(5,801)**	**-**	**(5,801)**
Net fee and commission income	**60,961**	**30,571**	**(1,847)**	**-**	**89,687**	**4,135**	**93,822**

The table below presents dissagregation of net fee and commission income per each reportable segment:

Year ended 31 December 2021	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Account services	21,826	1,137	-	(559)	22,404		22,404
Transactional	16,166	13,265	57	(172)	29,316	-	29,316
Asset management	-	614	-	-	614	-	614
Credit cards	17,682	4,782	-	3,883	26,346	-	26,346
Financial guarantee contracts and loan commitment	2,173	4,540	-	(2,252)	4,461	-	4,461
Total fee and commission income	**57,847**	**24,337**	**57**	**899**	**83,141**	**-**	**83,141**
Fee and commission expense	**(1,949)**	**(1,834)**	**(1,816)**	**-**	**(5,600)**	**-**	**(5,600)**
Net fee and commission income	**55,898**	**22,503**	**(1,759)**	**899**	**77,541**	**-**	**77,541**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Statement of financial position per segment

31 December 2022	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Segment assets	2,025,388	1,448,431	2,610,361	14,528,763	6,542,053	(14,080,233)	6,533,359
Subscribed income tax	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	3,751	3,751	(649)	3,102
Total assets	**2,025,388**	**1,448,431**	**2,610,361**	**14,532,514**	**6,545,804**	**(14,080,882)**	**6,536,461**
Segment liabilities	3,719,458	1,796,634	35,225	206,654	5,757,971	-	5,759,342
Current tax liability	-	-	-	3,706	3,706	64	3,770
Deferred tax liability	-	-	-	723	723	(723)	-
Total liabilities	**3,719,458**	**1,796,634**	**35,225**	**211,083**	**5,762,400**	**712**	**5,763,112**
Acquisition of property, equipment and intangible assets	-	-	-	12,157	-	-	-

31 December 2021	Retail (banking)	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Segment assets	1,870,672	1,357,926	2,627,088	443,261	6,299,575	(7,417)	6,292,159
Subscribed income tax	-	-	-	629	629	(64)	565
Total assets	**1,870,672**	**1,357,926**	**2,627,088**	**443,889**	**6,300,204**	**(7,481)**	**6,292,724**
Segment liabilities	3,663,351	1,631,089	45,690	164,894	5,505,024	-	5,507,022
Current tax liability	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	1,160	1,160	(35)	1,125
Total liabilities	**3,663,351**	**1,631,089**	**45,690**	**166,054**	**5,506,184**	**1,963**	**5,508,147**
Acquisition of property, equipment and intangible assets	-	-	-	15,779	-	-	-

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

6. INTEREST INCOME

Analysis by source

	2022	2021
Retail		
Interest income	107,422	106,511
Corporate		
Legal entities	31,979	34,124
State and public sector	22,446	18,120
Banks and other financial instititutions	3,857	731
Total interest income calculate using the effective interest method	165,704	159,486
Interest income on finance lease - retail	34	50
Interest income on finance lease - corporate	1,529	1,549
	167,267	**161,085**

Banks and other financial institutions include Central Bank of BH.

Analysis by measurement category

	2022	2021
Loans and receivables from clients at amortized cost	146,273	146,041
Debt securities (financial assets at FVOCI)	17,137	14,313
Loans to and receivables from banks at amortized cost	3,564	731
Interest from hedge accounting	293	-
	167,267	**161,085**

Interest income on impaired loans and receivables amounted to KM 3,440 thousand. (2021: KM 5,157 thousand), of which effects of unwinding were recognized in interest income in the amount of KM 372 thousand (2021: KM 305 thousand).

7. INTEREST EXPENSE

Analysis by recipient

	2022	2021
Retail	6,171	8,857
Banks and other financial institutions	2,175	5,731
Negative interest on placements to banks and obligatory reserve with the CBBH	3,921	4,837
Corporate	1,663	2,127
State and public sector	22	47
	13,952	**21,599**

Analysis by product

	2022	2021
Current accounts and deposits from retail clients	6,171	8,857
Repo activities	2,011	5,122
Current accounts and deposits from banks	3,964	5,046
Current accounts and deposits from corporate, and state and public sector	1,551	2,089
Borrowings	121	234
Interest from hedge accounting	-	166
Long-term lease liabilities	134	85
	13,952	**21,599**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

8. FEE AND COMMISSION INCOME

	2022	2021
Credit cards	32,567	26,346
Foreign payment transactions	21,136	17,501
Product package fees	16,216	14,676
Domestic payment transactions	12,775	11,815
Other*	12,132	8,342
Total fee and commission income from contracts with customers	**94,826**	**78,680**
Guarantees and letters of credit	4,797	4,461
Financial guarantee contracts and loan commitment	**4,797**	**4,461**
Total fee and commission income	**99,623**	**83,141**

*Other fee and commission mainly related to current account fees for legal entities, loan fees, e-banking and custody fees..

9. FEE AND COMMISSION EXPENSES

	2022	2021
Domestic payment transactions	3,177	2,879
Foreign payment transactions	1,531	1,463
Other	1,093	1,258
	5,801	**5,600**

10. NET GAINS FROM FOREIGN EXCHANGE TRADING AND TRANSLATION OF MONETARY ASSETS AND LIABILITIES

	2022	2021
Net foreign exchange spot trading gains	20,771	14,254
Net losses from FX forwards	(68)	100
Net foreign exchange loss from translation of monetary assets and liabilities	(1)	(3)
Net gain from securities trading	5	5
	20,707	**14,356**

11. OTHER INCOME

	2022	2021
Collected written-off receivables	4,855	4,948
Net income from repossessed collaterals	4,532	680
Income from IT services	354	377
Income from expenses recharged to clients	125	188
Net gains on disposal of property and equipment	(16)	106
Income from claims settled by insurance companies	86	56
Income from sale of shares and business interests	-	48
Rent income	31	38
Write-offs of other liabilities and reversal of accrued expenses	(16)	-
Other	466	307
	10,417	**6,748**

(all amounts are expressed in thousands of KM, unless otherwise stated)

12. OPERATING EXPENSES

	2022	2021
Personnel costs	62,270	59,565
Administration and marketing expenses	41,176	37,942
Savings deposit insurance expenses	12,933	12,504
State contributions (excluding personnel-related)	1,632	1,536
Rental costs	690	658
Other expenses	772	631
	119,473	**112,836**

Personnel costs of the Bank include KM 12,265 thousand of defined contributions paid into the state-owned pension plans (2021: KM 11,971 thousand)..

13. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2022	2021
Loans and receivables from clients at amortized cost (Note 19)	(379)	9,798
Financial assets at FVOCI (Note 20)	(110)	661
Financial assets at amortized cost (Note 22)	408	-
Loans and receivables from banks at amortized cost, including the obligatory reserve at the CBBH (Note 17 and Note 18)	(991)	(29)
Impairment of cash and cash equivalents (Note 16)	110	(57)
Off-balance-sheet exposure to credit risk (Note 32)	13,817	(1,018)
Other assets (Note 23)	476	(76)
	13,331	**9,279**

14. OTHER NET IMPAIREMENT LOSSES AND PROVISIONS

	2022.	2021.
Provisions for legal proceedings (Note 32)	697	637
Properties acquired in lieu of uncollected receivables (Note 23)	4,080	212
Impairment of property and equipment (Note 23)	(655)	159
	4,122	**1,008**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

15. INCOME TAX EXPENSE

Amounts recognised in profit or loss:

	2022.	2021.
Curent tax expense		
Current year	13,775	10,834
	13,775	10,834
Deferred tax expense		
Origination and reversal of temporary differences	(234)	1,719
	(234)	1,719
Total income tax expense	**13,541**	**12,553**

Amounts recognised in other comprehensive income:

		2022			2021	
	Before tax	tax expense / benefit	Net of tax	Before tax	tax expense / benefit	Net of tax
Items that will not be reclassified to profit or loss						
Change in fair value per actuarial gain/loss	43	(4)	39	(4)	12	8
Movement in fair value reserve (Property and equipment)	927	(76)	851	2,952	(295)	2,657
Items that are or may be reclassified subsequently to profit or loss						
Movement in fair value reserve (debt instruments)	(40,789)	4,073	(36,716)	(10,272)	1,027	(9,245)
	(39,819)	3,993	(35,826)	(7,324)	744	(6,580)

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	2022.	2021.
Profit before tax	126,065	100,644
Tax using the Bank's domestic tax rate	12,606	10,064
Tax effect of:		
Non-deductible expenses	3,013	989
Tax-exempt income	(1,797)	(219)
Tax incentives	(47)	-
Effects from the change of deferred taxes on temporary differences	(234)	1,719
Total income tax expense	**13,541**	**12,553**
Effective tax rate	**10,7%**	**12,5%**

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(all amounts are expressed in thousands of KM, unless otherwise stated)

15. INCOME TAX EXPENSE (CONTINUED)

Movement in deferred tax balances:

2022	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance as at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment, and intangible assets	(1,398)	(2)	(76)	(1,476)	-	(1,476)
Provisions for legal issues and credit losses	-	236	-	236	236	-
Investment securities at FVOCI	228	-	4,073	4,301	4,301	-
Actuarial revaluation	45	-	(4)	41	41	-
Tax assets/liabilities before set-off	(1,125)	234	3,993	3,102	4,578	(1,476)
Set-off of tax	-	-	-	-	(1,476)	1,476
Tax assets/liabilities	(1,125)	234	3,993	3,102	3,102	-

2021	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance as at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment, and intangible assets	(1,349)	246	(295)	(1,398)	-	(1,398)
Provisions for legal issues and credit losses	1,965	(1,965)	-	-	-	-
Investment securities at FVOCI	(799)	-	1,027	228	228	-
Actuarial revaluation	33	-	12	45	45	-
Tax assets/liabilities before set-off	(150)	(1,719)	744	(1,125)	273	(1,398)
Set-off of tax	-	-	-	-	(273)	273
Tax assets/liabilities	(150)	(1,719)	744	(1,125)	-	(1,125)

16. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash in hand	281,753	304,474
Current accounts with other banks	328,405	291,612
Giro account with CBBH	370,780	232,008
	980,938	828,094
Less: Impairment allowance	(546)	(436)
	980,392	**827,658**

Movement in impairment allowance for cash and cash equivalents can be presented as follows:

	31 December 2022	31 December 2021
As at 1 January	**436**	**493**
Impairment losses (Note 13)	110	(57)
As at 31 December	**546**	**436**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

17. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2022	31 December 2021
Obligatory reserve at CBBH	550,984	519,538
Less: Impairment allowance	(920)	(1,671)
	550,064	**517,867**

Movement in impairment allowance for obligatory reserve at the CBBH can be presented as follows:

	2022	2021
As at 1 January	**1,671**	**1,090**
Impairment in the statement of profit or loss (Note 13)	(751)	581
As at 31 December	**920**	**1,671**

In 2022, the basis for calculation of the obligatory reserve of commercial banks comprised all deposits and borrowed funds, regardless of currency. In addition, the unified rate of obligatory reserve of 10% was determined, which is applied by CBBH on the base for calculation of obligatory reserve.

As of 1 January 2022, the Central Bank of Bosnia and Herzegovina does not charge a fee on obligatory reserve assets basis on the domestic currency, KM, while on obligatory reserve assets basis on foreign currencies and in the domestic currency with a currency clause - it charges a fee at the rate applied by the European Central Bank bank on commercial bank deposits (Deposit Facility Rate) reduced by 10 basis points.

On funds above the obligatory reserve, the Central Bank of BiH calculates fee at the rate applied by the European Central Bank to commercial bank deposits (Deposit Facility Rate) reduced by 25 basis points, which amounts to -0.75%.

As of 1 August 2022, the Central Bank of Bosnia and Herzegovina introduced a fee on funds above the minimum reserve in the amount of -0.25% and on funds obligatory to reserve based on the base in foreign currencies and in domestic currency with a currency clause in the amount of -0.10%.

18. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

	31 December 2022	31 December 2021
Placements with other banks – gross	43,471	19,856
Loans to banks – gross	587,931	782,519
	631,402	**802,375**
Less: Impairment allowance	(656)	(905)
	630,746	**801,470**
Expected to be recovered:		
- no more than twelve months after the reporting period	631,402	785,038
- more than twelve months after the reporting period	-	17,337
Less: Impairment allowance	(656)	(905)
	630,746	**801,470**

As at 31 December 2022, loans and receivables from banks at amortized cost included KM 3,441 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (31 December 2021: KM 3,178 thousand).

(all amounts are expressed in thousands of KM, unless otherwise stated)

18. LOANS TO AND RECEIVABLES FROM BANK AT AMORTIZED COST (CONTINUED)

The movement in impairment allowance for loans to and receivables from banks is as follows:

	2022	2021
Balance as at 1 January	**905**	**1,502**
Forex differences	(9)	13
Impairment losses (Note 13)	(240)	(610)
Write-offs	-	-
Balance as at 31 December	**656**	**905**

Loans to and receivables from Bank at amortized cost, including the obligatory reserve at the CBBH - credit quality

Gross exposure

	31 December 2022				31 December 2021
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[1]					
Performing					
Low risk	1,181,480	-	-	1,181,480	785,697
Medium risk	906	-	-	906	536,216
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**1,182,386**	**-**	**-**	**1,182,386**	**1,321,913**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**1,321,913**	**-**	**-**	**1,321,913**
New financing	75,783	-	-	75,783
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(213,870)	-	-	(213,870)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(470)	-	-	(470)
Other changes	(970)	-	-	(970)
At 31 December 2022	**1,182,386**	**-**	**-**	**1,182,386**

1 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**2,576**	**-**	**-**	**2,576**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment losses (Note 13)	(991)	-	-	(991)
Permanent write-offs during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(9)	-	-	(9)
At 31 December 2022	**1,576**	**-**	**-**	**1,576**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**1,419,461**	**-**	**-**	**1,419,461**
New financing	122,186	-	-	122,186
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	- -	
Assets repaid	(220,357)	-	-	(220,357)
Amounts written off	-	-	-	-
Foreign exchange adjustments	254	-	-	254
Other changes	369	-	-	369
At 31 December 2021	**1,321,913**	**-**	**-**	**1,321,913**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**2,592**	**-**	**-**	**2,592**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment losses (Note 13)	(29)	-	-	(29)
Amounts written off	-	-	-	-
Foreign exchange adjustments	13	-	-	13
At 31 December 2021	**2,576**	**-**	**-**	**2,576**

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST

	31 December 2022	31 December 2021
Corporate (including state and public sector)		
- in domestic currency	1,521,759	1,432,891
- in foreign currency	10,300	10,358
	1,532,059	1,443,249
Retail		
- in domestic currency	2,067,022	1,919,428
- in foreign currency	1	-
	2,067,023	**1,919,428**
Finance lease receivables		
- in domestic currency	40,148	47,321
	40,148	47,321
Total loans and receivables before allowance	**3,639,230**	**3,409,998**
Less: Impairment allowance	(185,653)	(201,355)
Net loans and receivables	**3,453,577**	**3,208,643**
Percentage of allowances in gross loans to clients	5,10%	5,90%
Expected to be recovered:		
- no more than twelve months after the reporting period	1,351,159	1,272,453
- more than twelve months after the reporting period	2,288,071	2,137,545
Less: Impairment allowance	(185,653)	(201,355)
	3,453,577	**3,208,643**

As at 31 December 2022, included in Bank retail loans in domestic currency is KM 385,299 thousand of gross loans (31 December 2021: KM 500,825 thousand), and in corporate loans in domestic currency KM 324,579 thousand (31 December 2021: KM 437,328 thousand) which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the KM equivalent translated at the rate applicable at the date of payment.

	31 December 2022	31 December 2021
Loans and receivables from customers		
Corporate entites	1,430,476	1,321,046
State and public sector	101,583	122,203
Individuals	2,067,023	1,919,428
Finance lease	40,148	47,321
	3,639,230	**3,409,998**
Less: Impairment allowance	(185,653)	(201,355)
	3,453,577	**3,208,643**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

a) Corporate entities – credit quality
Gross exposure

	31 December 2022				31 December 2021
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[2]					
Performing					
Low risk	74,449	-	-	74,449	-
Medium risk	1,025,288	240,061	-	1,265,349	1,251,912
High risk	56,229	5,622	-	61,851	2,243
Non-performing					
Default	-	-	28,827	28,827	66,891
Total	**1,155,966**	**245,683**	**28,827**	**1,430,476**	**1,321,046**

Movement of gross exposure*[3]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**968,012**	**286,143**	**66,891**	**1,321,046**
New financing	698,711	93,896	125	792,732
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	23,099	(23,099)	-	-
Transfers to Stage 2	(18,760)	18,760	-	-
Transfers to Stage 3	-	(7,124)	7,124	-
Assets repaid	(515,096)	(122,893)	(31,095)	(669,084)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(14,218)	(14,218)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2022	**1,155,966**	**245,683**	**28,827**	**1,430,476**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**985,134**	**275,230**	**39,003**	**1,299,367**
New financing	546,437	78,215	302	624,954
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	21,492	(21,492)	-	-
Transfers to Stage 2	(88,562)	88,628	(66)	-
Transfers to Stage 3	(335)	(37,980)	38,315	-
Assets repaid	(496,154)	(96,458)	(3,287)	(595,899)
Accounting write-off during the year	-	-	(5,547)	(5,547)
Amounts written off	-	-	(1,823)	(1,823)
Foreign exchange adjustments	-	-	(6)	(6)
Other changes	-	-	-	-
At 31 December 2021	**968,012**	**286,143**	**66,891**	**1,321,046**

2 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

3 Movements in gross exposures in both years are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

a) Corporate entities – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**4,784**	**48,789**	**52,642**	**106,215**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	115	(115)	-	-
Transfers to Stage 2	(151)	151	-	-
Transfers to Stage 3	-	(28)	28	-
Net remeasurement of loss allowance	2,010	(7,789)	4,050	(1,729)
Impairment due to new financial assets originated or purchased	7,367	18,209	101	25,677
Financial assets that have been derecognised (due to regular repayment)	(2,050)	(13,597)	(16,319)	(31,966)
Unwiding	-	-	(354)	(354)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(14,218)	(14,218)
Foreign exchange adjustments	-	-	6	6
Other changes	3	(1)	280	282
At 31 December 2022	**12,078**	**45,619**	**26,216**	**83,913**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**15,696**	**52,515**	**33,127**	**101,338**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	96	(96)	-	-
Transfers to Stage 2	(6,106)	6,433	(327)	-
Transfers to Stage 3	(19)	(364)	383	-
Net remeasurement of loss allowance	(2,376)	(10,019)	29,258	16,863
Impairment due to new financial assets originated or purchased	2,827	10,855	104	13,786
Financial assets that have been derecognised (due to regular repayment)	(5,334)	(10,535)	(2,850)	(18,719)
Unwiding	-	-	(272)	(272)
Accounting write-off during the year	-	-	(5,547)	(5,547)
Amounts written off			(1,823)	(1,823)
Foreign exchange adjustments	-	-	12	12
Other changes	-	-	577	577
At 31 December 2021	**4,784**	**48,789**	**52,642**	**106,215**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

b) State and public sector – credit quality

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[4]					
Performing					
Low risk	95,318	292	-	95,610	122,203
Medium risk	5,973	-	-	5,973	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**101,291**	**292**	**-**	**101,583**	**122,203**

Movement of gross exposure[5]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**122,203**	**-**	**-**	**122,203**
New financing	3,983	-	-	3,983
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(292)	292	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(24,603)	-	-	(24,603)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2022	**101,291**	**292**	**-**	**101,583**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**102,012**	**-**	**-**	**102,012**
New financing	42,338	-	-	42,338
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(22,147)	-	-	(22,147)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**122,203**	**-**	**-**	**122,203**

4 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk

5 Movements in gross exposures in both years are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

b) State and public sector – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**559**	**-**	**-**	**559**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(2)	2	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(152)	12	-	(140)
Impairment due to new financial assets originated or purchased	21	-	-	21
Financial assets that have been derecognised (due to regular repayment)	(24)	-	-	(24)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2022	**402**	**14**	**-**	**416**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**539**	**-**	**-**	**539**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(163)	-	-	(163)
Impairment due to new financial assets originated or purchased	213	-	-	213
Financial assets that have been derecognised (due to regular repayment)	(30)	-	-	(30)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**559**	**-**	**-**	**559**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

c) Retail – credit quality

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[6]					
Performing					
Low risk	65,133	2,216	-	67,349	-
Medium risk	1,768,167	152,545	-	1,920,712	1,810,082
High risk	106	5,399	-	5,505	35,989
Non-performing					
Default	-	-	73,457	73,457	73,357
Total	**1,833,406**	**160,160**	**73,457**	**2,067,023**	**1,919,428**

Movement of gross exposure[7]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**1,787,054**	**59,017**	**73,357**	**1,919,428**
New financing	727,324	43,969	1,697	772,990
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	20,438	(17,863)	(2,575)	-
Transfers to Stage 2	(97,696)	100,794	(3,098)	-
Transfers to Stage 3	(11,297)	(7,118)	18,415	-
Assets repaid	(592,427)	(18,639)	(13,263)	(624,329)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(1,076)	(1,076)
Foreign exchange adjustments	-	-	-	-
Other changes	10	-	-	10
At 31 December 2022	**1,833,406**	**160,160**	**73,457**	**2,067,023**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**1,713,757**	**70,036**	**75,178**	**1,858,971**
New financing	661,140	8,961	3,484	673,585
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	32,468	(29,032)	(3,436)	-
Transfers to Stage 3	(36,100)	39,472	(3,372)	-
Assets repaid	(15,747)	(9,193)	24,940	-
Accounting write-off during the year	(568,464)	(21,228)	(14,099)	(603,791)
Amounts written off	-	-	(9,313)	(9,313)
Foreign exchange adjustments	-	-	(26)	(26)
Other changes	-	1	1	2
At 31 December 2021	**1,787,054**	**59,017**	**73,357**	**1,919,428**

6 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.
7 Movements in gross exposures in both years are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

c) Retail – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**22,976**	**6,520**	**57,577**	**87,073**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	337	(287)	(50)	-
Transfers to Stage 2	(394)	2,246	(1,852)	-
Transfers to Stage 3	(220)	(1,683)	1,903	-
Net remeasurement of loss allowance	(7,640)	4,630	12,809	9,799
Impairment due to new financial assets originated or purchased	6,457	3,945	1,209	11,611
Financial assets that have been derecognised (due to regular repayment)	(5,096)	(1,152)	(4,033)	(10,281)
Unwiding	-	-	(18)	(18)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(1,076)	(1,076)
Foreign exchange adjustments	-	-	37	37
Other changes	-	-	48	48
At 31 December 2022	**16,420**	**14,219**	**66,554**	**97,193**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**27,760**	**9,000**	**57,943**	**94,703**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	490	(412)	(78)	-
Transfers to Stage 2	(746)	1,044	(298)	-
Transfers to Stage 3	(368)	(18)	386	-
Net remeasurement of loss allowance	(7,444)	(2,479)	11,993	2,070
Impairment due to new financial assets originated or purchased	9,357	1,088	1,959	12,404
Financial assets that have been derecognised (due to regular repayment)	(6,073)	(1,703)	(5,079)	(12,855)
Unwiding	-	-	(34)	(34)
Accounting write-off during the year	-	-	(9,313)	(9,313)
Amounts written off	-	-	(26)	(26)
Foreign exchange adjustments	-	-	20	20
Other changes	-	-	104	104
At 31 December 2021	**22,976**	**6,520**	**57,577**	**87,073**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

d) Finance lease – corporate – credit quality

		31 December 2022			31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[8]					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	32,115	-	32,115	41,946
High risk	-	4,316	-	4,316	15
Non-performing	-	-	-	-	-
Default	-	-	1,986	1,986	3,780
Total	-	**36,431**	**1,986**	**38,417**	**45,741**

Movement of gross exposure[9]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	-	**41,961**	**3,780**	**45,741**
New financing	-	12,319	-	12,319
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	1,337	(1,337)	-
Transfers to Stage 3	-	(36)	36	-
Assets repaid	-	(19,150)	(493)	(19,643)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2022	-	**36,431**	**1,986**	**38,417**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	-	**50,079**	**12,385**	**62,464**
New financing	-	13,854	-	13,854
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	114	(114)	-
Transfers to Stage 3	-	(171)	171	-
Assets repaid	-	(21,933)	(4,538)	(26,471)
Accounting write-off during the year	-	-	(4,056)	(4,056)
Amounts written off	-	-	(68)	(68)
Foreign exchange adjustments	-	-	-	-
Other changes	-	18	-	18
At 31 December 2021	-	**41,961**	**3,780**	**45,741**

8 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

9 Movements in gross exposures in both years are presented based on the data as at year end

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

d) Finance lease – corporate – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**-**	**4,853**	**2,535**	**7,388**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	34	(34)	-
Transfers to Stage 3	-	(1)	1	-
Net remeasurement of loss allowance	-	(2,524)	(897)	(3,421)
Impairment due to new financial assets originated or purchased	-	184	-	184
Financial assets that have been derecognised	-	(76)	(25)	(101)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Other changes	(3)	-	-	(3)
At 31 December 2022	**(3)**	**2,470**	**1,580**	**4,047**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**-**	**4,389**	**11,114**	**15,503**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	1	(1)	-
Transfers to Stage 3	-	(3)	3	-
Net remeasurement of loss allowance	-	565	(3,744)	(3,179)
Impairment due to new financial assets originated or purchased	-	193	-	193
Assets that have been derecognised (due to regular repayment)	-	(292)	(714)	(1,006)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	(4,056)	(4,056)
Amounts written off	-	-	(68)	(68)
Other changes	-	-	1	1
At 31 December 2021	**-**	**4,853**	**2,535**	**7,388**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

e) Finance lease – retail – credit quality

Gross exposure	31 December 2022 Stage 1	Stage 2	Stage 3	Total	31 December 2021 Total
Internal rating grade[10]					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	363		363	772
High risk	-	-	-	-	-
Non-performing	**-**	**-**	**-**	**-**	**-**
Default	-	-	131	131	164
Total	**-**	**363**	**131**	**494**	**936**

Movement of gross exposure[11]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**-**	**772**	**164**	**936**
New financing	-	-	-	-
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	(409)	(33)	(442)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2022	**-**	**363**	**131**	**494**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**-**	**949**	**1,251**	**2,200**
New financing	-	-	237	237
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	193	(193)	-
Transfers to Stage 3	-	(10)	10	-
Assets repaid	-	(359)	-	(359)
Accounting write-off during the year	-	-	(793)	(793)
Amounts written off	-	-	(348)	(348)
Foreign exchange adjustments	-	-	-	-
Other changes	-	(1)	-	(1)
At 31 December 2021	**-**	**772**	**164**	**936**

10 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

11 Movements in gross exposures in both years are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

e) Finance lease – retail – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**-**	**18**	**96**	**114**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	(12)	11	(1)
Impairment due to new financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised (due to regular repayment)	-	(1)	(10)	(11)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Other changes	-	-	(28)	(28)
At 31 December 2022	**-**	**5**	**69**	**74**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**-**	**18**	**1,022**	**1,040**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	8	(8)	-
Net remeasurement of loss allowance	-	(7)	333	326
Impairment due to new financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised (due to regular repayment)	-	(1)	(110)	(111)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	(793)	(793)
Amounts written off	-	-	(348)	(348)
Other changes	-	-	-	-
At 31 December 2021	**-**	**18**	**96**	**114**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

f) Finance lease – governments – credit quality

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[12]					
Performing					
Low risk	-	1,237	-	1,237	-
Medium risk	-	-	-	-	644
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**-**	**1,237**	**-**	**1,237**	**644**

Movement of gross exposure[13]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**-**	**644**	**-**	**644**
New financing	-	753	-	753
Assets derecognised (excluding write offs)	-	(160)	-	(160)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2022	**-**	**1,237**	**-**	**1,237**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**-**	**84**	**-**	**84**
New financing	-	560	-	560
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**-**	**644**	**-**	**644**

12 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk

13 Movements in gross exposures in both years are presented based on the data as at year end.

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

f) Finance lease – governments – credit quality (continued)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**-**	**6**	**-**	**6**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	(2)	-	(2)
Impairment due to new financial assets originated or purchased	-	5	-	5
Financial assets that have been derecognised (due to regular repayment)	-	-	-	-
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Other changes	-	1	-	1
At 31 December 2022	**-**	**10**	**-**	**10**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	-	-	-	-
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Impairment due to new financial assets originated or purchased	-	6	-	6
Financial assets that have been derecognised (due to regular repayment)	-	-	-	-
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Other changes	-	-	-	-
At 31 December 2021	**-**	**6**	**-**	**6**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Loans and receivables from clients at amortized cost are analysed by industry in the table below:

	31 December 2022	31 December 2021
Corporate (including state and public sector)		
Industry:		
Electricity, gas and water	55,055	74,184
Wood and paper	33,920	74,141
Metal and engineering	145,279	53,539
Food and drinks	72,207	51,451
Chemicals	24,432	34,266
Textile and leather	6,370	16,186
Electrical and optical equipment	5,139	3,313
Tobacco	1	150
Other manufacturing	30,083	25,944
Total industry	**372,486**	**333,174**
Retail and wholesale trade	606,062	492,651
Health and social care	77,679	125,607
Central and local governments	104,817	89,888
Tourism	36,983	67,037
Real estate	49,094	66,840
Transport and communications	61,745	54,585
Construction	72,753	54,374
Financial intermediaries	39,161	30,012
Agriculture, forestry and fisheries	14,535	11,458
Education and other public services	2,103	2,273
Other	10,046	8,575
Total	**1,074,978**	**1,003,300**
Total corporate	**1,447,464**	**1,336,474**
Retail		
Non-purpose loans	1,302,305	1,207,502
Housing loans	485,474	441,398
Other retail loans	182,317	183,456
Total retail	**1,970,096**	**1,832,356**
Total loans and receivables from clients	**3,417,560**	**3,168,830**

(all amounts are expressed in thousands of KM, unless otherwise stated)

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Finance lease	31 December 2022	31 December 2021
Corporate (including state and public sector)		
Industry:		
Food and drinks	139	4,210
Wood and paper	1,623	1,190
Metal and engineering	1,921	97
Textile and leather	709	95
Electricity, gas and water	51	368
Chemicals	259	610
Electrical and optical equipment	-	-
Other manufacturing	59	110
Total industry	**4,761**	**6,680**
Retail and wholesale trade	7,224	11,708
Agriculture, forestry and fisheries	1,492	7,676
Transport and communications	3,447	3,821
Construction	11,508	3,799
Financial intermediaries	405	1,176
Real estate	15	637
Tourism	237	587
Education and other public services	56	350
Health and social care	2,771	181
Central and local governments	1,231	87
Other	2,451	2,290
Total	**30,837**	**32,312**
Total corporate	**35,598**	**38,992**
Retail		
Other loans to individuals	419	821
Total retail	**419**	**821**
Total loans and receivables from clients	**36,017**	**39,813**

(all amounts are expressed in thousands of KM, unless otherwise stated)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2022	31 December 2021
Debt securities	679,725	787,835
Equity securities	32	32
	679,757	**787,867**

The movement in impairment allowance for financial assets at fair value through profit or loss is as follows:

	2022	2021
Balance as at 1 January	**3,253**	**2,592**
Net expense in the statement of changes in equity	(110)	661
FX differences in the statement of changes in equity	10	-
Balance as at 31 December	**3,153**	**3,253**

During 2022 and 2021 there were no due uncollected financial assets through other comprehensive income, nor credit impaired financial assets at fair value through other comprehensive income.

a) Debt securities

Debt securities at fair value through other comprehensive income – breakdown per issuer

	31 December 2022	31 December 2021
Bonds of the Government of Republika Srpska	239,588	199,203
Bonds of the Government of Federation of BiH	194,018	252,010
State Bonds of the Republic of Croatia	92,406	160,800
State Bonds of the Republic of Poland	64,433	73,039
State Bonds of the Republic of Slovenia	46,222	46,862
Bonds of the Government of Romania	43,058	55,921
	679,725	**787,835**

Debt securities at fair value through other comprehensive income – credit quality

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[14]					
Performing					
Low risk	246,118	433,606	-	679,724	787,835
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing	**-**	**-**	**-**	**-**	**-**
Default	-	-	-	-	-
Total	**246,118**	**433,606**	**-**	**679,724**	**787,835**

14 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

(all amounts are expressed in thousands of KM, unless otherwise stated)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

a) Debt securities (continued)

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**336,622**	**451,213**	**-**	**787,835**
New financing	-	68,740	-	68,740
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	(19,086)	(21,703)	-	(40,789)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Reduced placements due to repayment (maturity)	(57,110)	(64,912)	-	(122,022)
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	3,203	-	-	3,203
Other changes	(17,511)	268	-	(17,243)
At 31 December 2022	**246,118**	**433,606**	**-**	**679,724**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**1,595**	**1,658**	**-**	**3,253**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment losses (Note 13)	506	(616)	-	(110)
Impact of exchange rate differences	2	-	-	2
Amounts written off	-	-	-	-
At 31 December 2022	**2,103**	**1,042**	**-**	**3,145**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**253,530**	**369,206**	**-**	**622,736**
New financing	91,347	204,550	-	295,897
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	(7,051)	(3,420)	-	(10,471)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Reduced placements due to repayment (maturity)	-	(122,907)	-	(122,907)
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	3,989	-	-	3,989
Other changes	(5,193)	3,784	-	(1,409)
At 31 December 2021	**336,622**	**451,213**	**-**	**787,835**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**317**	**2,273**	**-**	**2,590**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment losses (Note 13)	1,275	(615)	-	660
Impact of exchange rate differences	3	-	-	3
Amounts written off	-	-	-	-
At 31 December 2021	**1,595**	**1,658**	**-**	**3,253**

b) Equity securities

Equity securities at fair value through other comprehensive income

	31 December 2022	31 December 2021
Listed or quoted	32	32
	32	**32**

21. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

A) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2022		31 December 2021	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	12,133	47	77,117	-
Foreign exchange swap contracts	467,437	-	713,944	19
	479,570	**47**	**791,061**	**19**
Financial liabilities				
Forward foreign exchange contracts	452	27	-	-
Foreign exchange swap contracts	2,421	1	129	1
	2,873	**28**	**129**	**1**

B) HEDGING DERIVATIVES

	31 December 2022		31 December 2021	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Interest rate risk - Hedging of FVOCI Securities	102,681	11,701	102,681	1,226
	102,681	**11,701**	**102,681**	**1,226**
Financial liabilities				
Interest rate risk - Hedging of FVOCI Securities	19,558	156	-	-
	19,558	**156**	**-**	**-**

21. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

B) HEDGING DERIVATIVES (CONTINUED)

Items designated as hedged items

The table below shows the items that are "hedged" and that belong to the portfolio of securities carried at fair value through other comprehensive income

FVOCI Securities	2022.	2021.
Hedging assets	90,389	113,919
Hedging liabilities	16,533	-

	Maturity 2022			Maturity 2021		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Hedge of securities						
Nominal amount of FV HA IRS (in millions of euros)	-	102,681	19,558	-	102,681	-
Average fixed interest rate of FV HA IRS	-	(0,31%)	3,03%	-	(0,31%)	-

22. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2022	31 December 2021
Debt securities at amortized cost	61,334	-
Less: Impairment provisions	(408)	-
	60,926	**-**

The movement in impairment allowance for financial assets at amortized cost is as follows:

	2022	2021
Balance as at 1 January	**-**	**-**
Impairment losses (Note 13)	408	-
FX differences	-	-
Balance as at 31 December	**408**	**-**

Debt securities at amortized cost per issuer

	31 December 2022	31 December 2021
Bonds of the Government of Federation of BiH	30,200	-
State Bonds of the Republic of Croatia	16,693	-
State Bonds of the Republic of Poland	14,441	-
	61,334	**-**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Financial assets at amortized cost – credit quality

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[15]					
Performing					
Low risk	31,102	29,824	-	60,926	-
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing	**-**	**-**	**-**	**-**	**-**
Default	-	-	-	-	-
Total	**31,102**	**29,824**	**-**	**60,926**	**-**

Movement of gross exposure[16]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	-	-	-	-
New financing	30,789	30,167	-	60,956
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Reduced placements due to repayment (maturity)	-	-	-	-
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	313	(343)	-	(30)
At 31 December 2022	**31,102**	**29,824**	**-**	**60,926**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	-	-	-	-
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment (Note 13)	31	377	-	408
Impact of exchange rate differences	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2022	**31**	**377**	**-**	**408**

15 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

16 Movements in gross exposures are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

23. OTHER ASSETS AND RECEIVABLES

	31 December 2022	31 December 2021
Receivables from card operations	53,556	35,279
Assets acquired in lieu of uncollectible receivables	1,839	10,452
Accrued fees	1,610	1,896
Other assets	11,462	9,144
	68,467	**56,771**
Less: Impairment allowance	(3,982)	(8,030)
	64,485	**48,741**

The movements in impairment allowance are summarized as follows:

	2022	2021
Balance as at 1 January	**8,030**	**8,672**
Impairment of assets acquired in lieu of uncollected receivables (Note 14)	4,080	212
Impairment losses (Note 13)	476	(76)
Write-offs	(8,635)	(175)
Accounting write-off during the year	-	(597)
Other changes	66	41
Foreign exchange differences	(35)	(47)
Balance as at 31 December	**3,982**	**8,030**

Assets acquired in lieu of uncollectible receivables are assets (property, vehicles and other equipment) related to the collection of the overdue receivables from loan and financial lease clients, which are not classified in the investment property portfolio.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

24. PROPERTY AND EQUIPMENT

	Land and buildings	Motor vehicles and equipment	Computers	Leasehold improvements	Assets in progress	Total
COST						
Balance as at 31 December 2020	**62,216**	**30,627**	**44,401**	**23,969**	**15,166**	**176,379**
Additions	-	-	-	-	8,507	8,507
Write-offs	-	(704)	(2,350)	(2,411)	-	(5,465)
Disposals	(1,943)	(410)	-	-	-	(2,353)
Transfers (from) / to / in use	5,782	3,939	3,351	839	(13,913)	(2)
Fair value adjustment	3,537	-	-	-	-	3,537
Transfer between categories (Note 25)	-	-	-	-	(22)	(22)
Other movements	(4)	-	-	-	(10)	(14)
Balance as at 31 December 2021	**69,588**	**33,452**	**45,402**	**22,397**	**9,728**	**180,567**
Additions	-	-	-	-	6,821	6,821
Write-offs	(597)	(1,475)	(1,316)	(961)	-	(4,349)
Disposals	(928)	-	-	-	-	(928)
Transfers (from) / to / in use	3,211	1,788	3,117	433	(8,549)	-
Fair value adjustment	3,550	-	-	-	-	3,550
Transfer between categories	-	646	(646)	-	(11)	(11)
Other movements	(4)	-	-	-	-	(4)
Balance as at 31 December 2022	**74,820**	**34,411**	**46,557**	**21,869**	**7,989**	**185,646**
ACCUMULATED DEPRECIATION						
Balance as at 31 December 2020	**29,627**	**23,514**	**34,216**	**22,158**	**-**	**109,515**
Depreciation charge for the year	1,051	1,606	3,455	686	-	6,798
Write-offs	-	(704)	(2,353)	(2,409)	-	(5,466)
Disposals	(1,443)	(347)	-	-	-	(1,790)
Fair value adjustment	744	-	-	-	-	744
Balance as at 31 December 2021	**29,979**	**24,069**	**35,318**	**20,435**	**-**	**109,801**
Depreciation charge for the year	1,187	1,770	3,401	737	-	7,095
Write-offs	(332)	(1,330)	(1,308)	(960)	-	(3,930)
Disposals	(381)	-	-	-	-	(381)
Fair value adjustment	1,968	-	-	-	-	1,968
Balance as at 31 December 2022	**32,421**	**24,509**	**37,411**	**20,212**	**-**	**114,553**
NET BOOK VALUE						
31 December 2021	**39,609**	**9,383**	**10,084**	**1,962**	**9,728**	**70,766**
31 December 2022	**42,399**	**9,902**	**9,146**	**1,657**	**7,989**	**71,093**

(all amounts are expressed in thousands of KM, unless otherwise stated)

24. PROPERTY AND EQUIPMENT (CONTINUED)

The carrying value of the Bank's non-depreciating land within land and buildings amounted to KM 5,218 thousand as at 31 December 2022. During 2022, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2022, Bank's property and equipment were not pledged as collateral.

Fair value measurement of buildings and land was conducted by an independent appraiser, which is not a member company of UniCredit Group, whose personnel has adequate qualification and experience in assessing fair value of property in relevant locations.

The fair value of the building and the land was determined using: cost approach – replacement cost method; market approach – method of comparable transactions, and yield approach – discounted cash flow method.

The following parameters have been taken into account in the selection of methods for determining the estimated market value of the real estate in question: type of real estate (e.g. residential units, business premises, production facilities, construction land, etc.), purpose of the real estate (e.g. for residential, production, trade, provision of services, storage, administration, etc.), location of the real estate (urban, rural, industrial zone), adequate comparative prices for the sale and/or lease of the real estate and other factors that may influence the choice of the valuation method itself (quality of the building, current use and other).

Information about the fair value hierarchy as at 31 December 2022 is as follows:

Level 1	Level 2	Level 3
-	-	42,399

25. RIGHT OF USE ASSETS

	Right of use buildings
COST	
As at 1 January 2021	**14,262**
Additions	4,146
Disposals	(5,016)
As at 31 December 2021	**13,392**
Additions	4,932
Disposals	(3,974)
As at 31 December 2022	**14,350**
ACCUMULATED DEPRECIATION	
As at 1 January 2021	**6,766**
Depreciation charge for the year	3,486
Disposals	(3,776)
As at 31 December 2021	**6,476**
Depreciation charge for the year	3,306
Disposals	(4,604)
As at 31 December 2022	**5,178**
NET BOOK VALUE	
As at 31 December 2021	**6,916**
As at 31 December 2022	**9,172**

Right to use assets refer to leased properties that the Bank has leased for business operations, and whose lease agreements are longer than 1 year.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

26. INTANGIBLE ASSETS

	Software	Other intangible assets	Assets in progress	Total
COST				
As at 31 December 2020	**57,844**	**2,768**	**10,400**	**71,012**
Additions	-	-	7,272	7,272
Disposals	(449)	(72)	-	(521)
Transfers (from) / to	13,041	57	(13,098)	-
Transfer to property and equipment (Note 23)	-	-	22	22
Transfer to other assets	-	-	1	1
As at 31 December 2021	**70,436**	**2,753**	**4,597**	**77,786**
Additions	-	-	5,336	5,336
Disposals	(6)	-	-	(6)
Transfers (from) / to	3,516	44	(3,560)	-
Transfer to other assets	-	-	3	3
As at 31 December 2022	**73,946**	**2,797**	**6,376**	**83,119**
ACCUMULATED DEPRECIATION				
As at 31 December 2020	**50,228**	**2,414**	**552**	**53,194**
Depreciation charge for the year	3,980	136	-	4,116
Disposals	(449)	(72)	-	(521)
Other movements	-	11	-	11
As at 31 December 2021	**53,759**	**2,489**	**552**	**56,800**
Depreciation charge for the year	4,764	105	-	4,869
Disposals	(6)	-	-	(6)
Other movements	57	-	-	57
As at 31 December 2022	**58,574**	**2,594**	**552**	**61,720**
NET BOOK VALUE				
31 December 2021	**16,677**	**264**	**4,045**	**20,986**
31 December 2022	**15,372**	**203**	**5,824**	**21,399**

During 2022 and 2021, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2022 and 2021, intangible assets were not pledged as collateral for the Bank's borrowings.

27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS AT AMORTIZED COST

	31 December 2022	31 December 2021
Demand deposits		
- in foreign currency	686	1,866
- in KM	8,160	10,867
Fixed-term deposits		
- in foreign currency	-	-
- in KM	-	16,006
	8,846	**28,739**

As at 31 December 2022, current accounts and deposits from banks include KM 1,574 thousand due to related parties (31 December 2021: KM 23,810 thousand).

(all amounts are expressed in thousands of KM, unless otherwise stated)

28. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS AT AMORTIZED COST

	31 December 2022	31 December 2021
Retail		
Current and savings accounts and term deposits - foreign currency	1,383 591	1,485,308
Current and savings accounts and term deposits - KM	1,940,182	1,835,660
	3,323,773	**3,320,968**
Corporate (including state and public sector)		
Demand deposits		
- in KM	1,615,385	1,491,442
- in foreign currency	483,126	366,446
Fixed-term deposits		
- in KM	83,389	97,300
- in foreign currency	11,037	18,284
	2,192,937	**1,973,472**
	5,516,710	**5,294,440**

As at 31 December 2022, the Bank's retail deposits in KM include KM 401 thousand (31 December 2021: KM 454 thousand) and corporate and state deposits in KM include KM 37,506 thousand (31 December 2021: KM 67,892 thousand) which have a EUR currency clause, with payments in KM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits of the Bank also include KM 621 thousand from related parties (31 December 2021: KM 701 thousand).

29. BORROWINGS

	31 December 2022	31 December 2021
Foreign banks	26,379	16,982
	26,379	**16,982**
Maturity analysis:		
Within one year	21,299	11,902
In the second year	3,683	3,683
Third to fifth year	1,397	1,397
	26,379	**16,982**

Main terms of the borrowings are as follows:

- EBRD CSP - The borrowing is intended to finance small and medium-sized enterprises through investment in micro, small and medium-sized enterprises in order to help improve competitiveness and compliance with the technical standards of the European Union. Loan agreement signed on December 20, 2018 in amount EUR 5m with maturity 5 years
- EBRD Go Digital - The borrowing is intended for the financing of small and medium-sized enterprises through investment in micro, small and medium-sized enterprises in order to help improve competitiveness and compliance with the technical standards of the European Union. Loan agreement signed on November 10, 2022 in amount EUR 10m with maturity 5 years
- IFC - implementation of the IFC-Canadian climate change program. Loan agreement signed on July 28, 2015 in amount EUR 5m with maturity 7 years
- KFW - The borrowing is intended to finance and provide support to micro, small and medium-sized enterprises and private entrepreneurs who are affected by the impact of the COVID-19 pandemic throughout BiH and thus directly contribute to the improvement of the business environment and the preservaton of business in BiH. Loan agreement signed on July 27, 2022 in amount EUR 6m with maturity 3 years

As of December 31, 2022, the Bank had no interest-bearing loans related to loans from related parties, as they matured on September 30, 2022. (as of December 31, 2021: 2,906 thousand KM).

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

30. OTHER LIABILITIES

	31 December 2022	31 December 2021
Liabilities for items in the course of settlement	70,156	64,052
Accrued expenses	24,000	20,822
Unliateral contract termination	25,749	16,592
Liabilities for card operations	22,999	14,114
Deferred income	1,807	2,180
Lease users' down payments	308	417
Other liabilities	9,525	12,057
	154,544	**130,234**

31. LEASE LIABILITIES

Long-term lease payables	31 December 2022	31 December 2021
less than 1 year	3,095	2,742
1 to 2 years	2,611	1,858
2 to more years	3,621	2,321
Total amount of long-term lease payments	**9,327**	**6,921**
Discounting effects (unearned finance cost)	(275)	(102)
At 31 December	**9,052**	**6,819**

32. PROVISIONS FOR LIABILITIES AND CHARGES

	Provisions for contingencies and commitments	Provisions for legal proceedings*	Long-term provisions for employees	Total
Balance as at 31 December 2020	**14,765**	**12,283**	**3,419**	**30,467**
Net charge in profit or loss (Note 13, 14)	(1,018)	637	120	(261)
Provisions used during the period	-	(196)	(258)	(454)
Cost/release under IAS 19	-	-	(75)	(75)
Actuarial gain/loss for the period	-	-	4	4
Reclassification from other liabilities	-	(2)	117	115
Foreign currency differences	11	-	-	11
Balance as at 31 December 2021	**13,758**	**12,722**	**3,327**	**29,807**
Net charge in profit or loss (Note 13, 14)	13,817	697	229	14,743
Provisions used during the period	-	(91)	(171)	(262)
Cost/release under IAS 19	-	-	-	-
Actuarial gain/loss for the period	-	-	(43)	(43)
Reclassification from other liabilities	-	(118)	(472)	(590)
Foreign currency differences	(28)	-	-	(28)
Balance as at 31 December 2022	**27,547**	**13,210**	**2,870**	**43,627**

* Nature of provisions for legal proceedings:

(all amounts are expressed in thousands of KM, unless otherwise stated)

32. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Provisions for legal proceedings relates to passive legal disputes, ie. court proceedings where the Bank acts as defendant. These proceedings mainly relates to: payment of debt and compensation for damages, unjust enrichment, payment of salary difference, determination of nullity of credit agreement or mortgage agreement or guarantee, inadmissibility of enforcement, determination of the co-ownership part of the matrimonial property.

The Bank regularly assess the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned KM 13,210 thousand (2021: KM 12,722 thousand) for legal proceedings, which the Management believes to be sufficient amount.

33. SHARE CAPITAL

	Class A Ordinary shares	Class D Preference shares	Total
Number of shares	119,011	184	119,195
Nominal value (in KM)	1,000	1,000	1,000
Total	**119,011**	**184**	**119,195**

Share capital of the Bank is determined in amount of 119.195.000,00 KM and it is devided to:

119,011 ordinary shares “A” series, nominal value 1,000 KM per share and 184 preferential cumulative shares of “D” series nominal value 1.000 KM per one share. Ordinary share of “A” series gives right on one vote on General Assembly of the Banke, right of management of the Bank on the way determined by the Statute, right of participation in Bank’s profit proportionally to the nominal value of the share and other rights determined by the Statute and the Law. Preferential cumulative share of “D” series gives right of priority in dividend payout from Bank’s profit proportionally to nominal value of the share and right of priority in payout in case of bankruptcy or liquidation of the Bank from non-distributed liquidation estate.

34. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2022	2021
Net profit for the year attributable to ordinary shareholders	112,526	88,091
Weighted average number of ordinary shares during the period	119,011	118,935
Basic earnings per share (KM)	**945.51**	**740.67**

Diluted earnings per share are not presented, as the Bank has not issued dilutive equity instruments.

35. COMMITMENTS AND CONTINGENT LIABILITIES

During its operations, the Bank has commitments and contigent liabilities recoreded in off-balance, which are related to guarantees, credentials and unused part of loan facilities.

	31 December 2022	31 December 2021
Financial guarantees and Letters of credit	381,267	330,887
Other undrawn commitments	810,709	709,390
Total	**1,191,976**	**1,040,277**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

a) Financial guarantees and Letters of credit

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[17]					
Performing					
Low risk	38,991	-	-	38,991	16,146
Medium risk	244,843	83,624	-	328,467	313,500
High risk	7,783	-	-	7,783	188
Non-performing					
Default	-	-	6,026	6,026	1,053
Total	**291,617**	**83,624**	**6,026**	**381,267**	**330,887**

Movement of gross exposure[18]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**261,896**	**67,939**	**1,052**	**330,887**
New exposure	224,809	65,873	-	290,682
Exposure matured	(184,160)	(55,090)	(1,052)	(240,302)
Transfers to Stage 1	428	(428)	-	-
Transfers to Stage 2	(5,364)	5,364	-	-
Transfers to Stage 3	(5,992)	(34)	6,026	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2022	**291,617**	**83,624**	**6,026**	**381,267**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**267,118**	**59,915**	**1,222**	**328,255**
New exposure	186,392	46,507	-	232,899
Exposure matured	(190,909)	(39,188)	(170)	(230,267)
Transfers to Stage 1	477	(477)	-	-
Transfers to Stage 2	(1,182)	1,182	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2021	**261,896**	**67,939**	**1,052**	**330,887**

Movement of provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**657**	**6,714**	**791**	**8,162**
Transfers to Stage 1	2	(2)	-	-
Transfers to Stage 2	(14)	13	1	-
Transfers to Stage 3	(15)	-	15	-
Net remeasurement of loss allowance	27	2,777	4,804	7,608
Impairement due to new financial assets originated or purchased	1,051	10,726	-	11,777
Financial assets that have been derecognised (due to maturity)	(434)	(4,911)	(843)	(6,188)
Foreign exchange adjustments	-	-	-	-
At 31 December 2022	**1,274**	**15,317**	**4,768**	**21,359**

17 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

18 Movements in gross exposures in both years are presented based on the closing balance classification as at year end.

(all amounts are expressed in thousands of KM, unless otherwise stated)

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

a) Financial guarantees and Letters of credit (continued)

Movement of provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**1,159**	**4,920**	**474**	**6,553**
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(177)	177	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	74	1,653	317	2,044
Impairment due to new financial assets originated	449	-	-	449
Financial assets that have been derecognised (due to maturity)	(860)	(35)		(895)
Foreign exchange adjustments	11	-	-	11
At 31 December 2021	**657**	**6,714**	**791**	**8,162**

b) Other undrawn commitments

	31 December 2022				31 December 2021
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[19]					
Performing					
Low risk	1,640	-	-	1,640	-
Medium risk	777,718	30,107	-	807,825	708,959
High risk	738	446	-	1,184	310
Non-performing					
Default	-	-	60	60	121
Total	**780,096**	**30,553**	**60**	**810,709**	**709,390**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**674,726**	**34,581**	**83**	**709,390**
New exposure	473,543	25,773	42	499,358
Exposure matured	(366,007)	(32,010)	(82)	(398,099)
Transfers to Stage 1	1,646	(1,646)	-	-
Transfers to Stage 2	(3,857)	3,846	11	-
Transfers to Stage 3	(15)	9	6	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	60	-	-	60
At 31 December 2022	**780,096**	**30,553**	**60**	**810,709**

19 12-month PD ranges for the level of the risk of non-fulfillment of the contractual obligation is as follows: 0-0.43% Low risk, 0.43%-10.12% Medium risk and 10.12%-100% High risk.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**673,897**	**51,721**	**354**	**725,973**
New exposure	371,813	28,787	44	400,643
Exposure matured	(370,127)	(46,723)	(363)	(417,213)
Transfers to Stage 1	954	(954)	-	-
Transfers to Stage 2	(1,747)	1,747	-	-
Transfers to Stage 3	(51)	3	48	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	(13)	-	-	(13)
At 31 December 2021	**674,726**	**34,581**	**83**	**709,390**

Movement of provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	**2,123**	**3,349**	**124**	**5,596**
Transfers to Stage 1	4	(4)	-	-
Transfers to Stage 2	(12)	12	-	-
Transfers to Stage 3	-	1	(1)	-
Net remeasurement of loss allowance	84	(41)	28	71
Impairement due to new financial assets originated or purchased	1,612	3,135	10	4,757
Financial assets that have been derecognised (due to maturity)	(954)	(3,206)	(48)	(4,208)
Foreign exchange adjustments	(11)	-	(17)	(28)
Other changes	-	-	-	-
At 31 December 2022	**2,846**	**3,246**	**96**	**6,188**

Movement of provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	**3,339**	**4,681**	**192**	**8,212**
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	(130)	130	-	-
Transfers to Stage 3	-	-	-	-
Movement in the existing loan	(323)	(1,395)	(68)	(1,787)
New placement	937	25		962
Placement paid of	(1,703)	(89)		(1,791)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2021	**2,123**	**3,349**	**124**	**5,596**

(all amounts are expressed in thousands of KM, unless otherwise stated)

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

	31 December 2022	31 December 2021
Assets under custody	565,580	489,672
Loans managed on behalf of third parties	26,450	27,787
	592,030	**517,459**

These funds are not part of the statement of the financial position of the Bank, nor part of the assets of the Bank, and they are managed separately. The Bank earn fee income for provision of the related services.

37. RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholder of the Bank is Zagrebačka banka d.d. with a holding of 99.30% (2021: 99.30%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; Supervisory Board members, Management Board members and other key management personnel (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members.

Related party transactions are part of the Bank's regular operations.

An overview of related party transactions as of 31 December 2022 and 31 December 2021 is presented in the table below:

	2022		2021	
	Income	Expenses	Income	Expenses
UniCredit Broker d.o.o. Sarajevo, BiH	-	-	504	-
UniCredit Bank a.d. Banja Luka, BiH	723	(38)	422	(369)
UniCredit Bank Austria AG Vienna, Austria	95	89	87	40
UniCredit S.p.A Milan, Italy	357	803	54	1,545
Zagrebačka banka d.d. Zagreb, Croatia	69	886	48	1,514
UniCredit Bank AG München, Germany	7	(66)	38	4
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	19	(155)	17	-
Uctam BH d.o.o. Mostar, BiH	5	-	7	-
ZANE BH d.o.o. Sarajevo, BiH	-	-	1	81
UniCredit Bank Hungary, Budapest, Hungary	3	(180)	1	9
UniCredit Services GmbH Vienna, Austria	-	6,654	-	5,994
UniCredit Budiness Integrated Solutions S.C.p.A	-	-	-	86
UniCredit Bank Srbija a.d. Beograd, Serbia	-	19	-	33
UniCredit Leasing Slovakia A.S., Bratislava, Slovakia	-	12	-	10
UniCredit Bank Czech Republic and Slovakia, a.s., Bratislava	-	(44)	-	-
UniCredit Services S.C.p.A Branch Germany	-	(277)	-	-
Total related parties	**1,278**	**7,703**	**1,179**	**8,947**
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	16	7,168	94	7,236
	1,294	**14,871**	**1,273**	**16,183**

Realized income according to UniCredit Group members in 2022 includes interest income in the amount of 268 thousand KM (2021: 7 thousand KM), and income based on fees in the amount of 244 thousand KM (2021: 231 thousand KM). Realized income in 2022 included 384 thousand KM of other income.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Realized expenses according to the members of the UniCredit Group in 2022 include expenses based on interest in the amount of 481 thousand KM (2021: 369 thousand KM), expenses based on fees in the amount of 1,589 thousand KM (2021: 1,668 thousand KM), other administrative expenses in the amount of 5,511 thousand KM (2021: 7,647 thousand KM), and other expenses in the amount of 203 thousand KM (2021: 2 thousand KM).

An overview of balances at 31 December 2021 and 31 December 2022 is presented below:

	31 December 2022		31 December 2021	
	Exposure*	Liabilities	Exposure*	Liabilities
UniCredit S.p.A Milan, Italy	634,007	765	814,815	1,943
Zagrebačka banka d.d. Zagreb, Croatia	25,256	318	29,588	3,723
UniCredit Bank Austria AG Vienna, Austria	23,058	494	18,438	3,400
UniCredit Bank a.d. Banja Luka, BiH	209	1	16,709	16,010
UniCredit Services Vienna, Austria	3,505	1,196	5,171	297
UniCredit Bank AG München, Germany	14,911	492	3,118	797
UniCredit Bank Srbija a.d. Beograd, Serbia	-	33	1,318	41
UniCredit Bank Hungary, Budapest, Hungary	189	22	554	22
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	156	484	283	345
UniCredit Services S.C.p.A Prague, Czech Republic	-	-	70	86
ZANE BH d.o.o. Sarajevo, BiH	-	-	-	-
UniCredit Bank Czech Republic and Slovakia, a.s. Prague, Czech Republic	271	-	-	-
Uctam BH d.o.o. Mostar, BiH	-	621	-	-
UniCredit Services S.C.p.A Branch Germany	44	-	-	-
Total related parties	**701,606**	**4,426**	**890,064**	**26,664**
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	1,483	1,500	1,284	1,297
	703,089	**5,926**	**891,348**	**27,961**

** Exposure includes loans, interest receivables, other receivables and off-balance-sheet exposure.*

Regarding exposure toward the related parties, impairment losses as at 31 December 2022 amount to KM 264 thousand (31 December 2021 was KM 15,561 thousand).

Furthermore, as at 31 December 2022, the Bank has guarantees from: UniCredit Bank Austria AG in the amount of KM 27,797 thousand (31 December 2021: KM 15,561 thousand); UniCredit SpA Milano in the amount of KM 127 thousand (31 December 2021: KM 879 thousand) and from UniCredit Bank AG Munich in the amount of KM 375 thousand (31 December 2021: KM 657 thousand) and Zagrebačka Banka d.d. Zagreb in the amount of KM 223 thousand(31 December 2021:KM 0) while as at 31 December 2022 The Bank had no guarantees given (31 December 2021: 0 KM).

Salaries and fees paid to members of the supervisory board, the bank's management and other key management:

Short-term remuneration	2022	2021
Gross salaries disbursed in the current year for the current year	4,564	4,493
Variable bonuses disbursed in the current year for the previous year - gross	1,029	905
Other short term remunerations	889	1,159
Long -term remuneration		
Variable bonuses disbursed in the current year for prior years – gross	162	170
	6,644	**6,727**

15 employees were included in the Management Board and other key management personnel (2021: 51 employees), including personnel that spent only a part of 2022 in such positions.

There were no approved loans to members of the Management Board in 2022.. There were no written-off amounts related to approved loans to members of the Management Board and the Supervisory Board.

38. RISK MANAGEMENT

The Bank's risk management is conducted through a system of policies, programmes, procedures and approved limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of the Bank.

The most important types of risk to which the Bank is exposed to are credit risk, market risk and operating risk.

The Supervisory Board and the Management Board define the principles of risk management and internal acts related to risk management.

38.1 Credit risk

Credit risk is the risk that the Bank will suffer a loss because its customers or other parties do not meet their contractual obligations. The Bank is exposed to credit risk through credit and investment activities and in cases where it acts as an intermediary on behalf of clients or other third parties.

Credit risk is the risk of loss due to non-fulfillment of the borrower's financial obligation towards the Bank. It represents the risk that an unexpected change in the credit quality of a client could trigger a change in the value of credit exposure toward it. This change in the value of credit exposure can be the consequence of:

- default by a client who is unable to meet the contractual obligations
- customer credit quality worsening.

The Bank manage and control the credit risk by setting the limit on the amount of risk that is willing to accept, concentrating and monitoring exposures in accordance with these limits.

The Bank's primary exposure to credit risk arises from loans and receivables from customers and banks. The amount of credit exposure in this respect represents the carrying amount of the asset. Furthermore, the Bank is exposed to credit risk in relation to off-balance-sheet liabilities arising from unused funds and guarantees issued.

The Bank has established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

Credit risk management

Credit risk management integrates the organizational structure of the Bank on the basis of accurately defined authorities and responsibilities among employees, the system of internal acts, internal controls, and methods of measurement, monitoring and credit risk management.

Credit risk is managed in accordance with the applicable programs and policies of the Bank and the regulatory requirements of the Federal Banking Agency.

Credit exposure to portfolios and individual clients / groups is regularly reviewed taking into account the set limits.

Any proposed significant increase in credit exposure is considered by the Risk Management prior to its approval as well as during the credit exposure monitoring phase and is approved at the appropriate decision-making level.

The Credit Committee is regularly informed of any significant changes in the quantity and quality of the portfolio, including the proposed impairment losses. Credit risk is continuously monitored and reported, facilitating early recognition of impairment in the loan portfolio.

The Bank has established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

In order to manage the level of credit risk, the Bank operates with good credit rating clients, and where appropriate, security instruments are taken.

Most credit risk exposures are secured by collateral in the form of cash, guarantees, mortgages and other forms of collateral.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Impairment and provisioning policies

For this purpose, the Bank applies a "3-Stage" model that is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, aiming to reflect the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date. Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

Given the classification in different stages, the classification of credit exposure to performing and non-performing:

- Stages 1 and 2 may only include performing financial assets,
- Stage 3 may only include non-performing financial assets.

Financial Instruments in Stage 1 result in Recognition of the 12-month ECL.

Financial instruments in Stage 2 result in the recognition of lifetime ECLs for the instrument. For financial instruments in Stage 3, the lifetime ECL will be recorded.

Definition of default status and recovery

The client is in the default status if the client is late with the payment of a material amount of more than 90 consecutive calendar days by the counter or when they are unlikely to pay one of their obligations in full (UTP event).

The Bank and Group have implemented a delay counter that takes into account the threshold of materiality. Substantial material liability is assumed when the receivables of the bank from corporate clients are more than KM 1,000 and 1% of the debtor's exposure, and from natural persons exceeds 1% of the debtor's exposure and 200 KM.

The recovery period is defined as the indicator of the borrower's ability and willingness to meet the contractual terms of recovery.

This period also aims to prevent the repetition of a default by a debtor shortly after the payment / agreement / entry into force of the deferment.

The period of recovery (reaging) implies that no new event of default may occur during that period and the amount of due receivables may not exceed the defined threshold of materiality.

PD assessment process

Probability of default (PD) is an estimate of the probability of default, i.e. the client's transition to the default status. It gives an estimate of the likelihood that a client will not be able to settle their obligations over a certain period of time.

The probability of default (PD) reflects the 12-month probability of default based on the long-term average of the one-year default rate which is next adjusted to be point in time, as described in more details below.

There are two approaches to determining the PD for the purposes of calculating impairment.

For the low risk portfolio (Sovereign, Banks), Group Ratios are applied to PDs based on the Group rating model, and for the rest of the portfolio, the Bank's internal data is used, i.e. PDs created based on data on historical defaut rate of individual groups of exposures on the basis of days overdue and product types.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

PD assessment process (continued)

Classification of credit assets into risk grades is based on the average realized default rates based on which PiT (Point in time) adjustments are performed to calculate the IFRS 9 impairment The Bank uses 12-month PD rates (calculated for each homogenius group based on the Banks internal methodology) based on which individual exposures are classified to the following internal credit rating categories::

- Low risk of non-fulfilment of the contractual obligation: 12m PD rage from 0 – 0.43%
- Medium risk of non-fulfilment of the contractual obligation: 12m PD range from 0.43% - 10.12%
- Medium risk of non-fulfilment of the contractual obligation: 12m PD range from 10.12%-100%

EAD

EAD (Exposure at Default) represents the measure of exposure at the time of the default event. The EAD lifetime was obtained taking into account the expected changes in future periods, based on the repayment plan. For unused off-balance exposure, full use (CCF of 100%) was assumed.

LGD

LGD (Loss Given Default) represents the percentage of estimated loss, and thus the expected return rate, at the date of the occurrence of a default event.

To assess LGD, the Bank segmented their corporate and retail portfolio into homogeneous portfolios based on key features that are relevant for estimating future cash flows. The data used is based on historically collected loss data and includes a wider set of transaction characteristics (e.g. product type).

LGD is calculated on the basis of cure rate and discounted collateral values after applying haircuts, and efficency factors (calculated on the basis of historical collateral charge information).

Adjustments to PD and LGD apply according to IFRS 9 requirements:

- Apply PIT adjustment instead of TTC
- Include FLI information
- Expand credit risk parameters in a multi-annual perspective

Incorporation of forward-looking information

Since IFRS9 requires to use PDs which are Point in Time and Forward Looking, the TTC lifetime PD curves are adjusted leveraging on delta default rate (Forward Looking component) provided by Group ICAAP & Stress testing function (Satellite models), to be applied on top of the most recent DR (PIT component) – default rate. The Group has decided to leverage on the Stress Test Models for including macro-economic effects into the expected credit losses. The decision to leverage on Satellite models is aimed at ensuring a proper alignment between the various processes that within the Bank foresee the usage of macro-economic forecasts (e.g. portfolio strategy, budgeting, stress testing).

Satellite models are based on internal estimates of macro-economic indicators' forecasts and developed according to well-known econometric models.

The key drivers for credit risk are: GDP growth, unemployment rates, inflation based on which is created list of variables used for satellite model.

IFRS 9, paragraph B5.5.42 standard requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

The selected approach implied the use of two different macro-economic scenarios and probability weights for each one, more specifically one baseline and one downside scenarios are considered. UniCredit Research department produces semiannually

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

macroeconomic forecasts under baseline and alternative downside scenarios. Each scenario envisages three years of forecasts including all the relevant macro-economic factors considered in the satellite models (as presented in the Table below). A probability of occurrence, judgmentally defined by UniCredit Research department, is assigned to each scenario, ensuring that the downside scenarios probability is not biased to extreme scenarios, otherwise the range and weighting of scenarios would be not representative. An "average" scenario is defined as the weighted average of delta DRs provided under each of the scenarios previously mentioned.

Consideration of multiple scenarios is relevant in case a non-linear relationship between key components of ECL and the relevant economic parameter exists.

Fulfillments of the above expaline the requirements of the standard would require calculating the ECL under multiple scenarios and deriving a weighted average ECL based on the probability of each scenario to happen. Alternatively, banks are allowed to derive an overlay factor to account for the non-linearity of the ECL risk components and relevant economic parameters. Running more scenarios under the Loan loss provisions production process would not fit the Loan loss provisions production timeline and has been considered to be an undue cost and effort for the Bank. It was therefore decided to account for multiple macroeconomic scenarios by estimating a yearly overlay factor to be applied to the ECL calculated under the baseline scenario.

A simple and straightforward approach to derive the overlay factor consists in determining the ratio between the probability weighted ECL and the ECL under the baseline scenario as shown below:

$$\text{Overlay factor} = \frac{ECL_{Weighted}}{ECL_{Baseline}}$$

ECL weighted is calculated based on scenarios probabilities (for 2022 60% Baseline and 40% Adverse) as follows:.

ECL weighted =60%*ECL Baseline +40% ECL Adverse

The overlay factor must be recalibrated semiannually as soon as the new forecasts and weights under multiple scenarios are available.

The overlay factors on Group Wide portfolios (sovereign, banks) are estimated centrally and shared with the Bank on time for the local application in the monthly Loan loss provisionsing process.

Finally, it is underlined that the overlay factor does not represent an estimated parameter, but a multiplicative factor to be applied on top of the Baseline ECL to produce a final ECL that is a probability-weighted amount determined by evaluating a range of possible outcomes.

The final ECL is calculated as:

$$ECL_{Final} = ECL_{Baseline} \times \text{Overlay factor}$$

The table below provides the list of macroeconomic assumptions used in the baseline and adverse scenario over the three years period.

	Baseline (60%)				Adverse (40%)			
Macroeconomic scenario	2022	2023	2024	2025	2022	2023	2024	2025
Real GDP, yoy % change	3.8	1.9	3.0	3.5	3.8	(3.3)	3.6	3.2
Inflation (CPI) yoy, eop	13.4	5.0	3.1	2.0	13.4	6.4	3.2	2.3
Inflation (CPI)yoy, average	13.5	8.2	3.1	2.5	13.5	10.8	3.8	3.0
Monthly wage, Nominal in EUR	820.5	836.7	862.2	892.8	820.5	804.1	870.4	889.1
Unemployment rate, %	30.5	30.0	28.0	25.5	30.5	33.0	29.5	28.5
Exchange rate /€, eop	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Exchange rate /€, average	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
House Price Index, yoy % change	10.0	6.0	5.0	5.0	10.0	(14.8)	5.0	5.0

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated ino the calculations.

The management performs sensitivity analysis of ECL as the ratio of:

- the difference between the ECL estimated under the adverse scenario and the one under the baseline;
- the GDP deviations (on 3 years cumulative basis) between adverse and baseline scenarios (in % points).

The Implied assumptions are:

- GDP forecast (over 3 years) is assumed to be the most relevant economic factor as indicator of scenario severity;

The results considering the up to date IFRS9 scenarios and portfolio are the following:

- for 1 point of GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +1%.

Cumulated GDP (% yoy)		ECL Amount (KM/mln)		ECL difference vs Baseline (KM/mln)	ECL difference vs Baseline (%)	ECL Sensitivity vy 3-year cum GDP	%ECL Sensitivity vs 3 year cum GDP (%)
Baseline	Negative	Baseline	Negative	Negative	Negative	For 1 GDP point drop (3-year cumulated basis)	For 1 GDP point drop (3-year cumulated basis)
8,6	3.4	203	209	6	3%	1.2	1%

In order to factor-in into the ECL the risks underlying the sharp rise in energy costs, inflation and interest rates, given new geo political context and the start of the Russian-Ukraine conflict, for both Corporate and Private individuals portfolio, in 2022 the Bank adopted a specific geo-political overlay. In this regard the adoption of this overlay is a complementary measure to the IFRS9 models that, by their structure, have been already properly and directly proving to recognize the effect of geo-political crises. In this context while IFRS 9 models and in particular satellite models are able to capture the effect of macro-economic scenario at portfolio level, the geopolitical overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions

Indeed as of 31 December 2022 geopolitical overlay amounted to 12,1mn KM and is broken-down according to the following components:

- Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russia - Ukraine crisis, specifically impacting the energy supply and related price soaring;
- Retail clients, for: (i) floating rate (not having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying - as macro-economic conditions - the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate. Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose ECLs are then calculated according to the average coverage rate applied to Unlikely to Pay.

(all amounts are expressed in thousands of KM, unless otherwise stated)

The Geo-political overlay is a multiplicative overlay to be applied on top to the ECL based on the following formula:

$$ECL_{Geo\text{-}political} = ECL \times Overlay_{Geo\text{-}political}$$

Decision on credit risk management and determination of expected credit losses

As disclosed in Note 2.1 as of January 1, 2020, the Bank measures expected credit losses in accordance with the requirements of the Decision on Credit Risk Management and Determination of Expected Credit Losses.

The requirements of the new Decision regarding impairment are based on the model of expected credit losses of IFRS 9, with certain specifics (for example, the prescribed minimum rates of expected credit losses for credit risk levels), based on which the Bank applies the following rules of minimum coverage to define the ECL:

Credit risk stage 1:

The Bank shall determine and record the expected credit losses for exposures allocated to credit risk level 1 at least in the following amounts:

a) for low risk exposures - 0.1% of exposures,

b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality step 3 and 4-0 in accordance with Article 69 of the Decision on calculating the bank's capital, 1% exposure,

c) for exposures to banks and other entities of the financial sector for which there is a credit assessment by a recognized external institution for credit rating assessment, which in accordance with Article 69 of the Decision on calculating the bank's capital is assigned to credit quality level 1, 2 or 3 - 0.1 % exposure,

d) for other exposures - 0.5% of exposures.

Credit risk stage 2:

The Bank is obliged to determine and record the expected credit losses in the amount higher of two of the following for exposures allocated to credit risk stage 2:

a) 5% exposure,

b) the amount determined in accordance with the bank's internal methodology.

Credit risk stage 3:

For exposures allocated to credit risk level 3, the bank shall determine and record expected credit losses at least in the amounts defined in Table 1 or Table 2.

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

N°	Days of delay	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Decision on credit risk management and determination of expected credit losses (continued)

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

N°	Days of delay	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 456 days	100%

Exceptionally, if the bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure. In doing so, the estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable.

In the event that the bank does not collect receivables in the specified period of three years, it is obliged to record the expected credit losses in the amount of 100% of the exposure.

The Bank shall determine the rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, and other receivables at least in the amounts as shown in Table 3.

Table 3. Minimum rates of expected credit losses for leasing and other receivables:

N°	Days of delay	Minimum expected credit loss
1.	there is no delay in material a significant amount	0,5%
2.	up to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

The effects of the difference between IFRS 9 and the FBA Decision are presented in Note 2.1.

Grouping of financial assets measured on a collective and individual approach

Depending on the level of exposure toward a person or a group of related persons, clients are assigned one of the following portfolios:

- Individually significant exposure - for exposures above 150,000 KM;
- Small exposure portfolio - for exposures below 150,000 KM

Expected credit losses of exposures in the default status are individually calculated for "individually material exposures" in the default status liabilities.

Calculation of impairment for Stage 3 for non-individually significant exposures are based on portfolio estimates by building homogeneous client groups / transactions with similar risk characteristics taking into account default and in accordance with developed LGD models. For all performing exposures, the Bank calculates the ECL on a collective basis.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Significant increase of credit risk (SICR)

The principle of the ECL model under IFRS 9 is the reflection of the general pattern of changes in the credit quality of financial instruments from the beginning, for the timely recognition of expected credit losses. The amount of ECL recognized depends on the degree of deterioration of the credit from the initial recognition. The Standard introduces two measurement measures for ECL (12-month and lifetime ECL).

IFRS 9 transfer logic is reflected in the impairment tool for IFRS 9 and each contract is undoubtedly assigned to one of the 3 Stages according to the general rules as follows:

At the next measurement dates the financial instrument is assigned to:

- Stage 1, if the reporting date is not in the default status and: the credit risk has not increased significantly since initial recognition
- Stage 2, if the reporting date is not in the default status and the credit risk has significantly increased since initial recognition,
- Stage 3, if the reporting date is in the status of default.

The IFRS 9 guidelines are quite comprehensive in terms of the principle of a significant increase in credit risk (SICR).

Four groups of SICR criteria are defined:

- Quantitative criteria (related to PD changes),
- Qualitative Criteria,
- Back-stops,
- Manual overrides.

The quantitative approach for determining SICR is based on a quantile regression model that applies to a rated portfolio.

Qualitative criteria supplement the quantitative approach and will be taken into account if the basic criteria are:

- not included in the rating system and
- significant.

Under back-stops the following criteria are considered

- 30 days delay,
- Forbearance

Manual overrides are defined as the fourth and last component of the transfer logic. The manual override process is a non-mandatory component of the non-quantitative part of the transfer logic and may be required to overcome possible exceptions due to specific factors when all other trigger triggers fail to capture special events of significant loan deterioration.

The Bank uses qualitative criteria, back stops and manual overrides.

SICR catalogue of the Bank:

- Days overdue
- Forbore classification
- Restructuring classification
- Watch list
- Default status over the past 12 months
- Non investment grade for securities
- Manual override.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.1 Maximum exposure to credit risk

The Bank continuously apply prudent methods and tools in the credit risk assessment process. The maximum exposure to credit risk relating to items in the statement of financial position and commitments (off-balance-sheets items) is as follows:

	31 December 2022	31 December 2021
Statement of financial position		
Current accounts at CBBH and other banks (Note 15)	698,639	523,184
Obligatory reserve at CBBH (Note 16)	550,064	517,867
Loans to and receivables from banks (Note 17)	630,746	801,470
Debt securities at fair value through other comprehensive income (Note 19)	679,725	787,867
Financial assets at fair value through profit or loss (Note 20)	47	19
Loans and receivables from clients (Note 18)	3,453,577	3,208,643
Debt securities at amortized cost (Note 21)	60,926	-
Derivatives used for hedging (Note 20)	11,701	1,226
Other assets exposed to credit risk (part of Note 21)	**61,211**	**46,657**
Total credit risk exposure relating to assets	**6,146,636**	**5,886,933**
Off-balance-sheet items (Note 35)		
Unused loan facilities	810,709	709,390
Guarantees	364,518	320,378
Letters of credit	16,749	10,509
Total off-balance sheet credit risk exposure	**1,191,976**	**1,040,277**
	7,338,612	**6,927,210**

The above table represents the maximum credit risk exposure of the Bank as at 31 December 2022 and 2021, without taking into account any collateral held or other credit enhancements attached. For items in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. For commitments the maximum credit risk exposure equals the total undrawn amounts.

47.1% of the Bank's total maximum exposure to credit risk is derived from loans and receivables from clients (31 December 2021: 46.3%), while 8,6% refers to loans and receivables from banks (31 December 2021: 11.6%), and investments in financial assets at FVOCI 9,3% (31 December 2021: 11.4%).

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

38.1.2 Concentration of assets and liabilities toward state sector

The table below shows the concentration of placements and liabilities to the State of Bosnia and Herzegovina and the entities: the Federation of Bosnia and Herzegovina and Republika Srpska:

	31 December 2022	31 December 2021
Current account with CBBH (Note 16)	370,780	232,008
Obligatory reserve at CBBH (Note 17)	550,064	517,867
Bonds of the Government of Federation of Bosnia and Herzegovina	224,218	252,009
Bonds of the Government of Republika Srpska	239,588	199,203
Current tax liability	(3,770)	-
Subscribed income tax	-	565
State and public sector	102,820	122,847
Deferred tax liability (Note 15)	-	(1,125)
	1,483,700	**1,323,374**

The Bank had no off-balance sheet sovereign risk exposure at 31 December 2022 and 31 December 2021.

In addition, liabilities to state institutions are as follows:

	31 December 2022	31 December 2021
Short-term deposits	(59)	(13,972)
Off-balance-sheet exposure	-	-

38.1.3 Restructuring Department portfolio

Clients of the Restructuring Department are the ones where focus of the business relationship shifted from making profit to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The objective is timely identification of clients where restructuring would enable them to continue in business and to mitigate or prevent further losses for the Bank.

Restructuring Department activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that should be the subject of restructuring, work on defining the appropriate restructuring strategy, analysing restructuring applications, suggesting measures and making recommendations for restructuring, monitoring progress, monitoring the portfolio, assessing the level of provisions and the Bank's proposed measures to improve collateral coverage in order to strengthen its position in the collection of receivables.

In 2022, restructured portfolio of legal entities amounted to KM 83,983 thousand (2021: KM 87,792 thousand), with the portfolio coverage by provisions of 45.6% (2021: 40%), while restructured retail portfolio/private individuals amounted to KM 6,547 thousand (2021: KM 7,087 thousand), with the portfolio coverage by provisions of 57.37% (2021: 41.6%).

In 2022, the restructured portfolio of legal entities recorded decrease in volume by 4.34% compared to the portfolio of legal entities at the end of 2021. The reduction of the portfolio is the result of a decrease in the exposure/collection of receivables of existing clients as well as migration of clients to other categories.

In 2022, the restructured portfolio of private individuals recorded decrease of 7.62% compared to the restructured portfolio of private individuals at the end of last year. The reduction of the portfolio is a result of collection of receivables as well as of the migration of clients to other categories.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3 Restructuring Department portfolio (continued)

	Forborne (Restructured exposures)						
31. prosinac 2022.	Total gross loans to customers ("UBZ")	Modified exposure ("MI")	Refinanced exposures ("RI")	%(MI + RI) / UBZ	Total ECL allowance ("UV")	Total ECL allowance for restructured exposures ("UV R")	%UV R / UV
Households	2,067,517	11,991	3,620	0.8%	97,267	5,793	6.0%
Non-financial companies	1,467,093	25,417	7,624	2.3%	87,951	19,305	21.9%
Other financial companies	1,800	-	-	-	9	-	-
Total	**3,536,410**	**37,408**	**11,244**	**1%**	**185,227**	**25,098**	**13.5%**

	Restructured exposures (risk group)					
	Stage 1		Stage 2		Stage 3	
31 December 2022	restructured exposure - gross (stage 1)	ECL allowance for restructured exposure (stage 1)	restructured exposure - gross (stage 2)	ECL allowance for restructured exposure (stage 2)	restructured exposure - gross (stage 3)	ECL allowance for restructured exposure (stage 3)
Households	1,944	142	7,814	723	5,853	4,928
Non-financial companies	-	-	19,484	7,703	13,557	11,602
Other financial companies	-	-	-	-	-	-
Total	**1,944**	**142**	**27,298**	**8,426**	**19,410**	**16,530**

	Forborne (Restructured exposures)						
31 December 2021	Total gross loans to customers ("UBZ")	Modified exposure ("MI")	Refinanced exposures ("RI")	%(MI + RI) / UBZ	Total ECL allowance ("UV")	Total ECL allowance for restructured exposures ("UV R")	%UV R / UV
Households	1,920,364	16,056	3,112	1%	87,187	4,290	4.9%
Non-financial companies	1,365,501	90,912	10,112	7.4%	113,537	54,277	47.8%
Other financial companies	1,286	-	-	-	72	-	-
Total	**3,287,151**	**106,968**	**13,224**	**4%**	**200,796**	**58,567**	**29.2%**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Restructured exposures (risk group)					
	Stage 1		Stage 2		Stage 3	
31 December 2021	restructured exposure - gross (stage 1)	ECL allowance for restructured exposure (stage 1)	restructured exposure - gross (stage 2)	ECL allowance for restructured exposure (stage 2)	restructured exposure - gross (stage 3)	ECL allowance for restructured exposure (stage 3)
Households	101	8	13,143	1,141	5,924	3,141
Non-financial companies	130	19	46,442	14,985	54,452	39,273
Other financial companies	-	-	-	-	-	-
Total	**231**	**27**	**59,585**	**16,126**	**60,376**	**42,414**

38.1.4 Received collateral and other instruments of credit security

The Bank defines the policy for managing techniques for mitigating credit risk, which has the objective to ensure optimum management by collateral instruments, and mitigate potential losses on placements in case of default.

The efficient implementation of credit risk mitigation techniques in Bank's business processes leads to optimization of capital use.

Collateral valuation is one of the basic elements of loan approval process, in addition to the assessment of client's credit worthiness.

Client quality is based on the credit worthiness assessment and the quality of business relationship with the Bank. The collateral can never be substitute for client rating. If client rating or credit worthiness are not adequate, the loan cannot be approved. Collateral instruments serve for the Bank to protect itself in case of default, when the debtor is not able to make payments.

Basic condition for accepting collateral instruments is the legal enforcement. It is necessary to employ due care and diligence to ensure that the possibility for collection from collateral instruments is not endangered due to legal reasons.

Careful and adequate collateral management is required, in the sense of continuous monitoring and assessment. Assessed collateral must be regularly monitored, at least annually. The more regular monitoring and supervision is required in case of significant changes of market conditions.

In applying the credit risk mitigation technique, the Bank emphasize the importance of processes and controls of legal protection requirements, as well as assessing the suitability of collateral.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Received collateral and other instruments of credit security (continued)

			Collateral			Received guarantees			
31 December 2022	Gross book value	Net book value	Mortgages	Securities	Other	State and central bank	Banks	Other financial institutions	Other
Secured balance exposure									
Full secured	1,402,770	1,348,336	607,722	586,159	9,385	-	145,070	-	-
-of which: NPL	19,441	3,403	3,388	-	-	-	15	-	-
Partially secured	473,786	466,262	293,901	-	8,992	-	19,248	-	-
-of which: NPL	202	157	152	-	-	-	-	-	-
Secured off-balance exposure									
Full secured	98,364	96,918	75,971	-	15,455	-	5,492	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-
Partially secured	107,379	105,404	39,800	-	6,195	-	544	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-

			Collateral			Received guarantees			
31 December 2022	Gross book value	Net book value	Mortgages	Securities	Other	State and central bank	Banks	Other financial institutions	Other
Secured balance exposure									
Full secured	1,438,405	1,392,382	484,914	781,546	14,664	-	111,258	-	-
-of which: NPL	29,687	8,599	8,488	-	-	-	111	-	-
Partially secured	536,227	513,155	343,343	-	8,371	-	24,945	-	-
-of which: NPL	4,998	1,797	1,326	-	4	-	-	-	-
Secured off-balance exposure									
Full secured	61,276	60,275	34,534	-	7,611	-	18,130	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-
Partially secured	72,681	72,332	18,447	-	6,209	-	12,165	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

38.1.5 Gross exposure on housing and consumer loans according to LTV indicator

The following is an LTV ratio (the ratio of loan coverage to value of collateral pledged with that loan) for a portfolio of individual clients:

Housing and consumer loans

Deposits and properties where material value is > 0

2021 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	In mln KM TOTAL
Gross loans for purchase of a flat or a house	60	23	104	133	127	3	450
Gross consumer loans	1,277	1	2	2	1	0	1,284
Total	**1,337**	**24**	**106**	**135**	**128**	**3**	**1,733**

2022 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	In mln KM TOTAL
Gross loans for purchase of a flat or a house	82	25	114	139	131	5	496
Gross consumer loans	1,382	1	2	1	1	0	1,387
Total	**1,464**	**26**	**116**	**140**	**132**	**5**	**1,883**

Depoziti i nekretnine neovisno od mat vrijednosti

2021 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	In mln KM TOTAL
Gross loans for purchase of a flat or a house	15	28	114	142	143	7	450
Gross consumer loans	1,277	1	2	2	1	0	1,284
Total	**1,292**	**29**	**116**	**144**	**144**	**7**	**1,734**

2022 LTV	0%	0.01-30%	30-60%	60-80%	80-100%	>100%	In mln KM TOTAL
Gross loans for purchase of a flat or a house	17	29	127	152	153	17	496
Gross consumer loans	1,382	1	2	1	1	0	1,387
Total	**1,399**	**30**	**129**	**153**	**154**	**17**	**1,883**

Remarks:

- Transaction overdrafts and card loans are not included in Gross Consumer Loans
- LTV=LTV current represents the ratio between the gross value of the loan and the market value of the real estate/other eligible collaterals pledged with that loan (market value after deduction for previous encumbrances and without the application of corrective factors)
- LTV=0% - for loans that do not require collateral
- Material value - is the value of collateral calculated by applying the collateral factor to the market (initial) value, which may be allocated to the collateral. Collateral material value serves for the purpose of identifying the level of credit protection applied to a particular exposure taking into account all risk aspects.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.7 Analysis by debt maturity and collateral

Impairment allowance coverage of the non-performing loan portfolio in 2022 is 90.45% for the Bank (31 December 2021: 78.27%), calculated by dividing non-performing ECL with non-performing on-balance portfolio.

Total impairment of loans and receivables from customers and finance leases for the Bank amounts to KM 185,653 thousand (31 December 2021: KM 201,355 thousand), of which KM 94,427 thousand (31 December 2021: KM 112,856 thousand) relates to the impairment the value of loans for which impairment was individually identified, and the remaining value of KM 91,226 thousand (31 December 2021: KM 88,499 thousand) relates to impairment on a portfolio basis.

Retail loans	31 December 2022	31 December 2021
Loans that are neither past due nor impaired	1,952,396	1,799,785
Past due loans that are not impaired	41,170	46,286
Impaired loans	73,457	73,357
Gross	**2,067,023**	**1,919,428**
Less: Impairment allowance	(97,193)	(87,073)
Net	**1,969,830**	**1,832,355**

	31. prosinac 2022.	31. prosinac 2021.
Corporate, including state and public sector		
Loans that are neither past due nor impaired	1,481,279	1,374,533
Past due loans that are not impaired	21,953	1,825
Impaired loans	28,827	66,891
Gross	**1,532,059**	**1,443,249**
Less: Impairment allowance	(84,329)	(106,774)
Net	**1,447,730**	**1,336,475**
Finance lease		
Financial lease receivables that are not past due	37,076	43,362
Past due receivables on financial lease that are not impaired	955	15
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	2,117	3,944
Gross	**40,148**	**47,321**
Less: Impairment allowance	(4,131)	(7,508)
Net	**36,017**	**39,813**

a) Loans that are neither past due nor impaired

The quality of the portfolio of loans to clients that have not matured can be assessed based on internal standard monitoring. Client loans are regularly monitored and systematically reviewed to detect irregularities or warning signs. They are the subject of constant monitoring with the aim of taking timely actions, which are aligned with the improvement / deterioration of the client's risk profile.

The table below disclose exposures that are neither pasrt due nor impaired devided into monitoring groups, as follows: standard monitoring relates to clients with no warning signals and special monitoring relates to clients with identified warning signs (ie identified as watch list client).

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Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Retail				Corporate, including state and public sector				Finance lease
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Total	Large	Medium	Small	Total	Total
31 December 2022									
Standard monitoring	1,162,409	150,513	430,079	1,743,001	6,194	612,518	628,430	1,247,142	23,973
Special monitoring	133,567	18,762	57,066	209,395	30,513	105,516	98,108	234,137	13,103
	1,295,976	**169,275**	**487,145**	**1,952,396**	**36,707**	**718,034**	**726,538**	**1,481,279**	**37,076**
31 December 2021									
Standard monitoring	1,008,364	141,400	366,508	1,516,272	668,355	478,469	5,367	1,152,191	36,070
Special monitoring	184,424	26,173	72,916	283,513	201,139	46,764	17,165	265,068	7,292
	1,192,788	**167,573**	**439,424**	**1,799,785**	**869,494**	**525,233**	**22,532**	**1,417,259**	**43,362**

b) Past due loans that are not impaired

	Retail				Corporate, including state and public sector				Finance lease
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Total	Large	Medium	Small	Total	Total
31 December 2022									
Past due up to 30 days	28,263	8,407	1,883	38,553	425	14,368	6,899	21,692	946
Past due 31 to 60 days	1,737	254	188	2,179	-	-	261	261	9
Past due 61 to 90 days	366	72	-	438	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-
	30,366	**8,733**	**2,071**	**41,170**	**425**	**14,368**	**7,160**	**21,953**	**955**
Estimated value of collateral	**-**	**-**	**340**	**340**	**-**	**14,352**	**-**	**14,352**	**-**
31 December 2021									
Past due up to 30 days	30,647	9,039	2,617	42,303	-	365	634	999	15
Past due 31 to 60 days	2,474	390	310	3,174	-	719	107	826	-
Past due 61 to 90 days	624	101	84	809	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-
	33,745	**9,530**	**3,011**	**46,286**	**-**	**1,084**	**741**	**1,825**	**15**
Estimated value of collateral	**-**	**-**	**326**	**326**	**-**	**587**	**25**	**612**	**-**

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.7 Analysis by overdue receivables and collateral (continued)

b) Past due loans that are not impaired (continued)

Estimated values of properties pledged as collateral are based on valuations done by authorised surveyors/agency upon initial approval of a loan or possible subsequent re-evaluation, weighted by the value of the loan in the total exposure secured by the same collateral, up to the estimated value of collateral. The value of deposits and State guarantees is weighted in the same manner up to the outstanding balance of related secured exposure. Guarantors, co-debtorship and bills of exchange are not valued in the table above although they are usually required as collateral.

c) Non-performing loans (impaired loans)

The Bank expect to collect the amount of non-performing loans exceeding the estimated value of collateral from other sources. Gross amount of non-preforming loans to clients and financial lease receivables for the Bank as of 31 December 2022 amounts to KM 104,401 thousand (31 December 2021: KM 144,194), while on net level before cash flows from received collateral instruments they amount to KM 9,974 thousand (31 December 2021: KM 31,338 thousand).

The breakdown of the net amount of the individually impaired loans to clients, along with the fair value of related collateral held by the Bank as security, is as follows:

	Retail				Corporate, including state and public sector				Finance lease
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Total	Large	Medium	Small	Total	Total
31 December 2022									
Non-performing loans, gross	58,873	6,235	8,349	73,457	3,385	6,178	19,264	28,827	2,117
Non-performing loans, provision	(54,070)	(5,915)	(6,569)	(66,554)	(3,258)	(5,590)	(17,368)	(26,216)	(1,657)
Non-performing loans, net	4,803	320	1,780	6,903	127	588	1,896	2,611	460
Estimated value of collateral	**-**	**-**	**1,559**	**1,559**	**87**	**589**	**1,215**	**1,891**	**-**
31 December 2021									
Non-performing loans, gross	58,907	5,481	8,969	73,357	57,097	5,906	3,888	66,891	3,944
Non-performing loans, provision	47,472	4,357	5,738	57,567	44,517	4,803	3,326	52,646	2,641
Non-performing loans, net	11,435	1,124	3,231	15,790	12,580	1,103	562	14,245	1,303
Estimated value of collateral	**4**	**-**	**3,231**	**3,235**	**5,309**	**878**	**285**	**6,472**	**-**

The Bank expects to collect the excess in the carrying value of non-performing loans from the estimated value of the related collateral from sources other than collateral.

38.2 Liquidity risk

Liquidity risk is the potential risk that the Bank will not be able to meet its obligations as scheduled,in full and without delay. It arises in the Bank's financing activities and assets and liabilities management. Adjusting its business with regard to liquidity risk is achieved through compliance with the relevant legislation, internal policies for maintenance of liquidity reserves, compliance of assets and liabilities, setting limits and planned liquidity indicators.

(all amounts are expressed in thousands of KM, unless otherwise stated)

Assets and Liabilities Management and Funding Department manages liquidity reserves on a daily basis, to enable the funding of clients' needs and to ensure an optimum balance between continuity and flexibility of financing through use of sources with different maturities.

The Bank has access to a diverse funding base including various types of retail and corporate and bank deposits, borrowings, subordinated debt, issued debt securities, share capital and reserves. These enhance funding flexibility and limit dependence on any one source of funds as well as generally ensure better funding cost management.

Liquidity needs are planned every month for a period of three months and controlled and matched on a daily basis.

38.2.1 Structural liquidity risk

objective is to avoid undue and unexpected pressures on the financing needs of a short-term liquidity position and to ensure optimal financing sources and associated costs. This can be achieved by striking a balance between medium-term and long-term stable assets and adequate stable sources of financing.

Restrictions are defined in the form of limits and alert levels:

- “limit” is a firm point that metrics should not exceed; in the event of a limit being exceeded, the escalation process is initiated and corrective actions are taken to re-align with the prescribed limit as soon as possible (position reduced within the limit);

- the alert level is the point in which the check and analysis process is triggered. The overreach signals the need for an active approach in monitoring the causes and the potential adoption of action plans, although corrective action is not necessary.

Structural Liquidity Ratio

The Structural Liquidity Ratio is calculated as the ratio between medium-long-term liabilities and assets that mature over the same time bucket. The Structural Liquidity Ratio (SLR) represents an economic view of the Bank's structural liquidity, in accordance with the principles on which maturity transformation rules are adjusted, which are adjusted by applying behavioral models. SLR provides a counterbalance to the regulatory view, taking into account both behavioral and economic assumptions.

	(in KM million)	
Structural Liquidity Ratio>1Y	31 December 2022	31 December 2021
Liabilities >1Y	4,167	3,568
Assets >1Y	3,326	3,186
Trigger	90%	-
Limit	86%	-
Ratio	**125%**	**112%**

	(in KM million)	
Structural Liquidity Ratio >3Y	31 December 2022	31 December 2021
Liabilities >3Y	3,248	2,895
Assets >3Y	1,971	1,927
Trigger	100%	-
Limit	-	-
Ratio	**165%**	**150%**

Items that provide stable funding sources are sufficient to cover items that require stable funding sources in the relevant classes over one and three years.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. UPRAVLJANJE RIZICIMA (NASTAVAK)

38.2 Liquidity risk (continued)

38.2.1 Structural liquidity risk (continued)

Structural liquidity gap

Structural liquidity gap monitors maturity gap by material currencies (EUR, Other) in the buckets over one year, based on the “Structural Liquidity Ratio” metric methodology.

	(in KM million)	
Structural liquidity gap EUR >1Y	31 December 2022	31 December 2021
Liabilities >1Y	827	191
NET STL	-	1,056
Assets >1Y	709	708
Trigger	(984)	(305)
GAP	**118**	**538**

	(in KM million)	
Structural liquidity gap OTHER >1Y	31 December 2022	31 December 2021
Liabilities >1Y	9	6
NET STL	-	176
Assets >1Y	19	9
Trigger	(221)	(39)
GAP	**(10)**	**174**

The metric calculation methodology was changed during 2022. It is now based on the methodology of the Structural Liquidity Ratio metric, where the liquidity maturity profile is based on the contractual maturity, except for certain balance sheet items for which a model that does not correspond to the contractual maturity is applied. For this reason, the results are incomparable compared to the previous year..

Net stable funding ratio (NSFR) requirement

The NSFR (Net Stable Funding Ratio) requirement is the ratio between the amount of stable funding sources and the required funding sources. It aims to ensure a minimum acceptable level of long-term sources of financing for the current level and structure of the bank's assets, and to limit the ability to rely on short-term sources of funding, especially during periods of stress

	(in KM million)	
NSFR	31 December 2022	31 December 2021
Items that provide stable funding sources	5,189	5,092
Items that require stable funding sources	2,727	2,584
Trigger	104,0%	104,5%
Limit	101%	101%
Stable funding source ratio requirement (%)	**190%**	**197%**

The following table details the Bank’s remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank anticipate that the cash flow will occur in a different period.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Maturity for non-derivative financial assets

	Weighted average interest rate	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31 December 2022							
Non-interest bearing	-	318,172	242	218	28	174	318,834
Variable interest rate instruments	4,87%	1,265,319	36,617	139,417	482,741	274,864	2,198,958
Fixed interest rate instruments	3,83%	1,087,209	224,302	576,807	1,830,054	662,982	4,381,355
		2,670,700	**261,161**	**716,442**	**2,312,823**	**938,020**	**6,899,147**
31 December 2021							
Non-interest bearing	-	332,477	209	246	1,163	225	334,319
Variable interest rate instruments	4,86%	1,060,229	42,299	177,064	661,125	414,019	2,354,735
Fixed interest rate instruments	3,80%	1,010,103	327,550	566,630	1,498,538	555,136	3,957,957
		2,402,809	**370,058**	**743,940**	**2,160,826**	**969,380**	**6,647,011**

The following table details the the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

Financial liability by type	Weighted average interest rate	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31 December 2022							
Non-derivative liabilities							
Non-interest bearing	-	2,887	1,444	9,595	8,300	1,426	23,652
Variable interest rate instruments	0,28%	3,802,274	32,846	91,587	112,898	14	4,039,620
Fixed interest rate instruments	0,81%	1,026,003	44,097	211,694	209,812	3,365	1,494,970
Issed financial guarantee and letters of credit contracts		16,603	35,909	72,235	238,716	17,804	381,267
Issued loan commitments		707,344	3,785	29,497	70,083	-	810,709
		5,555,111	**118,081**	**414,608**	**639,809**	**22,609**	**6,750,218**
Derivative liabilities							
FX Derivatives		470,731	11,665	-	-	-	482,396
		470,731	**11,665**	**-**	**-**	**-**	**482,396**
Financial liability by type							
31 December 2021							
Non-interest bearing	-	2,845	2,278	11,388	7,908	1,689	26,108
Variable interest rate instruments	0,30%	3,583,295	31,357	114,465	144,611	0	3,873,728
Fixed interest rate instruments	0,99%	832,845	64,471	254,044	295,769	4,074	1,451,203
Issed financial guarantee and letters of credit contracts		22,952	25,959	73,678	170,124	38,174	330,887
Issued loan commitments		606,432	4,689	25,903	72,366	-	709,390
		5,048,369	**128,754**	**479,478**	**690,778**	**43,937**	**6,391,316**
Derivative liabilities							
FX Derivatives		745,697	-	45,398	-	-	791,095
		745,697	**-**	**45,398**	**-**	**-**	**791,095**

The Bank expect to meet their other obligations from operating cash flows and proceeds of maturing financial assets and assets at fair value through other comprehensive income.

38. RISK MANAGEMENT (CONTINUED)

38.3 Market risk

Market risk is defined as the effect that general and specific movements and market variable changes in the market have on the statement of profit or loss and other comprehensive income and statement of financial position of the Bank.

Basic risk factors include

- interest rate risk;
- credit margin risk, and
- currency risk and

The aim of market risk management on Bank level is management and control of market risk exposure within acceptable parameters to ensure the solvency of the Bank with the optimisation of risk return.

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement. Daily reports on market risk exposures are created together with defined limits of market risk exposure for the purpose of risk management. Revision of existing limits is conducted at least once a year. Alterations to the limits of the Bank are coordinated by Zagrebačka banka. In addition to development and implementation of techniques for measuring market risk, the Bank ontinuously works on improving its business processes and quality of data.

Market risk measurement techniques:

On Bank level, market risk management includes continuous reporting on risk exposure, followed by use of limits and daily review of all positions where market risk exposures exist. The positions are aggregated on daily basis and compared with defined limits.

Market risk metrics, used both for measuring and internal reporting on Bank ‘s market risks, are compliant with UniCredit Group and they encompass:

- Value at Risk
- Sensitivity metrics (basis point value – BPV, basis point value for credit margin CPV, net open foreign currency position and other sensitivity measures),
- Alarming level of losses (applied to cumulative result through specific time horizon), and
- Results of stress resistance tests.

38.3.1 Value at Risk

The Bank use Value-at-Risk methodology (VaR) to estimate the market risk and the maximum potential losses expected on positions classified under IFRS 9 – fair value through profit or loss (FVtPL) and fair value through other comprehensive income (FVOCI).

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements, as a measure of maximum potential loss for the defined holding period or a period in which the position could be closed. Loss can occur in the overall or individual positions, based on assumptions of various market variables.

The risk model calculates VaR (Value at Risk) daily with a confidence level of 99%. The model uses historical simulation based on last 250 observations of daily indicators.

There are two separate VaR measures according to risk types:

- FVOCI – Fair Value through Other Comprehensive Income
- FVTPL – Fair Value through Profits and Losses

Since the 24th of February 2022. VaR is in the breach area. The exposure saw a significant increase due to the widening on the proxy spread curve which is tied to the FBiH Government Bonds, also other foreign bonds saw a significant price change.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

The widening is tightly related to the market volatility, which is a result of the rising Russian-Ukrainian tensions and the resulting impact of the conflict.

Bank's VaR according to risk types in 2022 and 2021 is as follows:

2022	Minimum	Average	Maximum	End of 2022
FVOCI Total	**762.7**	**2,497.1**	**3,050.5**	**2,735.3**
FVtPL Total	**0.7**	**2.5**	**6.8**	**1.1**

2021	Minimum	Average	Maximum	End of 2022
FVOCI Total	**776.4**	**1,395**	**3,380.7**	**776.4**
FVtPL Total	**0.3**	**2.5**	**5.8**	**3.5**

Stress-testing

Stress-testing is used to evaluate the effect of market risks on the Bank's portfolio. In the stress-testing process the Bank currently covers the following risk categories - currency risk and interest rate risk:

- Currency risk is tested for individual currencies and currency groups - testing includes appreciation and depreciation shocks of 5%, 10% and 30% for currencies KM and EUR.
- Interest rate risk is tested by each currency for the Bank's overall position. The scenarios include parallel shifts in interest rates by 200 basis points, interest rate level changes, curve rotation, increase of interest rates, including various shocks on currency interest rate curves.

Testing is performed monthly and test results are included into regular FRC reports.

38.4 Foreign currency risk

Foreign currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, and trading activities. It is monitored daily in accordance with regulations and internally set limits per certain foreign currencies, and in the total amount for all assets and liabilities denominated in foreign currencies or tied to foreign currencies.

Foreign currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values.

The Bank direct bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

As of 31 December 2022	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	562,371	183,524	87,819	146,678	980,392
Obligatory reserve at CBBH	550,064	-	-	-	550,064
Loans and receivables from banks	1	586,579	4,326	39,840	630,746
Financial assets at FV OCI	223,773	392,147	49,005	14,832	679,757
Financial assets at fair value through profit or loss	-	47	-	-	47
Loans and receivables from clients	2,795,599	657,978	-	-	3,453,577
Hedging derivatives		11,701	-	-	11,701
Deffered tax assets	3,102	-	-	-	3,102
Other assets and receivables	62,298	2,105	44	38	64,485
Right-of-use assets	9,172	-	-	-	9,172
Prepaid income tax	-	-	-	-	-
Securities at amortized cost	29,823	31,103	-	-	60 926
Property and equipment and intangible assets	92,492	-	-	-	92,492
	4,328,695	**1,865,184**	**141,194**	**201,388**	**6,536,461**
Liabilities					
Current accounts and deposits in banks	8,160	686	-	-	8,846
Current accounts and deposits from clients	3,601,462	1,594,298	138,215	182,735	5,516,710
Hedging	-	156	-	-	156
Lease liabilities	9,052	-	-	-	9,052
Financial liabilities at fair value through profit or loss	-	28	-	-	28
Borrowings and subordinated debt	-	26,379	-	-	26,379
Current tax liabilities	3,770	-	-	-	3,770
Other liabilities	120,023	30,294	2,060	2,167	154,544
Equity and reserves	773,349	-	-	-	773,349
Provisions for liabilities and expenses	30,529	11,299	444	1,355	43,627
	4,546,345	**1,663,140**	**140,719**	**186 257**	**6,536,461**
Net position	**(217,650)**	**202,044**	**475**	**15,131**	**-**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

As of 31 December 2021	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	488,413	162,427	82,013	94,805	827,658
Obligatory reserve at CBBH	517,867	-	-	-	517,867
Loans and receivables from banks	16,559	781,736	3,175	-	801,470
Financial assets at FV OCI	228,172	493,315	49,625	16,755	787,867
Financial assets at fair value through profit or loss	-	19	-	-	19
Loans and receivables from clients	2,335,250	873,393	-	-	3,208,643
Hedging derivatives		1,226	-	-	1,226
Other assets and receivables	47,394	1,269	49	29	48,741
Right-of-use assets	6,916	-	-	-	6,916
Prepaid income tax	565	-	-	-	565
Property and equipment and intangible assets	91,752	-	-	-	91,752
	3,732,888	**2,313,385**	**134,862**	**111,589**	**6,292,724**
Liabilities					
Current accounts and deposits in banks	26,873	1,866	-	-	28,739
Current accounts and deposits from clients	3,356,067	1,714,024	130,837	93,512	5,294,440
Lease liabilities	6,819	-	-	-	6,819
Financial liabilities at fair value through profit or loss	-	1	-	-	1
Borrowings and subordinated debt	-	16,982	-	-	16,982
Deferred tax liability	1,125	-	-	-	1,125
Other liabilities	105,336	20,921	2,655	1,322	130,234
Equity and reserves	784,577	-	-	-	784,577
Provisions for liabilities and expenses	26,291	3,338	102	76	29,807
	4,307,088	**1,757,132**	**133,594**	**94,910**	**6,292,724**
Net position	**(574,200)**	**556,253**	**1,268**	**16,679**	**-**

38.4.1 Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since currency board arrangement is in force in Bosnia and Herzegovina, neither Bank nor the Group are exposed to risk of change of EUR exchange rate (fixed exchange rate, Convertible Mark (KM) is pegged to EUR). Received deposits – down payments of lease users.

The following table details the sensitivity to a 10% increase or decrease in KM against USD. KM is pegged to EUR due to the Currency board, therefore Bank do not have FX risk, so for this reason we stressed USD as our main currency which besides KM and EUR has the largest open FX exposure as of 31.12.2022.

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

38.4.1 Analiza osjetljivosti strane valute (continued)

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only receivables and liabilities denominated in foreign currency and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	31 December 2022	31 December 2021
Profit/Loss	(83)	(83)

38.5 Interest rate risk

Interest rate risk represents the risk of decrease in asset values caused by adverse interest rate changes. Interest rate changes directly affect the net present value of future cash flows and consequently net interest income.

Interest rate change risk sources are:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk as the risk of changes in shape and slope of yield curve; and
- basis risk as the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

38.5.1 Interest rate sensitivity analysis

The sensitivity analysis below has been determined through the measurement of risk by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 0.01% (1 basis point) with the basis point value (BP01) limit applied as the sensitivity measure according to currencies and time periods. Daily compliance limits are set by UniCredit Group.

IRRBB BP01 sensitivity analysis for the Bank per currency in 2021:

31 December 2021	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	-	(21)	(84)	74	(20)	(51)
EUR	(10)	(49)	(3)	98	20	56
USD	-	(1)	(6)	-	-	(7)
OTHER	-	-	(2)	(6)	-	(8)
TOTAL	**(10)**	**(72)**	**(96)**	**167**	**0**	**(10)**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

Overview according to IFRS9 classification:

IR BP01 FVOCI:

31 December 2021	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	-	(3)	(13)	(91)	-	(106)
EUR	(1)	(7)	(43)	(78)	-	(129)
HRK	-	(2)	(6)	-	-	(8)
USD	-	-	(2)	(6)	-	(8)
TOTAL	**(1)**	**(12)**	**(64)**	**(174)**	**-**	**(252)**

IR BP01 FVTPL

31 December 2021	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	(2)	1	-	-	-	(1)
EUR	2	(2)	-	-	-	-
HRK	-	1	-	-	-	1
USD	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

Deviations in the "Total" line are possible due to rounding.

IRRBB BP01 sensitivity analysis for the Bank per currency in 2022:

31 December 2022	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	(3)	(37)	(78)	164	(14)	32
EUR	(7)	(10)	(10)	(3)	3	(27)
USD	-	(2)	-	-	-	(2)
OTHER	-	-	(1)	(4)	-	(5)
TOTAL	**(10)**	**(49)**	**(89)**	**157**	**(12)**	**(5)**

Overview according to IFRS9 classification:

Overview according to IFRS9 classification:

31 December 2022	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	-	(1)	(27)	(61)	-	(89)
EUR	(1)	(4)	(27)	(54)	-	(86)
HRK	-	(3)	(1)	-	-	(4)
USD	-	-	(1)	(4)	-	(5)
TOTAL	**(1)**	**(8)**	**(56)**	**(119)**	**-**	**(185)**

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.5 Interest rate risk (continued)

38.5.1 Interest rate sensitivity analysis (continued)

IR BP01 FVTPL:

31 December 2022	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	(1)	-	-	-	-	(1)
EUR	1	-	-	-	-	1
HRK	-	-	-	-	-	-
USD	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**

Values in 2022. are presented in absolule amounts. Deviations in the "Total" line are possible due to rounding.

BP01 limits are monitored through an internal model, IMOD, which is also used for the calculation of VaR (developed by the UniCredit Group).

Additionally, an overview of the sensitivity of net interest income (NII sensitivity), which represents the sensitivity of the budgeted net interest income to the shift in interest rates.

Net interest income (NII) analysis:

31 December 2022		31 December 2021	
+100 BP	-25/-50/-75/-100 BP	+100 BP	-25/-50/-75/-100 BP
7.64%	**(2.28%)**	**6.51%**	**(3.00%)**

Also,an overview of changes in the economic value of capital resulting from interest rate fluctuations for 2021 and 2022:

	31 December 2022	31 December 2021
Economic value sensitivity (SOT)	(4.70%)	(4.10%)
Economic value sensitivity +/-200 BP	**(2.10%)**	**(1.80%)**

38.5.2 Effective interest rates

The table below presents effective interest rates applicable to various balance-sheet categories calculated as the weighted average interest rates for the period:

	31 December 2022 %	31 December 2021 %
Cash and cash equivalents	(0.27%)	(0.42%)
Obligatory reserve at CBBH	(0.14%)	(0.14%)
Financial assets at FVOCI	2.21%	1.94%
Loans and receivables from banks	(0.03%)	(0.62%)
Loans and receivables from clients	4.13%	4.39%
Current accounts and deposits from banks	0.19%	0.74%
Current accounts and deposits from clients	0.07%	0.22%
Interest-bearing borrowings	1.10%	0.99%

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

38.6 Operating risk

Operational risk is a risk of losses caused by inadequate or unsuccessful internal processes, personnel and systems or external events, including legal risk.

The Bank is exposed to operational risk in all its activities, and as a consequence of this fact, through an established organizational structure, on a daily basis tends to affect the spread of culture and awareness of the importance of operational risk management.

The Bank established an appropriate system for recognising, measuring, grading and monitoring of operational risks, aiming at its optimum management and reduction by using the positive experience of the UniCredit Group regarding operational risks, standards and principles defined by the local regulator and the Basel Committee as well as its own findings based on its own experience in this area.

Operational risk management is inbuilt throughout the entire organisational structure of the Bank, through regular, strategic, supervisory, and audit management. In this way the Bank has a special focus on continuous analysis and development of solutions to avoid, control and transfer operational risk to third parties.

With the system of adequate measures, the Bank intend to decrease the possibility of operational risk events that would have negative implications for the Bank's operations, i.e. to decrease them when they occur. In that sense, the Bank particularly ensured adequate management of the following, given their significance and scope:

- information system and information system risks
- outsourcing risks
- legal risk
- business continuity
- anti-money laundering and terrorism financing system, and
- other relevant systems in the Bank.

The Bank uses standard procedures within its established operational risk management system, which include gathering information about default events, monitoring key operational risk indicators, assessing operational risk when implementing new products/systems/procedures or before conducting new business activities, assessment of risk of information and communication technology, scenario analysis and analysis and reporting of the Non-financial Risk Committee, reporting to the Management Board and other key management personnel and supervisory bodies on the Bank's exposure to operational risk, which also includes reporting on the results of operational risk management.

The Bank make decisions on operational risk management both strategically and in everyday working processes. Raising awareness on the operational risks management culture is continuous through employee education and adequate reporting system, and is additionally supported by adequate and efficient implementation of elements of operational risks management in Bank's specific policies, processes and procedures.

The central element of the Strategy is the concept of integrated risk management and synergy with business development. By focusing on the assessment of the most significant risks and their prevention and mitigation, we achieved one of the most important stepst toward the successful implementation of business strategy and goals.

38.7 Reputational risk

Reputational risk represents the risk of loss of confidence in the Bank's integrity caused by unfavourable public opinion on the Bank's business practice, which arises from its activities, business relationships with individual clients or activities of the members of Bank's bodies, regardless of whether the basis for such public opinion exists.

The Bank is exposed to reputational risks in all its activities since reputational risk represent current or future risk that may affect revenues or equity as a result of unfavourable seeing of the Bank's image by the clients, other counterparties, shareholders/investors, regulator or employees (stakeholders).

(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.7 Reputational risk (continued)

The Bank recognise the importance of preventing and mitigating actions in reputational risk management. According to the standards of UniCredit Group, and own knowledge based on extensive experience and continuous improvements in the area, in its daily operational activities, the Bank is systematically approaching to the strategy, monitoring and evaluation for each individual case of reputational risk, as well as continuous education of employees.

Reputational risk management system encompasses tools and mechanisms for continuous recognition, assessment and monitoring of actual or potential reputational risk events, and reporting to the higher management and responsible bodies on the Bank's exposure to reputational risk.

Responsibility for reputational risk management is distributed through the overall hierarchical structure of the Bank, and continuous rising of awareness on importance of reputational risk is one of the pillars of the risk management.

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

2022	Borrowings	Lease liabilities
Balance at 01 January	**16,982**	**6,819**
Payment of lease liability	-	(6,459)
New lease liability	-	8,865
Receipts from interest-bearing borrowings	21,514	-
Repayment of interest-bearing borrowings	(11,762)	-
Total changes from financing cash flows	**9,752**	**2,406**
Liability-related	-	-
Interest expense	121	134
Interest paid	(132)	(307)
Accrued up front fee (IAS 18)	(344)	-
Total liability-related other changes	**(355)**	**(173)**
Balance as at 31 December	**26,379**	**9,052**

2021	Borrowings	Lease liabilities
Balance as at 01 January	**29,341**	**7,520**
Payment of lease liability	-	(4,212)
New lease liability	-	3,466
Receipts from interest-bearing borrowings	-	-
Repayment of interest-bearing borrowings	(12,851)	-
Total changes from financing cash flows	**(12,851)**	**(746)**
Liability-related	-	-
Interest expense	234	85
Interest paid	(226)	(40)
Accrued up front fee (IAS 18)	484	-
Total liability-related other changes	**492**	**45**
Balance as at 31 December	**16,982**	**6,819**

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

40. CAPITAL MANAGEMENT

In compliance with laws, regulations and internal acts the Bank monitor and report quarterly to regulators on its capital, risk-weighted assets and capital adequacy ratios.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2022, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations in line with Basel III methodology had a capital adequacy ratio of 18.68%.

The regulatory capital of the Bank consists of core and supplementary capital.

The core capital of the Bank (fully equal to ordinary core equity) consists of paid shares, own treasury shares, share premium, retained unallocated profit and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), net of the amount of treasury shares, intangible assets and deferred tax assets.

Supplementary capital consists of equity instruments recognized as ancillary capital - paid-in equity instruments, less own equity instruments.

Furthermore, the Agency in Official Gazette of the Federation of BH No. 91/18 published the Decision on conditions for inclusion of formed reserves for credit losses in the regular share capital of the Bank.

During 2022, the bank sold its own shares.

The minimum minimum capital requirements are as follows:

- regular core capital rate 6.75%
- core capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection layer for capital preservation that is to be maintained in the form of regular core capital in the amount of 2.5% of the total exposure amount.

The total weighted risk used to calculate capital adequacy includes the risk of weighted assets and credit equivalents, position, currency, commodity risk and operational risk.

On 1 October 2021, the European Commission (EC) published an implementing decision confirming the equivalence of the supervisory and regulatory framework in Bosnia and Herzegovina with regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment institutions. company and amending Regulation (EU) no. 648/2012 (CRR) and Directive 2013/36 / EU 2013 of the European Parliament and of the Council on the accession of credit institutions and prudential supervision of credit institutions and investment firms (CRD). This Decision shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

Equivalence in the segments of supervision and regulatory framework for the banking system has wider significance and long-term effects on the status of Bosnia and Herzegovina, investment rating assessments, risk weights for calculating capital requirements to cover banking risks, interest rate levels, investment security, etc.

The capital adequacy ratio under Basel III methodology for 2022 was significantly above the prescribed limit of 12%. The composition of capital and capital ratios as at 31 December 2022 is given in the table below.

(all amounts are expressed in thousands of KM, unless otherwise stated)

40. CAPITAL MANAGEMENT (CONTINUED)

	31 December 2022	31 December 2021
Regulatory capital	**629,969**	**669,899**
Core capital	629,785	669,729
Regular core capital	629,785	669,729
Issued share capital – Ordinary shares	119,011	119,011
Share premium	48,354	48,317
Accumulated comprehensive income	-35,560	1,260
Statutory, regulatory and other reserves	523,685	523,422
Deductions from regular core capital		
intangible assets	(21,399)	(20,986)
own shares	-	(214)
deferred tax assets	(4,306)	(1,081)
significant investment in capital of financial sector entities	-	-
Deductions from additional core capital exceeding the additional core capital	-	-
Total regular core capital capital	**629,785**	**669,729**
Additional core capital		
Core capital	**629,785**	**669,729**
Supplementary capital	**-**	**-**
Issued own capital – Priority shares	184	184
Own shares	-	(14)
General credit risk allowances	-	-
Missing credit loss provisions	-	-
Deductions from supplementary capital exceeding supplementary capital	-	-
Total regulatory capital	**629,969**	**669,899**
Risk weighted assets (unaudited)	**3,367,135**	**3,202,204**
Capital adequacy ratio	**18,70%**	**20,91%**

The Bank is obligated to ensure and maintain financial leverage rate as an additional security and simple capital hedge, in the amount of at least 6%.

The Bank's financial leverage ratio is the ratio of the amount of the core capital to the total risk exposure of the Bank as at the reporting date, expressed as a percentage, and as at 31 December 2022 it is significantly above the stated minimum, amounting to 9.21%.

41. FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

41.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. In addition, the information is given about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

31 December 2022		Fair values	
	Level 1	Level 2	Level 3
Financial assets at FVOCI (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	32	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BH	-	194,018	-
Bonds of the Government of Republika Srpska	-	239,588	-
Bonds of the Government of Republic of Croatia	92,406	-	-
State Bonds of the Republic of Poland	64,433	-	-
Bonds of the Government of Romania	43,058	-	-
State Bonds of the Republic of Slovenia	46,221	-	-
Assets	-	3	44
Liabilities	-	28	-
	246,150	**433,637**	**44**

31 December 2021		Fair values	
	Level 1	Level 2	Level 3
Financial assets at FVOCI (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	32	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BH	-	252,008	-
Bonds of the Government of Republika Srpska	-	199,203	-
Bonds of the Government of Republic of Croatia	160,905	-	-
State Bonds of the Republic of Poland	73,041	-	-
Bonds of the Government of Romania	55,995	-	-
State Bonds of the Republic of Slovenia	46,862	-	-
Assets	-	-	19
Liabilities	-	1	-
	336,835	**451,212**	**19**

Valuation techniques and key inputs

Financial assets at fair value through other comprehensive income

For the securities presented under Level 1 valuation technique is based on quoted bid prices in an active market.

For the securities presented under Level 1 discounted mark to market technique is applied. Instruments that are not quoted in an active market are valued by using the models which include maximum relevant and available inputs and, also, unobservable inputs, but at minimum level. Depending on significance of inputs that are unobservable, debt securities are awarded with Level 2 or Level 3. Valuation is performed based on discounted future cash flows.

Securities as of 31.12.2022. are assigned with level 1 and 2.

Foreign currency forward contracts

Valuation technique applied for forward contracts presented under Level 2 is discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and Level 2 during 2021 and 2022.

(all amounts are expressed in thousands of KM, unless otherwise stated)

41. FAIR VALUE MEASUREMENT (CONTINUED)

41.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	31 December 2022		31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
Loans and receivables from clients	3,453,577	3,349,624	3,208,643	3,230,256
Securities at amortized cost	60,926	60,926		
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	5,516,710	5,396,296	5,294,440	5,218,371
- Borrowings	26,379	25,803	16,982	16,738

	Fair value hierarchy as at 31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	1,654,807	1,694,817	**3,349,624**
- Securities at amortized cost	31,102	29,824	-	**60,926**
	31,102	**1,684,631**	**1,694,817**	**3,410,550**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	5,396,296	**5,396,296**
- Borrowings	-	-	25,803	**25,803**
	-	**-**	**5,422,099**	**5,422,099**

The Bank provide finance lease of equipment and vehicles.

Notes to the financial statements for the year ended 31 December 2022

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Fair value hierarchy as at 31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	1,034,965	2,195,291	**3,230,256**
	-	**1,034,965**	**2,195,291**	**3,230,256**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	5,218,371	**5,218,371**
- Borrowings	-	-	16,738	**16,738**
	-	**-**	**5,235,109**	**5,235,109**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2022 are based on requirements of IFRS 13, by applying the methodology developed on UnICredit Group level.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties and the concept of risk neutral "Probability of Default" approach based on market parameters, introduced for determining fair value by restricting dependence on internal parameters. The parameters included in the calculation are market premium and correlation of assets return and the market.

For the purpose of classification of instruments in fair value hierarchy (Level 2 or Level 3), a value limit / materiality of the difference between the fair value of risk-free and full fair value was established. If the determined difference is equal or greater than 5% instrument is classified as Level 3. Accordingly, if the total fair value is not significantly different from the risk-free fair value (less than 5%), the instrument is classified as Level 2.

The table shows the calculations of fair value for performing loans and deposits from clients with fixed and variable interest rates.

Fair value of non-performing loans of clients is equaled to book value.

41.3 Reconciliation of Level 3 fair value measurements

Fair value of equity securities in Bosnia and Herzegovina, which do not have the price on the active market cannot be reliably measured. Therefore, they are measured at cost, as they have no material impact on the Bank's financial statements.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on the pages 34 to 139 were approved by the Management Board on 16 February 2023 for the submission to the Supervisory Board:

UniCredit Bank dioničko društvo

President of the Board
Amina Mahmutović

Member of the Board for Finance Management
Matteo Consalvi

Appendix A

Address and phone numbers

Headquarters

Address	Kardinala Stepinca b.b. Mostar
Phone	00387 (0) 36 312 112
Fax	00387 (0) 36 356 227
SWITCHBOARD	00387 (0) 36 312 112 00387 (0) 36 312 116
RETAIL	00387 (0) 36 312 112
CORPORATE	00387 (0) 33 491 708
RISK MANAGEMENT	00387 (0) 36 312 112
FINANCE	00387 (0) 36 312 112
GBS	00387 (0) 36 312 112

Appendix B

Business network of UniCredit Bank d.d. as at 31 December 2022

Branch/address	Address	City	PTT	Phone	Phone web
REGION MOSTAR					
Branch 1 Mostar (Mepas)	Križanje ulica Kardinala Stepinca i ulice Kneza Višeslava	Mostar (Mepas mall)	88000	036/356-277	036/356-545
Branch 2 Mostar - Mostarka	Dubrovačka 4	Mostar (Mostarka)	88000	036/325-702	036/323-424
Branch 3 Mostar - Revija	Mostarskog bataljona 4	Mostar (Revija)	88000	036/501-412	036/501-418
Branch 5 Mostar - (Rondo)	Kralja Petra Krešimira IV B2	Mostar (Rondo)	88000	036/333-902	036/333-902
Branch Čapljina	Gojka Šuška bb	Čapljina	88300	036/810-712	036/810-710
Branch Stolac	Hrvatskih branitelja bb	Stolac	88360	036/858-444	036/853-306
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880-149	036/880-149
Branch Čitluk	Broćanski trg 1	Čitluk	88260	036/640-439	036/640-435
Branch Konjic	Trg Državnosti Alije Izetbegovića bb	Konjic	88400	036/712-430	036/712-438
REGION ZAPADNA HERCEGOVINA					
Branch Grude	Dr. Franje Tuđmana br. 124	Grude	88340	039/660-123	039/660-746
Branch 1 Široki Brijeg	Fra Didaka Buntića 13	Široki Brijeg	88220	039/702-532	039/705-546
Branch Ljubuški	Ulica IV. Brigade HVO Stjepana Radića br.63	Ljubuški	88320	039/831-340	039/835-933;
Branch Livno	Kralja Tvrtka bb	Livno	80101	034/208-222	034/208-220
Branch Tomislavgrad	Brigade Kralja Tomislava bb	Tomislavgrad	80240	034/356-201	034/356-209
Branch Posušje	Fra Grge Martića 28	Posušje	88240	039/685-415	039/685-157
REGION SREDIŠNJA BOSNA					
Branch Vitez	Petra Krešimira IV	Vitez	72250	030/718-744	030/718-744
Branch Uskoplje	Bana Jelačića bb	Uskoplje	70240	030/496-596	030/494-181
Branch Donji Vakuf	770 Slavne Brdske brigade 23	Donji Vakuf	70220	030/259-661	030/259-660
Branch Novi Travnik	Kralja Tvrtka bb	Novi Travnik	72290	030/795-500	030/795-500
Branch Fojnica	Mehmeda Spahe 18	Fojnica	71270	030/547-022	030/547-022
Branch 1 Travnik	Bosanska 56	Travnik	72270	030/547-017	030/547-012
Branch Jajce	Maršala Tita bb	Jajce	70101	030/654-564	030/654-562
Branch Rama	Kralja Tomislava bb	Rama	88440	036/770-919	036/771-990
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259-577	030/259-576
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877-122	030/877-122
REGION ZENICA					
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/887-903	032/887-903
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730-057	032/730-061
Branch Zenica	Školska bb	Zenica	72000	032/449-340	032/449-340
Branch 1 Zenica	Londža 81	Zenica	72000	032/202-623	032/202-620
Branch Kakanj	Alije Izetbegovića bb	Kakanj	72240	032/557-212	032/557-211
Branch Tešanj	Braće Pobrić bb	Tešanj	74260	032/665-197	032/665-197
Branch Jelah	Mustafe Ćemana 7	Jelah	74264	032/667-892	032/667-892
Branch Breza	Alije Izetbegovića 80	Breza	71370	032/786-014	032/786-012
Branch Zavidovići	Pinkasa Bandta bb	Zavidovići	72220	032/869-200	032/869-200
Branch Vareš	Zvijezda 63	Vareš	71330	032/848-032	032/848-031
Branch Olovo	Branilaca 17	Olovo	71340	032/829-530	032/829-530
Branch Maglaj	Aleja ljiljana bb	Maglaj	74250	032/609-811	032/609-810

Appendix B

Business network of UniCredit Bank d.d. as at 31 December 2022

Branch/address	Address	City	PTT	Phone	Phone web
REGION BIHAĆ					
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037 229-280	037/229-970
Branch 1 Bihać	Bosanska bb	Bihać	77000	037/229-975	037/229-270
Branch Velika Kladuša	Maršala Tita 23	Velika Kladuša	77230	037/776-606	037/776-600
Branch 1 Cazin	Cazinskih brigada bb	Cazin	77220	037/515-024	037/515-021
Branch Bosanska Krupa	511. Slavne brdske brigade bb	Bosanska Krupa	77240	037/476-880	037/476-880
Branch 1 Sanski Most	Trg oslobodilaca bb	Sanski Most	79260	037/688-547	037/688-543
REGION SARAJEVO					
Branch 1 Sarajevo	Maršala Tita 48	Sarajevo	71000	033/253-383	033/253-372
Branch 4 Sarajevo (Ciglane)	Alipašina 45a	Sarajevo (Ciglane)	71000	033/560-790	033/560-795
Branch 12 Sarajevo	Zelenih beretki 24	Sarajevo	71000	033/491-636	033/491-600
Branch 13 Sarajevo	Branilaca Sarajeva 53	Sarajevo	71000	033/491-997	033/491-931
Branch 16 Sarajevo (hotel Holiday)	Zmaja od Bosne 4	Sarajevo (hotel Holiday)	71000	033/252-288	033/491-754
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo	71000	033/776-130	033/776-134
Branch 17 Sarajevo (Otoka)	Džemala Bijedića b.b. (PC Capital Tower)	Sarajevo (OTOKA)	71000	033/721-815	033/721-800
Branch 18 Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/727-022	033/727-021
Branch 19 Sarajevo (Dobrinja)	Mustafe Kamerića 5	Sarajevo (Dobrinja)	71000	033/775-851	033/775-851
Branch Vogošća	Igmanska 60	Vogošća	71320	033/476-361	033/476-360
Branch Ilidža	Mala Aleja 10	Ilidža	71210	033/627-937	033/776-157
Branch Hadžići	Hadželi 177	Hadžići	71240	033/475-396	033/475-390
REGION TUZLA					
Branch 1 Tuzla	Džafer Mahala 53-55	Tuzla	75000	035/259-059	035/259-037
Branch 2 Tuzla	Armije BiH 3	Tuzla	75000	035/306-478	035/306-472
Branch Gradačac	Ulica šehida 1	Gradačac	76250	035/822-500	035/822-500
Branch Lukavcu	Kulina Bana 2	Lukavac	75300	035/551-331	035/551-331
Branch Gračanica	22 Divizije bb	Gračanica	75320	035/701-471	035/701-470
Branch Srebrenik	Bosanskih Branilaca bb	Srebrenik	75350	035/646-093	035/646-093
Branch Živinice	Ulica Oslobođenja bb	Živinice	75270	035/743-143	035/743-143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610-111	035/610-110
REGION POSAVINA					
Branch Orašje	Treća ulica broj 47	Orašje	76270	031/716-713	031/716-713
Branch Odžak	Titova 17	Odžak	76290	031/762-437	031/762-437
Branch Brčko	Bosne srebrene 7b	Brčko	76120	049/233-760	049/233-760
REGION BANJA LUKA					
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	051/348-063	051/348-063
Branch Prijedor	Zanatska bb	Prijedor	79101	052/240-765	052/240-764
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	053/209-402	053/209-401
Branch Bijeljina	Majora Dragutina Gavrilovića 2 - ulaz s ulice Svetog Save	Bijeljina	76300	055/225-090	055/225-080

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