2023 Annual Reports
and Accounts

Unlocking **transformation,** together.

For our clients, our people,
and our communities.

Empowering
Communities to Progress. | UniCredit

Annual report for the year 2023

Empowering
Communities to Progress.

UniCredit

We believe in **Europe's potential.**

Uniting behind a vision of a
better bank and a better future.
A transformation for our clients,
our people, and our communities.
Demonstrating what it means
to be the Bank for Europe's future.

For everyone,
everywhere.

Contents

Dear clients, shareholders, and business partners,

We are pleased to present the business results achieved by the UniCredit Bank d.d. (hereinafter referred to as the Bank) in 2023.

By consistently pushing boundaries, this year we are proud to confirm our position as a leading bank, with our financial performance is a clear evidence of significant changes we are making within our local community. This proves the unwavering dedication of UniCredit employees, who have diligently worked to implement the UniCredit Unlocked Strategic Plan.

We have concluded the business year with the highest net profit in the Bank's history. We have achieved 161 million BAM, which is 49 million BAM more than in the previous year of 2022. This remarkable result was attained through stable and reliable operations, rewarded by our client's trust, as well as a robust risk management culture, resulting in improved portfolio quality, and maintaining an adequate level of coverage through value adjustments. In 2023, the ratio of net loans to deposits was 63.3%, and the Bank's assets increased to 7,165 billion BAM, reflecting a corresponding growth of 9.6% compared to 2022. Gross loans from clients, including financial lease receivables, have increased by 8% annually, reaching 3,941 billion BAM at the end of 2023. Additionally, the client deposits grew by 8.5%, reaching 5.987 billion BAM. With a capital base of 881 million BAM, the Bank has reaffirmed its high capitalization with a capital adequacy ratio of 18.9%, which confirms the stability and security of our operations.

"This proves the unwavering dedication of UniCredit employees, who have diligently worked to implement the UniCredit Unlocked Strategic Plan."

Amina Mahmutović
President of the Management Board

Report of the President of the Board

We are honored to have received recognition and awards from prestigious financial magazines for our high-quality service, excellent customer experience, dedication to innovation, and valuable efforts in the local community development. We have received numerous accolades from Euromoney and Global Finance magazines, demonstrating our collective strength and commitment to ensuring that the client remains at the heart of everything we do. We have also been named "Global Bank of the Year" by The Banker magazine, a leading benchmark for banking excellence. We continue to enhance our mobile banking application, which has been recognized by both our clients and the expert community. For the fourth consecutive year, we have been awarded the title of the Best Mobile Application by the Banke&Biznis magazine, and the Association of Banks in Bosnia and Herzegovina at the annual "Golden BAM" awards ceremony. In this regard, to round off this year, our collaborative efforts this year have introduced the new, modern services to our clients, from a mobile application for legal entities to the Google Pay service.

We give particular importance to the activities that contribute significantly to our community and the improvement of individual lives, which is both our strategic commitment and the direction in which we want our social impact to be visible. This year, we have signed the agreements to subsidize the financing of small business entities to facilitate access to the financial resources necessary for their business development, as well as an agreement to promote female entrepreneurship. We have also established a partnership with USAID Tourism for small and medium-sized enterprises in the tourism sector, partnered with the German Development Bank (KfW), and collaborated with the EBRD's "Go Digital in BiH" Program to finance the digitalization of small and medium-sized companies. Additionally, we have developed the "SME Go Green" Program to assist Bosnian companies in their green transition and to enhance their competitiveness in the modern economy.

In support of green transition initiatives and aiding clients to transition to renewable energy sources, together with partners Deloitte Bosnia and Herzegovina and SHPP d.o.o., we have conducted a series of workshops aimed at informing clients, both individuals and legal entities, about the potential of solar energy, its advantages, challenges, and financing options for solar energy projects. Furthermore, our Bank leads a consortium of commercial banks involved in financing the construction of the Vc highway section through a loan approved by the European Bank for Reconstruction and Development (EBRD), totaling 110 million euros, alongside an EU investment grant of 150 million euros, and up to 150 million euros from the commercial banks. With their participation, we have made a significant progress in continuing the construction of our country's transportation infrastructure, furthering our role in empowering the communities we serve.

By allocating our resources, we actively support those who contribute to the promotion and further development of our country. Therefore, I am very pleased to have the opportunity to partner with, and support, the successes of both individuals and organizations. Our Lejla Njemčević made history this year by winning the Mountain Bike World Cup, and we supported Naida Avdić in her ascent of the Himalayas, as the first Bosnian female alpinist to conquer the Ama Dablam peak. By doing so, we are providing encouragement and guidance to all girls and women to pursue their goals. We celebrated the centenary of the Sarajevo Philharmonic, graced by the presence of maestro Riccardo Muti, and, of course, continued to support our greatest cultural event, Sarajevo Film Festival, a celebration of film art, the city of Sarajevo, and the entire Bosnia and Herzegovina.

Our past actions have always been in a line with what ESG now encapsulates, and our social responsibility and engagement have always been integral parts of our business strategy. Thus, we have sought to add an additional dimension to the projects we have supported through our corporate social responsibility, making a difference in the market. We support the Think Pink Association - Together We Are One - through free mammography screenings, and this year, we have provided their members with a series of financial education sessions to empower them, not only in terms of health preservation, the project's primary objective, but also in their daily lives.

We continue to invest in our people and our business, laying the foundation for future success. Our fundamental guiding principles for 2024 are improving customer experience, along with streamlining and digitalization of our operations. Although we have made significant steps in digitalization, there is still much work to be done. Simplifying processes and services is a benefit that contributes to the better business practices, and thus, we remain committed to simplification to provide our employees with more room to reach the best solutions for our clients' challenges collaboratively. Our clients are always at the center of our operations, and through digitalization and streamlining our internal processes, we will enable them to have even better customer experiences and services. Stable growth, along with unwavering support for the development of our economy, remains imperative in the coming year, as only then can we ensure the progress of our society as a whole. We will continue to pay special attention to the development of small businesses, as they are the strongest economic force of any society.

On the behalf of the Bank's Management Board and personally, I express deepest respect and gratitude to all clients and business partners for their trust, as well as to the all Bank employees for their efforts, dedication, and commitment throughout this year. Our goal is, not only to meet expectations, but to continually raise them, setting new standards for ourselves and the entire banking industry in Bosnia and Herzegovina.

We will continue to do what we have proven to do best, and we will succeed in our mission to be the Bank for Europe's future.

Amina Mahmutović
Predsjednica Uprave Banke

UniCredit Bank dioničko društvo


UniCredit Bank
dit Bank

Macroeconomic Overview

Previous year has been quite challenging for the global economy, as inflation, rising interest rates, and geopolitical shocks caused great uncertainty. After a strong expansion in 2021, real gross domestic product of the Eurozone contracted towards the end of 2022, and barely grew in the first three quarters of 2023. The high inflation which is still in place and tightening monetary policy took a bigger toll than previously expected. Economic activity is expected to gradually recover as consumption recovers on the back of a consistently strong labor market, sustained wage growth and continued declines in inflation.

The slowdown in the economic activity of Bosnia and Herzegovina, which already started in 2022, continued throughout 2023. The reason for the slowdown in 2022 was poor industrial activity and rising inflation, which burdened the purchasing power of households, while the further slowdown in 2023 is the result of the deterioration of the external environment and the external demand of the main trading partners. In the period of January-December 2023, the export amounted to 16 billion 700 million KM, which is 7,1% lower than during the same period of 2022, and import amounted to 27 billion 768 million KM, which is 3% lower than during the same period of last year. Industrial production decreased year-on-year, and the net export position worsened as import growth was higher than export growth. In 2023, the economy grew by a modest 1.1% in the first quarter on the annual basis, while the second and third quarters continued with weak growth of 1.0% and 1.2% on the annual basis.

Economic activity in Bosnia and Herzegovina could slowly begin to recover in the coming years, with further gradual weakening of inflation. It is expected that the real growth of the gross national product will be higher from 2024, due to the recovery of domestic and foreign demand. A moderate growth of a real income, in conditions of continued decline in inflation, would increase personal consumption, while stronger dynamics of foreign demand starting next year would strengthen commodity exports. Estimated values of real gross domestic product and other macroeconomic variables are exposed to an extremely high degree of uncertainty. Weak reform momentum weighs on growth prospects, even as the global food price inflation has become more subdued. The short-term outlook is clouded by the ongoing slowdown in key export markets, with year-over-year declines in the industrial production.

The weakening of inflationary pressures at the end of 2022 continued throughout 2023. In December 2023, the average inflation rate is 6.1%.

Average inflation reached its peak in January 2023, when it reached a level of 14.1%, followed by a slowdown in line with the drop in international food and energy prices. Price levels are in a constant downward trend, but expectations show that inflation in the short term will still be significantly higher than the average for the period for which consumer price data is officially collected in Bosnia and Herzegovina. A large part of the inflationary pressures is a consequence of the rise in domestic prices, which are not affected by the rise in food and energy prices on foreign markets.

The average monthly paid net salary for the period January - November 2023 compared to the same period of the previous year is nominally higher by 12,9%. For the same period, the real index was higher by 6%. The registered unemployment rate is still in a downward trend, with a ratio of 29% for eleven months in 2023.

The rapid formation of government at the state and entity level after the 2022 elections consolidated the political structure of BiH. Bosnia and Herzegovina was granted candidate status for the European Union, which gave an additional reason for improving the country's credit rating. The international rating agency Standard and Poor's (S&P) increased the credit rating of BiH from 'B' to 'B+', with a stable outlook as early as August 2023. According to S&P analysts, a new increase in the credit rating may occur in the next year if the sustainable transition to reaching consensus-based political decisions is achieved, which, in the medium term, could accelerate reforms and economic growth.

Although BiH is known for its frequent political deadlocks, it seems that the authorities are focused on the implementation of the reform program. BiH has shown the political will to implement the reform program. A sufficient progress has not been achieved by the date of the recent progress report in November 2023, delaying the European Commission's decision to issue an unconditional recommendation to open membership negotiations, and causing the European Commission to recommend that accession negotiations are opened only after Bosnia and Herzegovina achieves the required degree of compliance with membership criteria. The European Commission will report to the European Council on Bosnia and Herzegovina's progress in this respect no later than March 2024. Given that 2024 is an election year for the General Elections in Bosnia and Herzegovina, it is possible to expect more frequent political deadlocks, which could lead to postponing structural reforms and faster improvement of the business environment.

Macroeconomic Expectations

During 2024, it is expected that the growth of the economy will be stimulated by the recovery of personal consumption, as inflation decreases, and by public investments. Inflation rates should achieve an additional reduction to the level of 3%-4%. The risks for BiH's perspective are mainly related to the unpredictable nature of BiH's domestic politics, which could impact the implementation of the reform program, the perception and sentiment of investors, and the outlook related to BiH's credit rating. Risks for BiH's growth are mainly related to the performance of the country's main trading partners and energy prices (BiH imports most of its energy products, except for electricity, of which BiH is a net exporter).

Banking Sector

The Central banks around the world have been raising interest rates throughout 2022 and 2023 to try to moderate rising inflation, while keeping the economy's growth rate in balance. Tighter financing conditions reduce demand, which helps reduce inflation. Core inflation in the Eurozone has been successfully reduced, however, the price pressures are still high, primarily due to strong growth in the unit labor costs. Higher interest rates exposed vulnerabilities in some banks around the world, while it was clear that some banks would be weakened by an extended period of tight monetary policy..

On the other hand, the banking sector of Bosnia and Herzegovina remained strong, stable and adequately capitalized during 2023, with the lowest ratio of non-performing loans in the total in the decade (4 percent, Q3 2023). There was no direct spillover of financial stress from advanced economies due to the limited reliance on international financing.

The number of banks on the BiH market did not change during 2023 and amounts to a total of 21. There are a total of 13 banks operating in the Federation of Bosnia and Herzegovina and 8 banks in the Republic of Serbia. The number of employees in the banking sector increased by +2.6% (3Q 2023 compared to 2022YE).

The latest available financial indicators for the banking sector of Bosnia and Herzegovina for 3Q 2023 show that the banking sector is stable and profitable. The total realized profit before tax in the nine months of 2023 was BAM 607 million, which is a growth of 44%, compared to the same period of the previous year. Total revenues of the sector recorded a double-digit annual growth, primarily driven by a significant increase in net interest income (+34% y/y). Operating costs of the sector increased by 12% y/y, while net provisions recorded a decrease of -28% y/y.

In November 2023, the loan volumes recorded a growth of +5.6% compared to the end of 2022. At the same time, deposit volumes recorded an increase of +5.8% compared to the end of 2022, driven by a faster growth of household deposits of +7.5%, while deposits of legal entities increased by +4.2%.

The entity banking agencies jointly agreed to establish a kind of reference interest rate, in the form of the average price of deposits (money that individuals, companies and other legal entities deposit, i.e. give to the bank for safekeeping in the form of a bank account). Domestic banks were offered the choice of using these rates (12-month deposit price) as reference values in loan contracts with a variable interest rate with the aim of better managing interest-induced credit risk. Reference values of the average financing cost of banks operating on the territory of Bosnia and Herzegovina were calculated for the previous five years. The Central Bank of Bosnia and Herzegovina will regularly publish reference rates of the weighted average cost of bank financing on a quarterly basis, whereby this information will be available no later than 45 days after the end of each quarter.

As measures to mitigate the risk of interest rate changes on the international market, banking agencies of two entities have adopted temporary measures to slow down the growth of domestic credit rates, and mitigate the impact of rising world interest rates. The measures, adopted in October 2022 and remaining in place throughout 2023, call for increased monitoring of borrowers' ability to service debt in a rising interest rate environment and increased provisioning for loans subject to rate increases of more than 200 bps, allowing the banks to restructure those loans without initiating default proceedings. Furthermore, the Banking Agency of the Federation of Bosnia and Herzegovina limited the increase of active interest rates to 200 basis points for those loans for which an increase of more than 200 basis points would cause the debtor to default on his obligations. In the RS, a temporary regulation adopted in August 2022 and extended until December 2023 allows banks to only partially recognize revaluation losses on certain government securities. In addition, in April 2023, both banking agencies set an upper limit for banks' exposure to foreign countries equal to the amount of the guarantee capital, until the end of 2024.

Banking Sector Expectations

With regard to macroeconomic projections for the year 2024, it is expected that the banking sector will operate in conditions of a rather uncertain situation in the global environment. Given the expected moderately accelerated GDP growth, it is expected that the loan growth rates will be slightly higher than in 2023. This is the result of the expected recovery of personal consumption and the investment cycle.

Map of the Branch Network

Retail

Organization

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 69 at the end of 2023.

Business in 2023

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 2023. In our everyday business, the Bank is guided by the high standards of professionalism and dedication to customers. We make continuous efforts to improve the Bank's products and processes through listening and analyzing customer´s feedback in order to provide the clients with the premium banking service aligned with their needs and market trends.

According to that, during 2023, 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 processes.

The clients recognize the Bank as a reliable partner, and a significant increase in the volume of loans was recorded during 2023.

Regarding the credit products, the sevice provided is to simultaneously process the credit card requests and overdraft per current account, which simplifies the process for both Clients and the Bank, while reducing the number of visits to the branch.

The bank has continued its work on the promotion of the use of payment cards while providing numerous benefits when paying, whereby a 20% increase in card turnover was achieved, as well as an increase in the number of newly issued cards.

Retail (continued)

Business in 2023 (continued)

The annual growth in the acceptance of the card transactions continues to record a growing trend among merchants who have an agreement to accept cards with the Bank, with an increase in the volume of transactions of 23%. A special focus in 2023 is dedicated to encouraging the installation and use of EFT POS terminals in industries/activities of the segment of medium and small businesses that are recognized for the development and expansion of the card payment services.

During the year 2023, growth was recorded in the sale and use of the Current Account with instruments for utilzing the Standard, Silver and Gold packages. The bank focused its activities on young people, high school students and university students, and accordingly a set of activities to support young people was initiated - during the year, improvements were implemented in the delivery of student status certificates, campaigns were created for students, etc.

As part of socially responsible activities, the Bank has implemented a Basic Account and a Basic Account for socially sensitive categories, aligned with legal requirements, within which socially sensitive categories have the opportunity to use a basic set of products and services at a more favorable fee.

In 2023, we have provided our clients with a quick and simple way to apply for the issuance of certain types of confirmations via the website.

In the Bankassurance section, in 2023, a modification of the Current Account Insurance product was implemented, where the insured sums for insured risks were modified in accordance with the adjusted monthly premium. Also, the offer of insurance companies for the Single life insurance product has been diversified, where a new insurer has been added with the new contracting conditions.

There was an increase in current account insurance contracts compared to the previous year, as well as travel health insurance, which is the result of continuous campaigns that the Bank conducts towards its clients.

In accordance with the Bank's long-term strategy in the field of development and improvement of digital business channels and development of the card business, in 2023 we have provided the Google Pay service for all our clients, users of Mastercard cards and Mobile banking (m-ba). This simpler and safer payment method will provide our customers with an even better and more pleasant experience of performing everyday transactions at points of sale.

In 2023, the new m-ba Plus service was implemented - Mobile banking for business entities, which provides our clients with the best user experience in managing their finances, without the need to go to the Bank.

We strive to provide the highest quality services for our clients for digital business, and to educate them continuously about the advantages of the same. The focus on raising our clients' awareness about the advantages of doing business through Mobile and Internet banking services in 2023, accomplished through continuous sales and promotional activities, resulted in over 240,000 active users of electronic services at the end of the year. The bank will continue to develop and improve electronic services in accordance with the needs and habits of the clients in the upcoming period.

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 strive to provide Bank's website 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.

In accordance with the trend from previous years, the arrangement of the Bank's business network in accordance with modern standards of functionality and design continued, 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 very challenging, dinamic and demanding business year, which has been marked with the economic crisis and strong changes on the global level, which consequently let to the inflation, slow investment circles, disruption in the supply chains and export activities, the UniCredit Bank, due to its stability, good business practices from previous years and capacity of fast adjustment, has managed to maintained the trend of excellence and achieve extraordinary business results in this year.

Total loans of legal entities in 2023 mark growth of 5% in comparasion with previous year, in amount 1.648 mln KM. Mentioned growth reflected also on growth of market share of Bank in the segment of legal entities, whereas Bank confirmed position of leading financial subject on the market, and also the most important partner in financing of private companies and public sector in all industry branches, specially in sectors of energy, production and trading, while maintainging the high quality of loan portfolio and as a result of applied quality methods of risk management.

Deposits of clients legal entities at the end of 2023 amounted 2.332 mln KM, and with growth of 6.4% in comparison with previous year, marked also significant growth of market share and confirm the UniCredit Bank as a reliable and safe partner for financial funds of clients at any moment and specially during the period of economic crisis and financial changes.

In extremely complexed economical conditions, our strategic commitment, the base of our business and exitance has been and still is that our impact on society should be visible through continuous support of our clients and our community in development of their business and actions. Summarizing our business results for this year, we highlight the new, more modern mobile application service for legal entities, the signing of agreements on co-financing of small businesses with cantonal ministries and municipalities, raising awareness of environmental issues and solar energy, as well as participating in trade fairs and economic forums with the aim of promotion and further economic development of our country on the way to the EU integration.

Our key priority is the pursuit of continuous strengthening of community development by supporting the local economy and clients by providing them with funds for the development and business improvement. We transferred our mission into concrete activities for this year: we signed a contract with the Canton Sarajevo on the allocation of dedicated credit funds to small business entities, and several contracts with municipalities on the allocation of credit funds with subsidized interest rates.

Furthermore, there is also the USAID support plan for small and medium-sized enterprises in the tourism sector, a partnership with the German Development Bank, and a partnership with the EBRD through the programs "Go Digital in BiH" (financing of digitization of small and medium-sized companies) and "GO GREEN" (projects that promote energy efficiency and support women in entrepreneurship).

With the aim of strengthening the green transition and supporting clients in switching to renewable energy sources, together with our partners, we held a series of workshops with the aim of informing clients of legal entities about the potential of solar energy, the advantages and challenges when switching to solar energy, as well as the possibilities of financing solar power plant projects, and we are already seeing results in the form of realization of these projects. In this way, opportunities are opened to continue and strengthen competitiveness on the domestic market and the path to the international market through investments in innovative technologies, skills and services in order to grow on a sustainable basis.

Our clients are always in a 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 this mentioned goal, for many years, we have been maintaining the quality of business which was recognisated by the fellow professionals and by our clients through numerous awards. As such, during this year, we distinguish the award of prestigious financial magazine Global Finance which announced, as part of his 30th annual ceremony, that UniCredit Bank d.d. Mostar was chosen as the best bank in Bosnia and Herzegovina for the year 2023, and in this way we also showed how well the UniCredit can 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 as through better understanding of clients, recognizing their needs, while using the expertise and global presence of UniCredit Group in the areas of all financial products and services. We will continue to serve our clients and our community, while continuously making the right choices.

Corporate and Investment Banking Segment (continued)

The most important activities relating to research and development for CIB segment

- We provide support to clients and social community in transition to sustainable society, promoting ESG culture and business activity and supporting the financing of green activities.
- Simplification of a credit process through introduction of RPA (Robotic Process Automation – robot), with the aim of significant improvement in business relations with a client.
- Digitization of "SME On Boarding" – create a unique global digital process that will enable harmonization of the user experience in all sales channels, starting with the opening of the client, especially aimed at small and medium-sized enterprises.

Estimation of expected future development

In the upcoming period, in order to ensure the sustainability of our business, we will adapt to macro-economic opportunities, and continue to support our clients and the communities. Besides the progress achieved in this sphere, digitalization and simplification remain our basic guidelines in 2024, because, by simplifying processes and services, we leave more space for our employees to find the best solutions for client's challenges. Our clients are always at the center of our activities, and through digitization and simplification of internal processes, we will provide them with an even better user experience. Stable growth with indispensable strong support for the development of our economy remains imperative in the coming year as well, because this is the only way we can ensure the progress of our society as a whole. We will continue to attent closely to the development of small businesses, because they are the strongest economic forces of a society.

In 2024 in CIB focus will be on:

- Continuation of business excellence which will confirm CIB and the Bank as a whole as a market leader by all key business parameters;
- Increasing the market share of loans with a focus on existing clients of the Bank and researching the base of new potential clients according to the principle of qualitative analysis "case by case";
- Continuous strengthening the partnership with the state and its institutions in key infrastructure and other projects significant for further development of Bosnia and Herzegovina, as well as providing support to private companies through credit lines and funds;
- Following the UniCredit Group Strategy, which places ESG at the center of all decisions and actions: starting from the environment, through management, up to the method we support clients and the communities in which they operate. In this way, we will support BiH energy transition;
- Retaining a high level of credit portfolio quality, and maintain the position of the most active/ attractive creditor on the market with innovative credit models, with continuous engagement in improving the quality of services;
- Maintaining stable business through additional improvement of our services and responsible risk management - creation of individual access models for each client with direct cooperation with sales staff;
- 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;
- Continuous digital transformation.

Information on the purchase of own shares or stakes

Own shares

In 2023, the Bank paid the equity for the establishment of the Company "UniCredit Invest BH Fund Management Company Ltd.", which is owned by the Bank 51%. The incorporation is in process and this company has not started with operations.

Credit: Andrea Cherchi

Overview of business operations of the Bank

In 2023, the Bank made a profit before tax in the amount of KM 180,5 million, which is KM 54,44 million higher compared to the previous year (+43,2%).

Profit after tax amounts to KM 162,00 million, which is KM 49,5 million higher compared to the previous year (+44%).

Income and expenses

The realized revenues of the Bank for 2023 amount to KM 336,2 million and compared to the previous year they record an increase of KM 57,9 million (+20,8%).

Total net interest income amounts to KM 213,5 million, and accounting for 63,5% of total income.

Net income from fees and commissions amounts to KM 99,2 million, accounting for 29,5% of total income. Net gains from the purchase and sale of currencies and exchange rate differences and other revenues amount to KM 23,485 million and account for 7% of total revenues.

Net interest income

Realized net interest income in 2023 amounts to KM 213,5 million, which is a increase (39,3%) 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 99,2 million and recorded an annual growth of KM 5,4 million (+5,7%).

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 2023 amount to KM 13.5 million and recorded an decrease of KM 7.3 million compared to last year.

Other income

Other revenues amount to KM 10.0 million and are lower by KM 0.4 million compared to the previous year.

Operating expenses

Total operating costs in 2023 amount to KM 145.7 million and are higher by KM 10.9 million (8.1%) compared to the previous year.

The share of operating expenses in operating income is 43,3%.

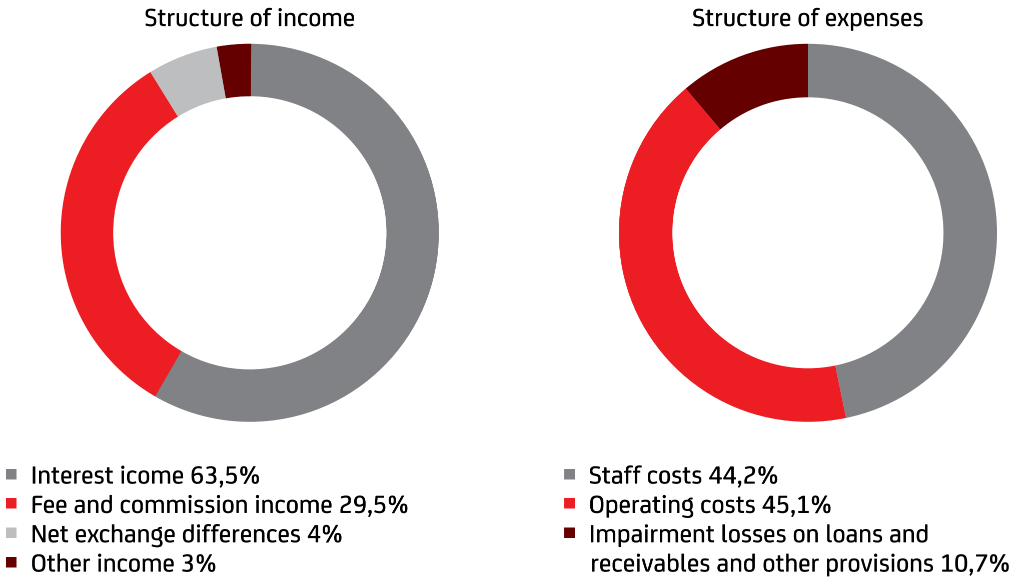
Impairment losses and provisions

Total impairment lossess and provisions for 2023 amount to KM 10.0 million.

Impairment losses and provisions for loans and receivables amount to KM 4.3 million. The net cost of impairment of loans and receivables is the result of KM 0.01 million of the cost of provisions for the non-performing KM portfolio (of which KM 3.3 million relates to legal entities, and to citizens 3.4 million KM of reservation costs), and release of provisions in the amount of KM 4.3 million for the performing portfolio.

Other impairments losses and provisions amount to KM 14.3 million in the cost of provisioning of which: the cost of provisioning on off-balance sheet 3.8 million KM, 3.2 million KM cash items, KM 3.2 million securities, KM 2.2 million banks, KM 1.0 million in other assets, KM 0.6 million tangible assets, and 0.3 million KM in court proceedings.

Income and expenses structure for 2023

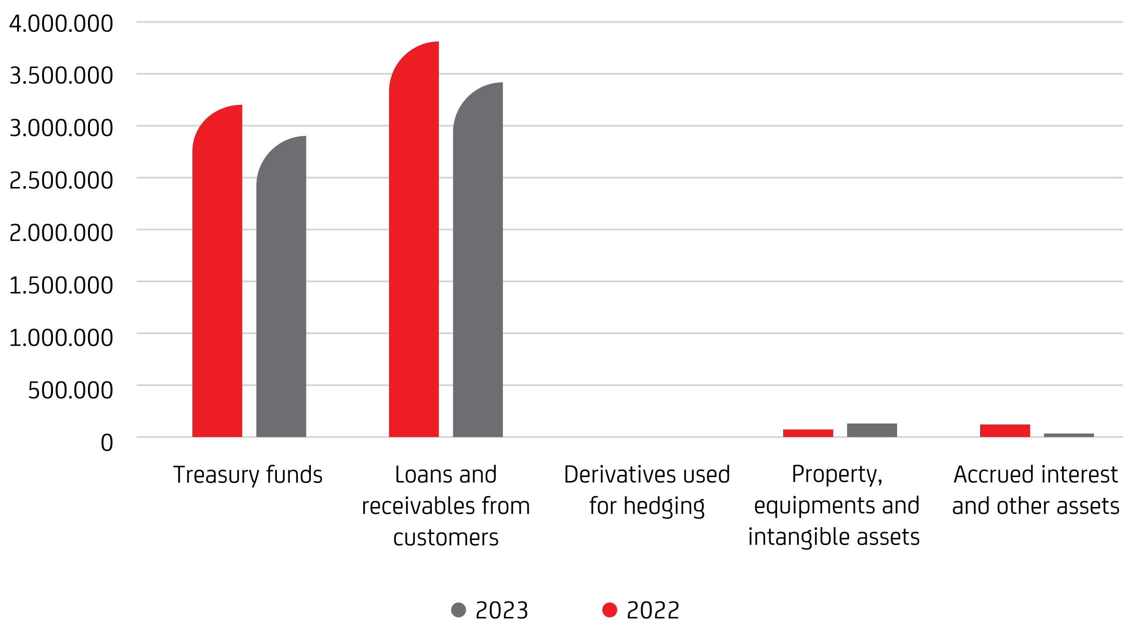


Bank's assets and liabilities

Bank's assets

The Bank's assets as at 31 December 2023 amount to KM 7,165.9 million and record an increase of KM 629.4 million (+9.6%) compared to the previous year. The significant growth of assets is mainly the result of the growth in assets loans,receivables with customers and securities (608.7 million KM / +17.3%) compared to the previous year and on the other side asset of Asset and Liabilty Management recorded a decrease (-25.7 million KM(-0.9%).

Structure of Bank's assets – comparison to the previous year in KM '000



Overview of business operations of the Bank (continued)

Bank's assets and liabilities (continued)

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 39.3% of the Bank's total assets, and amount to KM 2,815.3 million.

The structure of these assets is as follows:

(u '000 KM)	31 December 2023	31 December 2022	Change
Cash and cash equivalents	1,218,672	980,392	238,280
Obligatory reserve with CBBH	598,146	550,064	48,082
Placements and loans to other banks	496,982	630,746	(133,764)
Financial assets at FVOCI	501,495	679,757	(178,262)
	2,815,295	**2,840,959**	**(25,664)**

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 the Bank's clients is as follows:

(u '000 KM)	31 December 2023	31 December 2022	Change	Change %
Gross loans				
Corporate	1,649,859	1,571,715	78,144	4.97%
Retail	2,291,979	2,067,515	224,464	10.86%
Total	**3,941,838**	**3,639,230**	**302,608**	**8.32%**
Impairment				
Corporate	73,495	88,388	14,893	(16.85%)
Retail	80,851	97,266	16,415	(16.88%)
Total	**154,346**	**185,654**	**31,308**	**(16.86%)**
Net loans				
Corporate	1,576,364	1,483,329	93,037	6.27%
Retail	2,211,128	1,970,248	240,879	12.23%
Total	**3,787,492**	**3,453,577**	**333,916**	**9.67%**

Gross loans to customers, including receivables from financial lease recorded an increase of +302.6 million KM (+8%) on an annual basis, and at the end of 2023 amount to 3,941.8 million KM.

Gross loans to legal entities (including state and public institutions) at the end of 2023 amount to KM 1.650,0 million and have increased for KM 78,1 million (+5%). Their share in the total portfolio is 41,9%.

Gross loans to individuals at the end of 2023 amount to KM 2,292,0 million and increased by 224,5 million (+10.9%).

Their share in the total portfolio is 58.1%.

In the entire portfolio of loans to individuals, the largest portion refers to long-term non-purpose loans (67%), long-term housing loans (25%), and receivables based on current accounts (5%) and card loans (2%).

Long-term corporate loans participate with 64%, while short-term loans participate with 33% in total gross corporate loans.

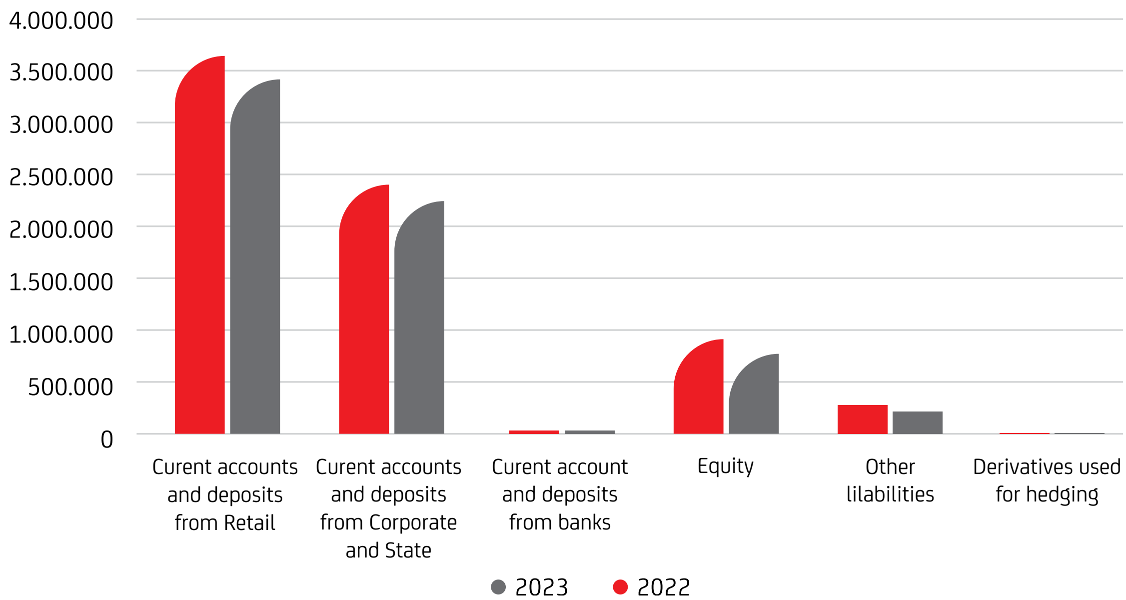
Net loans to customers amount to KM 3,787,5 million and recorded an increase of KM 333,9 million compared to the previous year and they account for 52,9% of the Bank's total assets.

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 2023 amount to KM 5,987,2 million and are higher by KM 470,5 million (+8,5%) compared to the previous year. This position represents 83,6% of the Bank's total liabilities.

Current accounts and deposits of legal entities (including state and public institutions) amount to KM 2,333,0 million and are higher by KM 140 million (6,4%) compared to the previous year. Their share in total current accounts and customer deposits is 39,0%.

Current accounts, savings and time deposits of citizens at the end of 2023 amount to KM 3,654,3 million and are higher than in the previous year by KM 330,5 million (+9,9%). Their share in total current accounts and customer deposits is 61,0%.

Current accounts and deposits with banks, and borrowings

Current accounts and bank deposits at the end of 2023 amounted to KM 10,1 million, and decreased by KM 1,3 million (15,2%) compared to the previous year.

Borrowings of the Bank at the end of 2023 amount to KM 17,0 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 and KfW.

Equity and reserves

The Bank's capital amounts to KM 881,8 million, which is a increase of KM 108,41 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 12,4%.

Capital adequacy ratio according to the methodology of the local regulator is 18,9%.

Overview of business operations of the Bank (continued)

Bank's liabilities (continued)

Key performance indicators

The ROE profitability ratio is 19,6% and the ROA is 2.6%.

The efficiency indicator (cost / revenue) is 43,3%.

The net loan-to-deposit ratio is 63,3% 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 164,7 thousand.

There were no significant events in period after financial date December 31, 2023 until signing of this Annual report.

The Bank's exposure 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 while 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 sources including various types of retail and corporate and bank deposits, credit lines, subordinated debt, issued debt securities, share capital and reserves. The mentioned sources enable flexibility of funding sources, reduce dependence on one source of funding and generally ensure better management of funding costs.

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 the risk of the impact of general and specific trends and changes in market variables on the value of positions, which results in an effect on the statement of profit or loss and other comprehensive income, and the report on the Bank's financial position.

The main market risk factors are considered to be:

- interest rate risk,
- credit spread risk, and
- currency risk.

The aim of market risk management at the Bank's level is to manage and control exposure to market risks within the framework of acceptable parameter values in order to ensure the Bank's solvency, while at the same time optimizing the return for risk.

Risk management monitors the overall exposure to market risks using different risk measurement methodologies and techniques. In order to manage the risk, daily reports on market risk exposure were created, and limits for market risk exposure were defined. The existing limits are reviewed at least once a year. The process of changing the Bank's limit is coordinated by Zagrebačka banka. In addition to the development and implementation of market risk measurement techniques, the Bank constantly conducts activities to improve the quality of data and business processes.

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 directs its 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 in 2023

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

Shareholders Meeting

The Shareholders Meeting of the Bank is the highest body of the Bank. The Shareholder's Meeting of the Bank consists of the Bank's shareholders.

Governing of conduct and decision-making of the Shareholers Meeting is regulated by the Rules of Procedure of the Shareholders Meeting.

As at 31 December 2023, 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 at the Shareholders Meeting, the right to manage the Bank in the manner determined by the Statute, the right to participate in the Bank's profit in proportion to the nominal value of the share and other rights determined by the Statute 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, Statute and other acts of the Bank. The Supervisory Board consists of 7 members, including one chairman, deputy chairman and at least 2 independent members, elected by the shareholders at the Shareholders Meeting for a term not exceeding 4 years.

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

Members of the Supervisory Board of the Bank in 2023 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	Tatjana Antolić Jasnić	Zagrebačka banka d.d.
5.	Member	Pietro Campagna	UniCredit S.p.A
6.	Member	Danimir Gulin	Independent
7.	Member	Dražena Gašpar	Independent

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 work conduct 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 2023 are:

1.	Chairwoman*	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, until August 31st, 2023	Matteo Consalvi
6.	Board Member for Global Banking Support*	Ornela Bandić
7.	Board Member for People & Culture*	Ronald Sudić

* Members of the Management Board on 31 December 2023

As of 1 January 2024 Board Member for Finance Management is Zvonimir Čolak.

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.

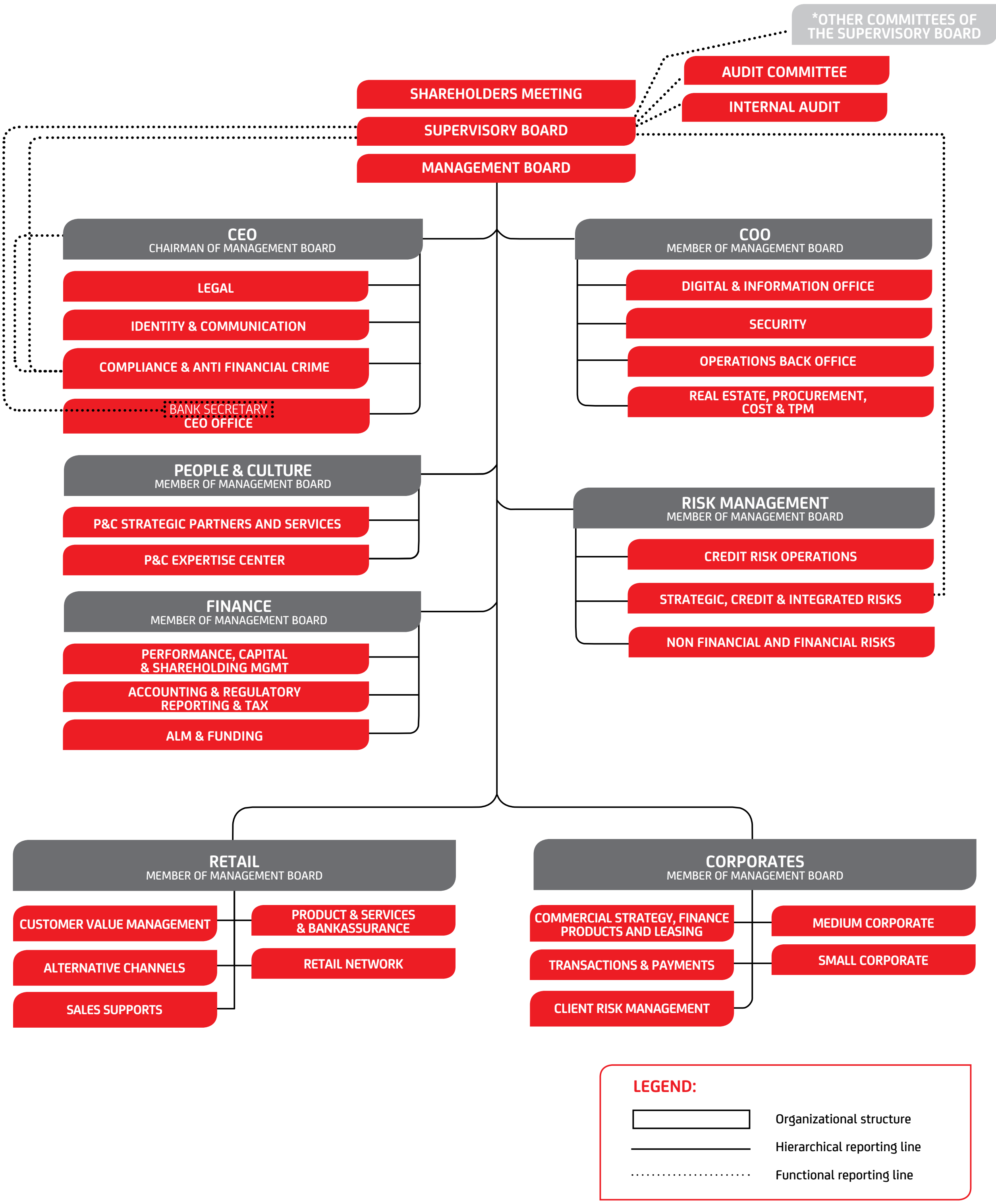
The manner of work of the Audit Committee is regulated by the Rules of Procedure of the Audit Committee. In 2023, members of the Audit Committee are as follows:

In 2023, members of the Audit Committee are as follows:

1.	Mirjana Hladika (Independent), President
2.	Ante Križan (Zagrebačka banka d.d.), Member
3.	Marijana Brcko (Independent), Member

Management and Corporate Governance in 2023 (continued)

The Bank's Organisational Structure as of 31 of December 2023 – division into key organizational units of the Bank:



Employees

As of December 31, 2023, the Bank has 1,157 employees.

People & Culture strategy is focused on supporting the continuous development of our people and ensuring a positive working environment where all employees feel engaged and are committed to value creation.

We are building a culture that puts our Values of Integrity, Ownership and Caring at the heart of our decision-making and in everything we do. Our Culture and these Values embody what we stand for, determine how we act, and shape the decisions that we make every day, guiding all our actions and behaviors. This also helps ensure a more sustainable growth in the long-term and new business opportunities, a strong drive for innovation and creativity, as well as a general improvement of the work climate with positive impact on productivity, well-being, and engagement of our employees.

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 involvement in the community through the ESG strategy and strengthening the culture of accountability and free expression. We believe that by promoting gender equality and inclusion at all levels of the organization, we generate values 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, 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 remuneration mechanisms, the Bank aims to create a best-in-class inclusive work environment, fostering and unlocking individual potential to attract, retain and motivate a highly qualified workforce. Individuals are rewarded based on merit and performance in terms of sustainable results, behaviours and Group values.

Top shareholders

As at 31 December 2023, 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, Croatia	99.30%	118.365
2	Other shareholders	0.70%	830
	TOTAL	**100.00%**	**119.195**

Management and Corporate Governance in 2023 (continued)

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, providing a true and fair view of the state of affairs and results of UniCredit Bank d.d. Mostar (the "Bank") for that period.

After conducting surveys, the Management Board has a reasonable expectation that the Bank shall, in foreseeable time, have access to appropriate resources, and therefore, adapts the principle of the going concern basis while preparing the financial statements.

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 the assumption that the Bank will continue its business is not applicable.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Accounting and Auditing Law of the Federation of Bosnia and Herzegovina. Moreover, the Management Board is also responsible for safeguarding the assets of the Bank, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Chairwoman of the Board Amina Mahmutović	**Member of the Board for Finance Management** Zvonimir Čolak

UniCredit Bank d.d.
Kardinala Stepinca b.b.
88000 Mostar
Bosnia and Herzegovina
16 February 2024

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 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 2023 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 2023, gross loans and receivables to customers: KM 3,941 million, related impairment allowance: KM 154 million and, for the year then ended, impairment release recognised in the statement of profit or loss and other comprehensive income: KM 4.3 million (31 December 2022: gross loans and receivables: 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).

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.

To the shareholders of UniCredit Bank d.d. Mostar (continued)

Key audit matter	How our audit addressed the 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.

In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook and slowing economic growth as well as elevated inflationary pressures and increase in interest rates, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial

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;
  - » Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of the

Key audit matter	How our audit addressed the matter
statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	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.

To the shareholders of UniCredit Bank d.d. Mostar (continued)

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:

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

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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

16 February 2024

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

U ime KPMG B-H d.o.o. za reviziju:
Manal Bećirbegović
Izvršni direktor

Vedran Vukotić
FBiH ovlašteni revizor
Broj licence: 3091134217

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	2023	2022
Interest income calculated using the effective interest method	6	218,699	165,704
Other interest income	6	1,395	1,563
Interest expense	7	(6,600)	(13,952)
Net interest income		**213,494**	**153,315**
Fee and commission income	8	105,443	99,623
Fee and commission expenses	9	(6,261)	(5,801)
Net fee and commission income		**99,182**	**93,822**
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	13,462	20,707
Other income	11	10,023	10,417
Operating income		**336,161**	**278,261**
Depreciation and amortization	23, 24, 25	(15,625)	(15,270)
Operating expenses	12	(130,034)	(119,473)
Profit before impairment losses and income tax		**190,502**	**143,518**
Impairment losses on financial instruments	13	(9,131)	(13,331)
Other net impairment losses and provisions	14	(899)	(4,122)
Profit before taxation		**180,472**	**126,065**
Income tax expense	15	(18,482)	(13,541)
NET PROFIT		**161,990**	**112,524**

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	2023	2022
Profit for the year		**161,990**	**112,524**
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		(13,015)	(40,789)
Deffered taxes	15	1,302	4,073
Changes in impairment of financial assets at fair value through other comprehensive income – debt instruments	20	851	(110)
Other changes		-	6
Items that will not be reclassified to profit or loss			
Changes in fair value of property and equipment	24	2,677	927
Deferred tax on changes in fair value of property and equipment	15	(268)	(76)
Change in fair value per actuarial gain/loss	32	(218)	43
Deferred tax on rev. reserves per actuarial gain/loss	15	22	(4)
Other changes		-	1
Total other comprehensive (loss) / income		**(8,649)**	**(35,929)**
TOTAL COMPREHENSIVE INCOME		**153,341**	**76,595**
Basic and diluted earnings per share (KM)	34	1,361.13	945.51

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

Statement of financial position as at 31 December 2023

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

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	16	1,218,672	980,392
Obligatory reserve at the CBBH	17	598,146	550,064
Loans and receivables from banks at amortized cost	18	496,982	630,746
Loans and receivables from clients at amortized cost	19	3,787,492	3,453,577
Financial assets at fair value through other comprehensive income	20	501,495	679,757
Financial assets at fair value through profit or loss	21a	7	47
Hedging derivatives	21b	8,933	11,701
Financial assets at amortized cost	22	335,710	60,926
Other assets and receivables	23	115,054	64,485
Deferred tax assets	15	5,375	3,102
Property and equipment	24	70,930	71,093
Right of use assets	25	7,601	9,172
Intangible assets	26	19,453	21,399
TOTAL ASSETS		**7,165,850**	**6,536,461**
LIABILITIES			
Current accounts and deposits from banks at amortized cost	27	10,190	8,846
Current accounts and deposits from clients at amortized cost	28	5,987,236	5,516,710
Financial liabilities at fair value through profit or loss	21a	5	28
Borrowings	29	16,977	26,379
Hedging derivatives	21b	14,140	156
Other liabilities	30	192,130	154,544
Lease liabilities	31	7,570	9,052
Provisions for liabilities and charges	32	48,945	43,627
Current tax liability	15	6,899	3,770
TOTAL LIABILITIES		**6,284,092**	**5,763,112**
EQUITY			
Share capital	33	119,195	119,195
Share premium		48,354	48,354
Fair value reserve for financial assets		(46,422)	(35,560)
Fair value reserve for actuarial gain/loss		(563)	(367)
Revaluation reserve for property and equipment		7,723	5,314
Retained earnings		753,471	636,413
TOTAL EQUITY		**881,758**	**773,349**
TOTAL LIABILITIES AND EQUITY		**7,165,850**	**6,536,461**

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)

	2023	2022
Cash flow from operating activities		
Interest received	229,967	178,376
Fee and commission received	105,062	99,940
Interest paid	(6,529)	(19,036)
Fee and commission paid	(6,261)	(5,801)
Operating expenses paid	(124,925)	(109,762)
Net proceeds from trading activities	13,462	20,707
Other proceeds	9,707	10,433
Net cash from operating activities before changes in operating assets and liabilities	**220,483**	**174,857**
(Increase) / decrease in operating assets:		
Obligatory reserve with Central Bank of BH	(49,736)	(31,447)
Loans and receivables from banks at amortized cost	130,226	170,139
Loans and receivables from clients and finance lease at amortized cost	(328,558)	(244,642)
Other assets	(64,974)	(28,655)
Net increase in operating assets	**(313,042)**	**(134,605)**
Increase / (decrease) in operating liabilities:		
Current accounts and deposits in banks	1,344	(19,893)
Current accounts and deposits from clients	470,526	227,349
Other liabilities	45,863	15,122
Net increase in operating liabilities	**517,733**	**222,578**
Net increase in cash from operating activities before corporate income tax	**425,174**	**262,830**
Corporate income tax paid	(17,626)	(9,441)
Net cash from operating activities	**407,548**	**253,389**
Cash flow from investing activities		
Acquisition of property and equipment	(5,846)	(6,821)
Proceeds from sale of property and equipment	1,141	796
Acquisition of intangible assets	(3,321)	(5,336)
Proceeds from the maturity and sale of financial assets at FVOCI	188,515	122,022
Acquisition of financial assets at FVOCI and Amortized cost	(287,194)	(129,767)
Proceeds from sale of associates	-	266
Net cash (used in) investing activities	**(106,705)**	**(18,840)**

Statement of cash flows for the year ended 31 December

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

	2023	2022
Cash flows from financing activities		
Dividend paid	(45,009)	(88,091)
Repayment of long-term lease	(1,928)	(6,459)
Receipts from interest-bearing borrowings	-	21,514
Repayment of interest-bearing borrowings	(9,551)	(11,762)
Net cash (used in) financing activities	**(56,488)**	**(84,798)**
Net cash inflow	**244,355**	**149,751**
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(2,889)	3,093
Net increase in cash and cash equivalents	241,466	152,844
Cash and cash equivalents at the beginning of the year	**980,938**	**828,094**
Cash and cash equivalents at the end of the year	**1,222,404**	**980,938**

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

Statement of changes in equity for the year ended 31 December 2023

(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 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 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**
Total comprehensive income	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	161,990	161,990
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)	-	-	-	851	-	-	-	851
Change in financial assets at fair value through other comprehensive income	-	-	-	(13,015)	-	-	-	(13,015)
Deferred tax on financial assets at fair value through other comprehensive income (Note 15)	-	-	-	1,302	-	-	-	1,302
Items that will not be reclassified to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in fair value of property and equipment	-	-	-	-	-	2,677	-	2,677
Deferred tax on changes in fair value of property and equipment	-	-	-	-	-	(268)	-	(268)
Change in fair value at actuarial gain / loss	-	-	-	-	(218)	-	-	(218)
Deferred tax per rev. reserves for actuarial profit / loss (Note 15)	-	-	-	-	22	-	-	22
Other comprehensive income	-	-	-	(10,862)	(196)	2,409	-	(8,649)
Other	-	-	-	-	-	-	77	77
Dividend payment for the year	-	-	-	-	-	-	(45,009)	(45,009)
Balance as at 31 December 2023	**119,195**	**-**	**48,354**	**(46,422)**	**(563)**	**7,723**	**753,471**	**881,758**

The accompanying notes form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2023

(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 10,048 thousand (31 December 2022: KM 10,092 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 5,745 thousand (2022: KM 5,789 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 (2022: KM 3,899 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 (2022: KM 9 thousand) of which KM 7 thousand (2022: KM 2 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 (2022: KM 395 thousand).

In accordance with Article 32 of the Decision, the Bank presented lower value of repossessed assets by the amount of KM 407 thousand (2022: KM 432 thousamd) 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 2023	31 December 2022
Assets	(8,562)	(9,763)
Liabilities	837	2,013
Equity	(9,399)	(9,472)

Notes to the financial statements for the year ended 31 December 2023

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

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 2023 amount to KM -508 thousand (2022: KM 652 thousand).

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 2024 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 takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurement that have some similarities 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.

These financial 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 financial 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Interest income and expense

Interest income and expense are recognised in the statement of 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. The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or expenses during the corresponding period. 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 to the gross book value of the financial asset or to the amortized cost of the financial liability. The calculation of the effective interest rate includes all fees and percentage points paid or received between the contracting parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. These income and expenses are reported in the statement of profit or loss as interest income or interest expense and similar expenses.

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 Bank 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, the Bank 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 (Purchased or originated credit impaired assets) financial assets are assets that, upon initial recognition, are determined to be offset by credit losses due to the existence of significant credit risk. 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 effective interest rate, i.e. in interest income and interest expense.

The Bank's fee and commission income includes fees and commissions for services of the local and international payment transactions, credit operations, card transactions, issuance of bank guarantees, letters of credit and letters of comfort, loans, asset management, agent, arrangement and sponsor fees at capital market, custody business, consulting and other services provided by the Bank to corporate and retail clients.

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

Notes to the financial statements for the year ended 31 December 2023

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

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 bonds and 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.

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 pays 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 pays 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 so-called "Long-term Incentive Plan" are defined based on criteria related to their contribution to the Bank's long-term sustainable and growing profitability. The estimated amount is recognized as personnel costs in profit or loss and other comprehensive income in the year as earned by employees.

2.8.2 Other employee benefits

Obligations based on other long-term employee benefits, such as jubilee awards and statutory severance payments, are reported in the net amount of the present value of the obligation for defined benefits on the reporting date. The projected credit unit method is used to calculate the present value of the liability. Corresponding revaluation gains or losses are recognized immediately in the statement of profit or loss, except for actuarial gains and losses on revaluation of defined benefit obligations that are recognized in the statement of other comprehensive income as items that will not be transferred to profit or loss in subsequent periods.

Severance pay

Severance pay in the case of early termination of employment is recognized as an expense when there is evidence that the Bank has committed, without a realistic possibility of withdrawal, to the implementation of a detailed formal plan that implies either termination of the employment relationship before the normal retirement date or the payment of severance pay based on an offer given as an incentive for voluntary leaving the workplace. Severance pay for voluntary resignation is recognized if the Bank has made an offer for voluntary resignation, if there is a probability that the offer will be accepted, and the number of accepted offers can be reliably estimated. If severance pays are due for payment more than 12 months after the date of drawing up the financial statements, they are discounted to their present value.

Short-term employee benefits

Liabilities based on the system of short-term remuneration of employees are reported on a non-discounted basis, and are recognized as an expense at the time of rendering the corresponding service. The liability is recognized in the amount that is expected to be paid based on the short-term cash bonus payment system or profit sharing, when the Bank has a present deri-

Notes to the financial statements for the year ended 31 December 2023

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

vative obligation to pay that amount as compensation for the service that the employee performed in the past, and this obligation can be reliably estimate. Employees' rights to an annual leave are recognized at the time of their creation. The recorded reservation for the estimated vacation obligation results from the services provided by the employees up to the reporting date.

2.9 Foreign currency transactions

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 values their assets and liabilities by the 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 2023	1 EUR = 1.95583 KM	1 USD = 1.769982 KM
31 December 2022	1 EUR = 1.95583 KM	1 USD = 1.833705 KM

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 becomes 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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

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.

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.

FA 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 assets) 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.

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

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).

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.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

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

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.

2.11.1.3 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 holds 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 holds 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:

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- **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 recognizes 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment (continued)

2.11.2.1 Credit-impaired financial assets (continued)

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 measures 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 discloses 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 assets that, upon initial recognition, are determined to be offset by credit losses due to the existence of significant credit risk. For such assets, the Bank recognizes 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. Favourable 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).

The Bank considers 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 customer 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 monitors 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 compares 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 considers 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's historical experience and expert credit assessment including forward-looking information.

See Note 38 Risk management for more details.

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2.11.3 Recognition and derecognition of financial assets

The Bank initially recognizes loans and receivables on the date of their occurance.

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 becomes 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 derecognizes 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.

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

The Bank considers 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 enters 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:

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

When the Bank has neither 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 recognizes 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 issues under standard repurchase and securities lending agreements are not derecognized as the Bank retains all significant risks and rewards on a pre-determined purchase price and hence the criteria for termination of recognition are not met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.4 Write-off

Loans and debt securities are written off when the Bank has 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. Additionally the FBA Decision prescribes the regulation for Accounting write-off according to which the Bank is obliged to write off balance 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.

2.11.6 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's 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's 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:

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

- 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 expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

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 derecognises 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 exchanges 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 accounts 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 provides 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.

2.16 Equity instruments

An equity instrument is any contract that proves 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.

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

2.19 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest risk arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes. All derivatives 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 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 permitted by the 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 uses 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 uses derivative financial instruments to hedge its exposure to changes in fair value through interest rate risk.

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 formally designates and documents the relationship for which they wish to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation shall include the identification of the hedging instrument, the hedged item or transaction, the type of risk hedged and how the Bank 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 Bank, 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:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Property and equipment (continued)

	31 December 2023	31 December 2022
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

MDepreciation 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 2023	31 December 2022
Software	5 years	5 years
Other intangible assets	5 years	5 years

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 a cost (which is consistent with their market value at the acquisition date). Subsequent measurement is made by using the fair value method. Changes in fair value are recognized in the 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

Notes to the financial statements for the year ended 31 December 2023

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

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 expects, 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.

Current and deferred tax liability is recognised as income or expense, excluding tax liabilities relating to profit or loss arising from valuation of the financial assets available for sale and change of derivative fair value in case of protection of the cash flow recognised directly in the principal amount and actuarial gains/losses from changes in actuarial assumptions adjusting experience, which are credited to other comprehensive income.

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.

2.25 Assets acquired in lieu of uncollectible receivables

The Bank assesses 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's 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 value 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Provisions

Provisions are recognised if the Bank has 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 enters 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.

2.30 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.

Notes to the financial statements for the year ended 31 December 2023
(all amounts are expressed in thousands of KM, unless otherwise stated)

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

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, 2023:

Effective date	New standards or amendments
1 January 2023	Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
	Definition of Accounting Estimates - Amendments to IAS 8
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
23 May 2023 (applicable in FBiH from 29 December 2023)	International Tax Reform - Pillar Two Model Rules - Amendments to IAS 12

3.1. Novi standardi koji još nisu na snazi
Sljedeći novi standardi, tumačenja i dopune postojećih standarda koje je izdao IASB još nisu na snazi i Banka ih nije ranije usvojila:

Effective date	New standards or amendments
1 January 2024	Lease Liability in a Sale and Leaseback - Amendments to IFRS 16
	Supplier Finance Arrangements (Amendments to IAS 8 and IFRS 7)
	Lack of Exchangability (Amendments to IAS 21)
	Classification of Liabilities as Current or Non-current with Covenats- 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.

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 and Bosnia and Herzegovina. Tax returns are approved by the tax authorities responsible for conducting ex-post control of taxpayers.

The Bank calculates Tax in accordance with the legal provisions, which are outdated and in many cases not adapted to the developed tax systems. In order to reduce the risk of outdated legislation, the Bank uses the possibilities of obtaining tax opinions from competent Tax Authority.

All tax calculations and transactions are subject to tax controls, and regarding to the previously mentioned inadequate and outdated tax regulations, there is possibility for different interpretations of law from Tax Inspectors. As a result of the above, calculations and transactions may be contested by the Tax Authorities (indirect and direct), which could eventually lead to the exposure of the Bank to additional obligations. In accordance with the law, the statute of limitations for tax liability is 5 years. In this regard, tax risks are more significant than those in countries with more modern and developed tax systems.

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 impairments is an area that requires the application of complex models and significant assumptions about future economic conditions and customers credit behaviour (e.g., 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 impairments 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;
- incorporation of FLI,
- 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.

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

4.1.3 Legal proceedings
The Bank makes 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 2023 the Bank provided KM 12,900 thousand (2022: KM 13,210 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.

Segmental 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 2023	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Net interest income	129,314	41,076	34,078	9,280	213,747	(253)	213,494
Net fee and commission income*	77,571	37,276	(1,428)	-	113,420	(14,238)	99,182
Dividend income	-	-	-	-	-	-	-
Net gains from foreign exchange trading and translation of monetary assets and liabilities	-	4,705	(4,866)	-	(161)	13,623	13,462
Other income	2,999	3,126	-	-	6,125	3,898	10,023
Operating income	**209,885**	**86,184**	**27,783**	**9,280**	**333,132**	**3,030**	**336,161**
Depreciation and amortization	-	-	-	(14,860)	(14,860)	(765)	(15,625)
Operating expenses	(100,263)	(25,723)	(1,827)	14,860	(112,953)	(17,081)	(130,034)
Profit before impairment losses and taxation	**109,622**	**60,461**	**25,956**	**9,279**	**205,318**	**(14,816)**	**190,502**
Impairment losses on financial instruments and provisions, net	(13,811)	(10,200)	(3,648)	3,671	(23,988)	13,958	(10,030)
Profit before taxation	**95,811**	**50,261**	**22,308**	**12,950**	**181,330**	**(858)**	**180,472**
Income tax expense	(10,650)	(5,549)	(2,450)	(1,283)	(19,932)	1,450	(18,482)
NET PROFIT	**85,161**	**44,712**	**19,858**	**11,667**	**161,398**	**592**	**161,990**

* 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 2023

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

Statement of profit or loss per segment

Year ended 31 December 2022	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	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**

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

(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:

December 31, 2023	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Account services	27,330	1,453	-	-	28,783	-	28,783
Transactional	21,485	15,640	17	-	37,142	-	37,142
Asset management	298	952		-	1,250	-	1,250
Credit cards	28,474	16,644		-	45,118	(14,238)	30,880
Financial guarantee contracts and loan commitment	2,481	4,906	-	-	7,387	-	7,387
Total fee and commission income	**80,068**	**39,595**	**17**	**-**	**119,680**	**(14,238)**	**105,443**
Fee and commission expense	**(2,497)**	**(2,319)**	**(1,445)**	**-**	**(6,261)**	**-**	**(6,261)**
Net fee and commission income	**77,571**	**37,276**	**(1,428)**	**-**	**113,420**	**(14,238)**	**99,182**

Tablica u nastavku prikazuje raščlanjivanje neto prihoda od naknada i provizija po svakom segmentu:

December 31, 2022	Retail	Corporate Banking	Assets and Liabilities Management	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	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**

Notes to the financial statements for the year ended 31 December 2023

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

Statement of financial position per segment

31 December 2023	Retail (banking)	Corporate Banking	Assets and Liabilities Manageme-nt	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Segment assets	2,287,988	1,520,011	2,880,057	486,356	7,174,412	(13,937)	7,160,475
Subscribed income tax	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	5,375	5,375
Total assets	**2,287,988**	**1,520,011**	**2,880,057**	**486,356**	**7,174,412**	**(8,562)**	**7,165,850**
Segment liabilities	4,118,917	1,868,319	27,167	260,985	6,275,387	1,806	6,277,193
Current tax liability	-	-	-	6,874	6,874	25	6,899
Deferred tax liability	-	-	-	994	994	(994)	-
Total liabilities	**4,118,917**	**1,868,319**	**27,167**	**268,853**	**6,283,255**	**837**	**6,284,092**
Acquisition of property, equipment and intangible assets	-	-	-	9,167	-	-	-

31 December 2022	Retail (banking)	Corporate Banking	Assets and Liabilities Manageme-nt	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	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)**	**6,539,561**
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	-	-	-

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

6. INTEREST INCOME

Analysis by source

	2023	2022
Retail		
Interest income	115,979	107,422
Corporate		
Legal entities	39,283	31,979
State and public sector	22,175	22,446
Banks and other financial institiutions	41,262	3,857
Total interest income calculate using the effective interest method	**218,699**	**165,704**
Interest income on finance lease - retail	16	34
Interest income on finance lease - corporate	1,379	1,529
	220,094	**167,267**

Banks and other financial institutions include Central Bank of BH.

Analysis by measurement category

	2023	2022
Loans and receivables from clients at amortized cost	160,660	146,273
Debt securities (financial assets at FVOCI)	18,172	17,137
Loans to and receivables from banks at amortized cost (including REPO activities)	35,129	3,564
Interest from hedge accounting	4,253	293
Obligatory reserves and cash reserves with the Central Bank of BiH	1,880	-
	220,094	**167,267**

Interest income on impaired loans and receivables amounted to KM 2,955 thousand. (2022: KM 3,440 thousand), of which effects of unwinding were recognized in interest income in the amount of KM 103 thousand (2022: KM 372 thousand).

7. INTEREST EXPENSE

Analysis by recipient

	2023	2022
Retail	4,637	6,171
Banks and other financial institutions	620	2,175
Negative interest on placements to banks and obligatory reserve with the CBBH	63	3,921
Corporate	1,227	1,663
State and public sector	53	22
	6,600	**13,952**

Analysis by product

	2023	2022
Current accounts and deposits from retail clients	4,637	6,171
Repo activities	-	2,011
Current accounts and deposits from banks	64	3,964
Current accounts and deposits from corporate, and state and public sector	1,066	1,551
Borrowings	619	121
Long-term lease liabilities	214	134
	6,600	**13,952**

Notes to the financial statements for the year ended 31 December 2023

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

8. FEE AND COMMISSION INCOME

	2023	2022
Credit cards	34,136	32,567
Foreign payment transactions	22,802	21,136
Product package fees	19,488	16,216
Domestic payment transactions	14,175	12,775
Other*	9,780	12,132
Total fee and commission income from contracts with customers	**100,381**	**94,826**
Guarantees and letters of credit	5,062	4,797
Financial guarantee contracts and loan commitment	**5,062**	**4,797**
Total fee and commission income	**105,443**	**99,623**

*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

	2023	2022
Domestic payment transactions	3,224	3,177
Foreign payment transactions	1,920	1,531
Other	1,117	1,093
	6,261	**5,801**

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

	2023	2022
Net foreign exchange spot trading gains	19,072	20,771
Net gains / (losses) from FX forwards	181	(68)
Net foreign exchange loss from translation of monetary assets and liabilities	(2)	(1)
Net gain / (loss) from securities trading	(5,789)	5
	13,462	**20,707**

11. OTHER INCOME

	2023	2022
Collected written-off receivables	7,016	4,855
Net income from repossessed collaterals	1,721	4,532
Income from IT services	448	354
Income from expenses recharged to clients	109	125
Net gains on disposal of property and equipment	121	(16)
Income from claims settled by insurance companies	1	86
Rent income	21	31
Write-offs of other liabilities and reversal of accrued expenses	-	(16)
Other	586	466
	10,023	**10,417**

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

12. OPERATING EXPENSES

	2023	2022
Personnel costs	64,271	62,270
Administration and marketing expenses	45,789	41,176
Savings deposit insurance expenses	13,912	12,933
Integration expenses (Note 32)	1,909	-
State contributions (excluding personnel-related)	1,829	1,632
Rental costs	715	690
Other expenses	1,609	772
	130,034	**119,473**

Personnel costs of the Bank include KM 12,225 thousand of defined contributions paid into the state-owned pension plans (2022: KM 12,265 thousand).

13. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2023	2022
Loans and receivables from clients at amortized cost (Note 19)	(4,260)	(379)
Financial assets at FVOCI (Note 20)	852	(110)
Financial assets at amortized cost (Note 22)	2,385	408
Loans and receivables from banks at amortized cost, including the obligatory reserve at the CBBH (Note 17 and Note 18)	2,198	(991)
Impairment of cash and cash equivalents (Note 16)	3,186	110
Off-balance-sheet exposure to credit risk (Note 32)	3,758	13,817
Other assets (Note 23)	1,012	476
	9,131	**13,331**

14. OTHER NET IMPAIREMENT LOSSES AND PROVISIONS

	2023	2022
Provisions for legal proceedings (Note 32)	340	697
Properties acquired in lieu of uncollected receivables (Note 23)	-	4,080
Impairment of property and equipment (Note 23)	559	(655)
	899	**4,122**

Notes to the financial statements for the year ended 31 December 2023

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

15. INCOME TAX EXPENSE

Amounts recognised in profit or loss:

	2023	2022
Curent tax expense		
Current year	19,700	13,775
	19,700	13,775
Deferred tax expense		
Origination and reversal of temporary differences	(1,218)	(234)
	(1,218)	(234)
Total income tax expense	**18,482**	**13,541**

Amounts recognised in other comprehensive income:

	2023			2022		
	Pre-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	(218)	22	(196)	43	(4)	39
Movement in fair value reserve (Property and equipment)	2,677	(268)	2,409	927	(76)	851
Items that are or may be reclassified subsequently to profit or loss						
Movement in fair value reserve (debt instruments)	(13,015)	1,302	(11,713)	(40,789)	4,073	(36,716)
	(10,556)	1,056	(9,500)	(39,819)	3,993	(35,826)

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

	2023	2022
Profit before tax	180,472	126,065
Tax using the Bank's domestic tax rate	18,047	12,606
Tax effect of:		
Non-deductible expenses	3,344	3,013
Tax-exempt income	(1,630)	(1,797)
Tax incentives	(61)	(47)
Effects from the change of deferred taxes on temporary differences	(1,218)	(234)
Total income tax expense	**18,482**	**13,541**
Effective tax rate	**10.2%**	**10.7%**

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

15. INCOME TAX EXPENSE (CONTINUED)

Movement in deferred tax balances:

2023	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	(1,476)	(280)	(268)	(2,024)	-	(2,024)
Expected credit losses for Stage 1 and Stage 2 financial assets	-	1,364	-	1,364	1,364	-
Provisions for legal issues and credit losses	236	134	-	370	370	-
Investment securities at FVOCI	4,301	-	1,301	5,602	5,602	-
Actuarial revaluation	41	-	22	63	63	-
Tax assets/liabilities before set-off	3,102	1,218	1,055	5,375	7,399	(2,024)
Set-off of tax	-	-	-	-	(2,024)	2,024
Tax assets/liabilities	3,102	1,218	1,055	5,376	5,375	-

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	-

16. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash in hand	270,606	281,753
Current accounts with other banks	212,148	328,405
Giro account with CBBH	739,650	370,780
	1,222,404	*980,938*
Less: Impairment allowance	(3,732)	(546)
	1,218,672	**980,392**

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

	2023	2022
As at 1 January	**546**	**436**
Impairment losses (Note 13)	3,186	110
As at 31 December	**3,732**	**546**

Notes to the financial statements for the year ended 31 December 2023

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

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

	31 December 2023	31 December 2022
Obligatory reserve at CBBH	600,943	550,984
Less: Impairment allowance	(2,797)	(920)
	598,146	**550,064**

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

	2023	2022
As at 1 January	**920**	**1,671**
Impairment in the statement of profit or loss (Note 13)	1,877	(751)
As at 31 December	**2,797**	**920**

In 2023, the basis for calculation of the obligatory reserve of commercial banks comprised all deposits and borrowed funds, regardless of currency. In addition, a unified rate of obligatory reserve of 10% was determined, which is applied by CBBH on the base for calculation of obligatory reserve.

From January 1, 2023, the Central Bank of Bosnia and Herzegovina calculates a fee of 25 basis points on obligatory reserve funds based on the base in the domestic currency, KM, on obligatory reserve funds based on the base in foreign currencies and in the domestic currency with a currency clause, a fee of 10 base points, and on funds above the obligatory reserve, it calculates compensation at a zero rate.

From July 1, 2023, the Central Bank of BiH on the bank's reserve account in the accounting period for obligatory reserve funds based on the base in domestic currency, KM calculates a fee at the rate of 50 basis points, on obligatory reserve funds based on the base in foreign currencies and in domestic currency with a currency clause calculates a fee at a rate of 30 basis points, and calculates a fee at a zero rate for funds above the obligatory reserve.

18. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

	31 December 2023	31 December 2022
Placements with other banks – gross	287,631	43,471
Loans to banks – gross	210,323	587,931
	497,954	**631,402**
Less: Impairment allowance	(972)	(656)
	496,982	**630,746**
Expected to be recovered:		
- no more than twelve months after the reporting period	497,954	631,402
- more than twelve months after the reporting period	-	-
Less: Impairment allowance	(972)	(656)
	496,982	**630,746**

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

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

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

	2023	2022
Balance as at 1 January	**656**	**905**
Forex differences	(5)	(9)
Impairment losses (Note 13)	321	(240)
Balance as at 31 December	**972**	**656**

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

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[1]					
Performing					
Low risk	497,016	-	-	497,016	1,181,480
Medium risk	601,881	-	-	601,881	906
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**1,098,897**	**-**	**-**	**1,098,897**	**1,182,386**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**1,138,916**	**-**	**-**	**1,138,916**
New financing	361,773	-	-	361,773
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(402,329)	-	-	(402,329)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(18)	-	-	(18)
Other changes	555	-	-	555
At 31 December 2023	**1,098,897**	**-**	**-**	**1,098,897**

1 12-month PD range for the risk level of non-fulfillment of 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 2023

(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 2023	**1,576**	**-**	**-**	**1,576**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment losses (Note 13)	2,198	-	-	2,198
Permanent write-offs during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(5)	-	-	(5)
At 31 December 2023	**3,769**	**-**	**-**	**3,769**

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**

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**

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

19. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST

	31 December 2023	31 December 2022
Corporate (including state and public sector)		
- in domestic currency	1,608,700	1,521,759
- in foreign currency	5,020	10,300
	1,613,720	**1,532,059**
Retail		
- in domestic currency	2,291,751	2,067,022
- in foreign currency	-	1
	2,291,751	**2,067,023**
Finance lease receivables		
- in domestic currency	36,367	40,148
	36,367	**40,148**
Total loans and receivables before allowance	**3,941,838**	**3,639,230**
Less: Impairment allowance	(154,346)	(185,653)
Net loans and receivables	**3,787,492**	**3,453,577**
Percentage of allowances in gross loans to clients	3,92%	5,10%
Expected to be recovered:		
- no more than twelve months after the reporting period	1,440,779	1,351,159
- more than twelve months after the reporting period	2,501,059	2,288,071
Less: Impairment allowance	(154,346)	(185,653)
	3,787,492	**3,453,577**

As at 31 December 2023, included in Bank retail loans in domestic currency is KM 307,004 thousand of gross loans (31 December 2022: KM 385,299 thousand), and in corporate loans in domestic currency KM 330,138 thousand (31 December 2022: KM 324,579 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 2023	31 December 2022
Loans and receivables from customers		
Corporate entites	1,484,614	1,430,476
State and public sector	129,106	101,583
Individuals	2,291,751	2,067,023
Finance lease	36,367	40,148
	3,941,838	**3,639,230**
Less: Impairment allowance	(154,346)	(185,653)
	3,787,492	**3,453,577**

Notes to the financial statements for the year ended 31 December 2023

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

a) Corporate entities – credit quality

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[2]					
Performing					
Low risk	-	-	-	-	74,449
Medium risk	1,242,721	216,745	-	1,459,466	1,265,349
High risk	10,053	1,891	-	11,944	61,851
Non-performing					
Default	-	-	13,204	13,204	28,827
Total	**1,252,774**	**218,636**	**13,204**	**1,484,614**	**1,430,476**

Movement of gross exposure*[3]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**1,155,966**	**245,683**	**28,827**	**1,430,476**
New financing	797,616	-	-	797,616
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	29,540	(29,540)	-	-
Transfers to Stage 2	(130,632)	131,920	(1,288)	-
Transfers to Stage 3	(284)	(153)	437	-
Assets repaid	(599,432)	(129,274)	(3,653)	(732,359)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(11,106)	(11,106)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	(13)	(13)
At 31 December 2023	**1,252,774**	**218,636**	**13,204**	**1,484,614**

	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**

2 12-month PD range for the risk level of non-fulfillment of 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 according to 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 2023	**12,080**	**45,622**	**26,217**	**83,919**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	165	(165)	-	-
Transfers to Stage 2	(19,697)	20,341	(644)	-
Transfers to Stage 3	(176)	(8)	184	-
Net remeasurement of loss allowance	(1,943)	326	(1,539)	(3,156)
Impairment due to new financial assets originated or purchased	26,955	-	-	26,955
Financial assets that have been derecognised (due to regular repayment)	(4,911)	(20,841)	(965)	(26,717)
Unwiding	-	-	122	122
Accounting write-off during the year				
Amounts written off	-	-	(11,107)	(11,107)
Foreign exchange adjustments	-	-	10	10
Other changes	(3)	-	(10)	(13)
At 31 December 2023	**12,470**	**45,275**	**12,268**	**70,013**

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**

Notes to the financial statements for the year ended 31 December 2023

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

b) State and public sector – credit quality

	31 December 2023				31 December 2022
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade[4]					
Performing					
Low risk	-	-	-	-	95,610
Medium risk	129,106	-	-	129,106	5,973
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**129,106**	**-**	**-**	**129,106**	**101,583**

Movement of gross exposure[5]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**101,291**	**292**	**-**	**101,583**
New financing	53,271	-	-	53,271
Assets derecognised (excluding write offs)				
Transfers to Stage 1	125	(125)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(25,581)	(167)	-	(25,748)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments			-	-
At 31 December 2023	**129,106**	**-**	**-**	**129,106**

Movement of gross exposure	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**

4 12-month PD range for the risk level of non-fulfillment of 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 for both years are presented according to 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 2023	**402**	**14**	**-**	**416**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	7	(14)	-	(7)
Impairment due to new financial assets originated or purchased	286	-	-	286
Financial assets that have been derecognised (due to regular repayment)	(22)	-	-	(22)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2023	**673**	**-**	**-**	**673**

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**

Notes to the financial statements for the year ended 31 December 2023

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

c) Retail – credit quality

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[6]					
Performing					
Low risk	68,803	1,502	-	70,305	67,349
Medium risk	2,019,340	139,727	-	2,159,068	1,920,712
High risk	-	5,233	-	5,233	5,505
Non-performing					
Default	-	-	57,145	57,145	73,457
Total	**2,088,143**	**146,462**	**57,145**	**2,291,751**	**2,067,023**

Movement of gross exposure[7]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**1,833,406**	**160,160**	**73,457**	**2,067,023**
New financing	843,118	-	-	843,118
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	59,103	(57,424)	(1,679)	-
Transfers to Stage 2	(98,175)	101,860	(3,685)	-
Transfers to Stage 3	(10,186)	(6,057)	16,243	-
Assets repaid	(539,098)	(52,077)	(11,619)	(602,7940)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(15,564)	(15,564)
Foreign exchange adjustments	-	-	-	-
Other changes	(25)	-	(8)	(33)
At 31 December 2023	**2,088,144**	**146,462**	**57,145**	**2,291,751**

Movement of gross exposure	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**

6 12-month PD range for the risk level of non-fulfillment of 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 for both years are presented according to 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 2023	**16,420**	**14,219**	**66,554**	**97,193**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	408	(362)	(46)	-
Transfers to Stage 2	(4,670)	4,971	(301)	-
Transfers to Stage 3	(1,286)	(1,382)	2,668	-
Net remeasurement of loss allowance	(5,465)	(1,196)	5,243	(1,418)
Impairment due to new financial assets originated or purchased	10,094	-	-	10,094
Financial assets that have been derecognised (due to regular repayment)	(2,920)	(3,219)	(4,459)	(10,598)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(15,564)	(15,564)
Foreign exchange adjustments	-	-	-	-
Other changes	-	(20)	61	41
At 31 December 2023	**12,581**	**13,011**	**54,156**	**79,748**

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**

Notes to the financial statements for the year ended 31 December 2023

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

d) Finance lease – corporate – credit quality

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[8]					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	34,006	-	34,006	32,115
High risk	-	-	-	-	4,316
Non-performing					
Default	-	-	1,033	1,033	1,986
Total	**-**	**34,006**	**1,033**	**35,039**	**38,417**

Movement of gross exposure[9]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	-	**36,431**	**1,986**	**38,417**
New financing	-	15,161	-	15,161
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	(17,586)	(410)	(17,996)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(543)	(543)
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2023	**-**	**34,006**	**1,033**	**35,039**

Movement of gross exposure	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**

8 12-month PD range 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 for both years are presented according to 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 2023	**(3)**	**2,470**	**1,580**	**4,047**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	1,444	(137)	1,307
Impairment due to new financial assets originated or purchased	-	899	-	899
Financial assets that have been derecognised	-	(1,873)	(59)	(1,932)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	(542)	(542)
Other changes	-	-	-	4
At 31 December 2023	**(3)**	**2,940**	**842**	**3,779**

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
assets that have been derecognised (due to regular repayment)	-	(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**

Notes to the financial statements for the year ended 31 December 2023

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

e) Financijski najam - građani – kreditna kvaliteta

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[10]					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	181	-	181	363
High risk	-	-	-	-	-
Non-performing					
Default	-	-	108	108	131
Total	**-**	**181**	**108**	**289**	**494**

Movement of gross exposure[11]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**-**	**363**	**131**	**494**
New financing	-	31	-	31
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	(213)	(23)	(236)
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	-	-	-	-
At 31 December 2023	**-**	**181**	**108**	**289**

Movement of gross exposure	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**

10 12-month PD range for the risk level of non-fulfillment of 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 for both years are presented according to 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 gross exposure	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	**-**	**5**	**69**	**74**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	(3)	17	14
Impairment due to new financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised	-	(1)	(1)	(2)
Unwiding	-	-	-	-
Accounting write-off during the year	-	-	-	-
Amounts written off	-	-	-	-
Other changes	-	-	-	-
At 31 December 2023	**-**	**1**	**85**	**86**

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**

Notes to the financial statements for the year ended 31 December 2023

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

f) Finance lease – governments – credit quality

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[12]					
Performing					
Low risk	-	-	-	-	1,237
Medium risk	-	1,039	-	1,039	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**-**	**1,039**	**-**	**1,039**	**1,237**

Movement of gross exposure[13]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**-**	**1,237**	**-**	**1,237**
New financing	-	87	-	87
Assets derecognised (excluding write offs)	-	(285)	-	(285)
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 2023	**-**	**1,039**	**-**	**1,039**

Movement of gross exposure	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**

12 12-month PD range for the risk level of non-fulfillment of 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 for both years are presented according to 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)

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

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	-	**10**	-	**10**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	37	-	37
Impairment due to new financial assets originated or purchased	-	1	-	1
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 2023	**-**	**47**	**-**	**47**

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**

Notes to the financial statements for the year ended 31 December 2023

(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 2023	31 December 2022
Corporate (including state and public sector)		
Industry:		
Electricity, gas and water	73,870	55,055
Wood and paper	41,799	33,920
Metal and engineering	149,297	145,279
Food and drinks	60,432	72,207
Chemicals	31,658	24,432
Textile and leather	9,967	6,370
Electrical and optical equipment	5,743	5,139
Tobacco	1	1
Other manufacturing	44,230	30,083
Total industry	*416,997*	*372,486*
Retail and wholesale trade	648,633	606,062
Health and social care	62,968	77,679
Central and local governments	129,449	104,817
Tourism	38,337	36,983
Real estate	27,436	49,094
Transport and communications	60,810	61,745
Construction	86,444	72,753
Financial intermediaries	38,441	39,161
Agriculture, forestry and fisheries	17,918	14,535
Education and other public services	5,000	2,103
Other	10,497	10,046
Total	**1,125,933**	**1,074,978**
Total corporate	**1,542,930**	**1,447,464**
Retail		
Non-purpose loans	1,461,477	1,302,305
Housing loans	560,472	485,474
Other retail loans	190,042	182,317
Total retail	**2,211,991**	**1,970,096**
Total loans and receivables from clients	**3,754,921**	**3,417,560**

(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 2023	31 December 2022
Corporate (including state and public sector)		
Food and drinks	95	139
Wood and paper	1,502	1,623
Metal and engineering	389	1,921
Textile and leather	573	709
Electricity, gas and water	17	51
Chemicals	307	259
Electrical and optical equipment	-	-
Other manufacturing	2,286	59
Total industry	**5,169**	**4,761**
Retail and wholesale trade	7,970	7,224
Agriculture, forestry and fisheries	2,345	1,492
Transport and communications	3,899	3,447
Construction	7,582	11,508
Financial intermediaries	664	405
Real estate	117	15
Tourism	124	237
Education and other public services	25	56
Health and social care	1,493	2,771
Central and local governments	989	1,231
Other	1,991	2,451
Total	**27,199**	**30,837**
Total corporate	**32,368**	**35,598**
Retail		
Other loans to individuals	203	419
Total retail	**203**	**419**
Total loans and receivables from clients	**32,571**	**36,017**

Notes to the financial statements for the year ended 31 December 2023

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
Debt securities	501,463	679,725
Equity securities	32	32
	501,495	**679,757**

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

	2023	2022
Balance as at 1 January	**3,153**	**3,253**
Net expense/(gain) in the statement of changes in equity	851	(110)
FX differences in the statement of changes in equity)	(4)	10
Balance as at 31 December	**4,000**	**3,153**

During 2023 and 2022 there were no due uncollected financial assets through other comprehensive income. Also, there was an increase 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 2023	31 December 2022
Bonds of the Government of Republika Srpska	167,528	239,588
Bonds of the Government of Federation of BiH	170,427	194,018
State Bonds of the Republic of Croatia	90,116	92,406
Bonds of the Government of Romania	48,205	43,058
State Bonds of the Republic of Slovenia	25,187	46,222
State Bonds of the Republic of Poland	-	64,433
	501,463	**679,725**

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

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[14]					
Performing					
Low risk	88,720	242,316	170,427	501,463	679,724
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**88,720**	**242,316**	**170,427**	**501,463**	**679,724**

14 12-month PD ranges for risk 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 2023	**246,118**	**433,606**	**-**	**679,724**
New financing	12,410	-	-	12,410
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	5,104	(2,815)	(23,591)	(21,302)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(17,616)	17,616-	-	-
Transfers to Stage 3	-	(194,018)	194,018	-
Reduced placements due to repayment (maturity)	(100,316)	(71,534)	-	(171,850)
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	2,481	-	-	2,481
Other changes	-	-	-	-
At 31 December 2023	**148,181**	**182,855**	**170,427**	**501,463**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	**2,103**	**1,042**		**3,145**
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(2,413)	2,413	-	-
Transfers to Stage 3	-	(507)	507	-
Impairment losses (Note 13)	455	(708)	1,104	851
Impact of exchange rate differences	4	-	-	4
Amounts written off	-	-	-	-
At 31 December 2023	**149**	**2,240**	**1,611**	**4,000**

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**

Notes to the financial statements for the year ended 31 December 2023

(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	**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**

b) Equity securities

Equity securities at fair value through other comprehensive income

	31 December 2023	31 December 2022
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 2023		31 December 2022	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	4,210	7	12,133	47
Foreign exchange swap contracts	557,516	-	467,437	-
	561,726	**7**	**479,570**	**47**
Financial liabilities				
Forward foreign exchange contracts	435	5	452	27
Foreign exchange swap contracts	-	-	2,421	1
	435	**5**	**2,873**	**28**

B) HEDGING DERIVATIVES

Fair value hedges of interest rate risk

	31 December 2023		31 December 2022	
	Nominal amount	Fair value	Nominal amount	Fair value
Financial assets				
Interest rate risk - Hedging of FVOCI Securities	102,681	8,933	102,681	1,226
	102,681	**8,933**	**102,681**	**1,226**
Financial liabilities				
Interest rate risk - Hedging of amortised cost securities	289,378	12,605	19,558	156
Interest rate risk-Hedging of credits	44,117	1,535	-	-
	333,494	**14,140**	**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 and at amortised cost.

	2023	2022
Hedging assets	380.443	106.922

	Maturity 2023			Maturity 2022		
	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)	-	83	118	-	53	10
Average fixed interest rate of FV HA IRS	-	2.60%	3.15%	-	(0,31%)	3,03%

22. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2023	31 December 2022
Debt securities at amortized cost	338,503	61,334
Less: Impairment provisions	(2,793)	(408)
	335,710	**60,926**

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

	2023	2022
Balance as at 1 January	408	-
Impairment losses (Note 13)	2,385	408
FX differences	-	-
Balance as at 31 December	**2,793**	**408**

Debt securities at amortized cost per issuer

	31 December 2023	31 December 2022
Bonds of the Government of Federation of BiH	84,855	30,200
Bonds of EU	132,083	-
Bonds of the Republic of Germany	28,646	-
State Bonds of the Republic of Croatia	78,505	16,693
State Bonds of the Republic of Poland	14,414	14,441
	338,503	**61,334**

Notes to the financial statements for the year ended 31 December 2023

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

Financial assets at amortized cost – credit quality

	31 December 2023				31 December 2022
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade[15]					
Performing					
Low risk	253,648		84,855	338,503	61,334
Medium risk	-		-	-	-
High risk	-		-	-	-
Non-performing					-
Default	-		-	-	-
Total	**253,648**		**84,855**	**338,503**	**61,334**

Movement of gross exposure[16]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**31,102**	**29,824**		**60,926**
New financing	221,351	-	57,212	278,563
Assets derecognised (excluding write offs)	-	-	-	-
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(29,824)	29,824	-
Reduced placements due to repayment (maturity)	-	-	-	-
Assets repaid	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	1,193		(2,179)	(986)
At 31 December 2023	**253,646**	**-**	**84,857**	**338,503**

Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	31	377	-	408
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(377)	377	-
Impairment (Note 13)	222	-	2,163	2,385
Impact of exchange rate differences	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2023	**253**	**-**	**2,540**	**2,793**

15 12-month PD range for the risk level of non-fulfillment of 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 according to the closing balance classification as at year end.

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

22. FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

Movement of gross exposure	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**

23. OTHER ASSETS AND RECEIVABLES

	31 December 2023	31 December 2022
Receivables from card operations	77,031	53,556
Assets acquired in lieu of uncollectible receivables	1,041	1,839
Accrued fees	1,947	1,610
Other assets	38,652	11,462
	118,671	**68,467**
Less: Impairment allowance	(3,617)	(3,982)
	115,054	**64,485**

Notes to the financial statements for the year ended 31 December 2023

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

Other assets include an amount paid on the basis of a decision by Indirect Taxation Authority of BiH which determined additional VAT liability related to foreign card costs of MasterCard and VISA. In accordance with the IFRS Interpretations Committee interpretation and published staff paper, the Bank recognised asset as the Bank has complained on the decision and expects favourable outcome. The movements in impairment allowance are summarized as follows:

	2023	2022
Balance as at 1 January	**3,982**	**8,030**
Impairment of assets acquired in lieu of uncollected receivables (Note 14)	-	4,080
Impairment losses (Note 13)	1,011	476
Write-offs	(1,467)	(8,635)
Other changes	91	66
Foreign exchange differences	-	(35)
Balance as at 31 December	**3,617**	**3,982**

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.

(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 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**
Additions	-	-	-	-	5,846	5,846
Write-offs	(651)	(893)	(1,738)	(12)	-	(3,294)
Disposals	(1,110)	(250)	-	-	-	(1,360)
Transfers (from) / to / in use	2,510	3,321	1,370	535	(7,736)	-
Fair value adjustment	2,677	-	-	-	-	2,677
Transfer between categories	-	-	-	-	(459)	(459)
Balance as at 31 December 2023	**78,246**	**36,589**	**46,189**	**22,392**	**5,640**	**189,056**
ACCUMULATED DEPRECIATION						
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**
Depreciation charge for the year	957	1,836	3,536	764	-	7,093
Write-offs	(516)	(867)	(1,733)	(12)	-	(3,128)
Disposals	(583)	(250)	-	-	-	(833)
Fair value adjustment	441	-	-	-	-	441
Balance as at 31 December 2023	**32,720**	**25,228**	**39,214**	**20,964**	**-**	**118,126**
NET BOOK VALUE						
31 December 2022	**42,399**	**9,902**	**9,146**	**1,657**	**7,989**	**71,093**
31 December 2023	**45,526**	**11,361**	**6,975**	**1,428**	**5,640**	**70,930**

Notes to the financial statements for the year ended 31 December 2023

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

The carrying value of the Bank's non-depreciating land within land and buildings amounted to KM 5,684,4 thousand as at 31 December 2023. During 2023, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2023, 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 2023 is as follows:

Level 1	Level 2	Level 3
-	-	**45.526**

25. RIGHT-OF-USE ASSETS

	Right of use buildings
COST	
As at 1 January 2022	**13,392**
Additions	4,932
Disposals	(3,974)
As at 31 December 2022	**14,350**
Additions	1,747
Disposals	(1,715)
As at 31 December 2023	**14,382**
ACCUMULATED DEPRECIATION	
As at 1 January 2022	**6,476**
Depreciation charge for the year	3,306
Disposals	(4,604)
As at 31 December 2022	**5,178**
Depreciation charge for the year	3,328
Disposals	(1,726)
As at 31 December 2023	**6,780**
NET BOOK VALUE	
As at 31 December 2022	**9,172**
As at 31 December 2023	**7,601**

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

(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 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**
Additions	-	-	3,321	3,321
Disposals	(701)	(143)	-	(844)
Transfers (from) / to	5,725	-	(5,725)	-
Transfer to other assets(Note 23)	-	-	-	-
As at 31 December 2023	**78,970**	**2,654**	**3,972**	**85,596**
ACCUMULATED DEPRECIATION				
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**
Depreciation charge for the year	5,117	87	-	5,204
Disposals	(697)	(140)	-	(837)
Other movements	56	-	-	56
As at 31 December 2023	**63,050**	**2,541**	**552**	**66,143**
NET BOOK VALUE				
31 December 2022	**15,372**	**203**	**5,824**	**21,399**
31 December 2023	**15,920**	**113**	**3,420**	**19,453**

During 2023 and 2022, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2023 and 2022, intangible assets were not pledged as collateral for the Bank's borrowings

27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS AT AMORTIZED COST

	31 December 2023	31 December 2022
Demand deposits		
- in foreign currency	618	686
- in KM	9,571	8,160
Fixed-term deposits		
- in foreign currency	-	-
- in KM	-	-
	10,189	**8,846**

As at 31 December 2023, current accounts and deposits from banks include KM 2,633 thousand due to related parties (31 December 2022: KM 1,574 thousand).

Notes to the financial statements for the year ended 31 December 2023

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

28. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS AT AMORTIZED COST

	31 December 2023	31 December 2022
Retail		
Current and savings accounts and term deposits - foreign currency	1,404,512	1,383 591
Current and savings accounts and term deposits - KM	2,249,767	1,940,182
	3,654,279	**3,323,773**
Corporate (including state and public sector)		
Demand deposits		
- in KM	1,717,341	1,615,385
- in foreign currency	572,422	483,126
Fixed-term deposits		
- in KM	32,852	83,389
- in foreign currency	10,342	11,037
	2,332,957	**2,192,937**
	5,987,236	**5,516,710**

As at 31 December 2023, the Bank's retail deposits in KM include KM 419 thousand (31 December 2022: KM 401 thousand) and corporate and state deposits in KM include KM 11,956 thousand (31 December 2022: KM 37,506 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 2,632 thousand from related parties (31 December 2022: KM 621 thousand).

29. BORROWINGS

	31 December 2023	31 December 2022
Foreign banks	16,977	26,379
	16,977	**26,379**
Maturity analysis:		
Within one year	8,628	21,999
In the second year	2,783	3,683
Third to fifth year	5,566	1,397
	16,977	**26,379**

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 20.12.2018 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 10.11.2022 in amount EUR 10m with maturity 5 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 27.7.2022 in amount EUR 6m with maturity 3 years

As of December 31, 2023, the Bank had no interest-bearing loans related to loans from related parties.

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

30. OTHER LIABILITIES

	31 December 2023	31 December 2022
Liabilities for items in the course of settlement	84,941	70,156
Liabilities for card operations	41,861	22,999
Accrued expenses	27,760	24,000
Unliateral contract termination	19,809	25,749
Deferred income	1,797	1,807
Lease users' down payments	159	308
Other liabilities	15,803	9,525
	192,130	**154,544**

31. LEASE LIABILITIES

Long-term lease payables	31 December 2023	31 December 2022
less than 1 year	2,877	3,095
1 to 2 years	2,134	2,611
2 to 3 years	1,792	3,621
3 to 4 years	801	-
4 to 5 years	164	-
Total amount of long-term lease payments	**7,768**	**9,327**
Discounting effects (unearned finance cost)	(198)	(275)
At 31 December	**7,570**	**9,052**

32. PROVISIONS FOR LIABILITIES AND CHARGES

	Provisions for contingencies and commitments	Provisions for legal proceedings*	Long-term provisions for employees	Restructuring**	Total
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)
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**
Net charge in profit or loss (Note 12, 13, 14)	3,758	340	248	1,909	6,255
Provisions used during the period	-	(651)	(113)	-	(764)
Actuarial gain/loss for the period	-	-	218	-	218
Reclassification from other liabilities	-	-	(377)	-	(377)
Foreign currency differences	(13)	-	-	-	(13)
Balance as at 31 December 2023	**31,292**	**12,899**	**2,846**	**1,909**	**48,945**

* **Nature of provisions for legal proceedings:** 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 12.900 thousand (2022: KM 13,210 thousand) for legal proceedings, which the Management believes to be sufficient amount.

** **Nature of provisions for restructuring costs:** In 2023, with the aim of improving efficiency, competitiveness and overall performance, the Bank has adapted Retail's business strategy to the needs of its clients as a constant response to changing trends in customer habits. The same resulted in the transformation of the sales model whose efficiency was constantly monitored and the Bank's sales network has been optimized since 01.01.2024. Given that the Bank has created a formal restructuring plan and the main features of it have been announced, the conditions for recognition of the restructuring obligation in the amount of BAM 1,909 thousand have been met.

Notes to the financial statements for the year ended 31 December 2023

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

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.

	2023	2022
Net profit for the year attributable to ordinary shareholders	161,990	112,526
Weighted average number of ordinary shares during the period	119,011	119,011
Basic earnings per share (KM)	**1,361.13**	**945.51**

Diluted earnings per share are not presented, as the Bank did not issue 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 2023	31 December 2022
Financial guarantees and Letters of credit	399,115	381,267
Other undrawn commitments	924,094	810,709
Total	**1,323,209**	**1,191,976**

a) Financial guarantees and Letters of credit

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[17]					
Performing					
Low risk	46,934	-	-	46,934	38,991
Medium risk	247,131	100,421	-	347,552	328,467
High risk	2,540	2,055	-	4,595	7,783
Non-performing					
Default	-	-	34	34	6,026
Total	**296,605**	**102,476**	**34**	**399,115**	**381,267**

17 12-month PD range for the risk level of non-fulfillment of 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)

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

a) Financial guarantees and Letters of credit (continued)

Movement of gross exposure[18]	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**291,617**	**83,624**	**6,026**	**381,267**
New exposure	235,662	76,071	-	311,733
Exposure matured	(220,510)	(67,383)	(5,992)	(293,885)
Transfers to Stage 1	19	(19)	-	-
Transfers to Stage 2	(10,183)	10,183	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2023	**296,606**	**102,476**	**34**	**399,115**

Movement of gross exposure	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 provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	**1,274**	**15,317**	**4,768**	**21,359**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	984	1,395	5	2,384
Impairement due to new financial assets originated or purchased	(1,022)	14,529	-	13,507
Financial assets that have been derecognised (due to maturity)	-	(10,906)	(4,795)	(15,701)
Foreign exchange adjustments	-	(13)	-	(13)
At 31 December 2023	**1,236**	**20,322**	**(22)**	**21,536**

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

Notes to the financial statements for the year ended 31 December 2023

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

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
Impairment due to new financial assets originated	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

b) Other undrawn commitments

	31 December 2023				31 December 2022
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade[19]					
Performing					
Low risk	-	-	-	-	1,640
Medium risk	882,244	26,591	-	908,835	807,825
High risk	15,022	185	-	15,207	1,184
Non-performing					
Default	-	-	52	52	60
Total	**897,266**	**26,776**	**52**	**924,094**	**810,709**

Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**780,096**	**30,553**	**60**	**810,709**
New exposure	539,554	22,328	7	561,889
Exposure matured	(422,992)	(25,465)	(13)	(448,470)
Transfers to Stage 1	2,567	(2,567)	-	-
Transfers to Stage 2	(1,923)	1,921	2	-
Transfers to Stage 3	(12)	4	8	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Other changes	(24)	2	(12)	(34)
At 31 December 2023	**897,266**	**26,776**	**52**	**924,094**

19 12-month PD rangeranges for riks level of non-fulfillment of 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)

35. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

b) Other undrawn commitments (continued)

	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**

Movement of provisions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	**2,846**	**3,246**	**96**	**6,188**
Transfers to Stage 1	8	(8)	-	-
Transfers to Stage 2	(5)	5	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	3,360	4,837	5	8,202
Impairement due to new financial assets originated or purchased	(1,548)	(3,142)	(18)	(4,708)
Financial assets that have been derecognised (due to maturity)	79	2	1	82
Foreign exchange adjustments	-	-	-	-
Translation reserves	(4)	-	(4)	(8)
Other changes	-	-	-	-
At 31 December 2023	**4,736**	**4,940**	**80**	**9,756**

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)	-
Movement in the existing loan	84	(41)	28	71
New placement	1,612	3,135	10	4,757
Placement paid of	(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**

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

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

	31 December 2023	31 December 2022
Assets under custody	566,472	565,580
Loans managed on behalf of third parties	25,002	26,450
	591,474	**592,030**

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 earns 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% (2022: 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 2023 and 31 December 2022 is presented in the table below:

	2023		2022	
	Income	Expenses	Income	Expenses
UniCredit Bank a.d. Banja Luka, BiH	496	3	723	(38)
UniCredit Bank Austria AG Vienna, Austria	135	33	95	89
UniCredit S.p.A Milan, Italy	14,780	1,118	357	803
Zagrebačka banka d.d. Zagreb, Croatia	23	2,035	69	886
UniCredit Bank AG München, Germany	293	11	7	(66)
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	14	-	19	(155)
Uctam BH d.o.o. Mostar, BiH	-	-	5	-
UniCredit Bank Hungary, Budapest, Hungary	3	9	3	(180)
UniCredit Services GmbH Vienna, Austria	-	8,837	-	6,654
UniCredit Bank Srbija a.d. Beograd, Serbia	-	10	-	19
UniCredit Leasing Slovakia A.S., Bratislava, Slovakia	-	-	-	12
UniCredit Bank Czech Republic and Slovakia, a.s., Bratislava	-	-	-	(44)
UniCredit Services S.C.p.A Branch Germany	-	-	-	(277)
Total related parties	15,744	12,056	*1,278*	*7,703*
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	6	6,155	16	7,168
	15,750	**18,211**	**1,294**	**14,871**

Notes to the financial statements for the year ended 31 December 2023

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

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Realized income according to UniCredit Group members in 2022 includes interest income in the amount of 14,691 thousand KM (2022: 268 thousand KM), and income based on fees in the amount of 313 thousand KM (2022: 244 thousand KM). Realized income in 2023 included 384 thousand KM of other income.

Realized expenses according to the members of the UniCredit Group in 2023 include expenses based on interest in the amount of 20 thousand KM (2022: 481 thousand KM), expenses based on fees in the amount of 1,944 thousand KM (2022: 1,589 thousand KM), other administrative expenses in the amount of 9,335 thousand KM (2022: 5,511 thousand KM), and other expenses in the amount of 758 thousand KM (2022: 203 thousand KM).

An overview of balances at 31 December 2022 and 31 December 2023 is presented below:

	31 December 2023		31 December 2022	
	Exposure*	Liabilities	Exposure*	Liabilities
UniCredit S.p.A Milan, Italy	210,799	1,116	634,007	765
Zagrebačka banka d.d. Zagreb, Croatia	252	1,752	25,256	318
UniCredit Bank Austria AG Vienna, Austria	4	400	23,058	494
UniCredit Bank a.d. Banja Luka, BiH	117	1	209	1
UniCredit Services Vienna, Austria	2,326	4,815	3,505	1,196
UniCredit Bank AG München, Germany	-	1,125	14,911	492
UniCredit Bank Srbija a.d. Beograd, Serbia	-	66	-	33
UniCredit Bank Hungary, Budapest, Hungary	401	22	189	22
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	-	234	156	484
UniCredit Bank Czech Republic and Slovakia, a.s. Prague, Czech Republic	342	-	271	-
Uctam BH d.o.o. Mostar, BiH	-	-	-	621
UniCredit Services S.C.p.A Branch Germany	-	-	44	-
Total related parties	**214,241**	**9,531**	**701,606**	**4,426**
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	1,233	1,325	1,483	1,500
	215,474	**10,856**	**703,089**	**5,926**

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

As at 31 December 2023, the Bank has guarantees from: UniCredit Bank Austria AG in the amount of KM 27,386 thousand (31 December 2022: KM 27,797 thousand); UniCredit SpA Milano in the amount of KM 127 thousand (31 December 2022: KM 127 thousand) and from UniCredit Bank AG Munich in the amount of KM 268 thousand (31 December 2022: KM 375 thousand) while as at 31 December 2023 The Bank had no guarantees given (31 December 2022: - KM).

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

Short-term remuneration	2023	2022
Gross salaries disbursed in the current year for the current year	4,322	4,564
Variable bonuses disbursed in the current year for the previous year - gross	1,168	1,029
Other short term remunerations	856	889
Long -term remuneration		
Variable bonuses disbursed in the current year for prior years – gross	251	162
	6,597	**6,644**

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

15 employees were included in the Management Board and other key management personnel (2022: 15 employees), including personnel that spent only a part of 2023 in such positions.

There were no approved loans to members of the Management Board in 2023. 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. In addition, the Bank has identified climate-related risk as an emerging risk arising from financial instruments that has a growing impact on the Bank's activities.

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 manages and controls 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 limitations.

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.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Credit risk management (continued)

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.

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.

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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.

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%
- High 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.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Incorporation of forward-looking information (continued)

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 9standard 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 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.

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	Baseline (60%)				Adverse (40%)			
Macroeconomic scenario	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP, yoy % change	1.6	2.5	3.0	3.5	1.6	-1.6	1.6	4.2
Inflation (CPI) yoy, eop	2.1	3.1	3.0	2.0	2.1	4.5	2.5	2.0
Inflation (CPI) yoy, average	6.0	3.1	3.0	2.5	6.0	3.3	3.5	2.2
Monthly wage, Nominal in EUR	948.4	1002.3	1063.3	1128.0	948.4	939.0	985.2	1076.8
Unemployment rate, %	29.0	27.5	25.5	23.0	29.0	33.4	31.8	29.3
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	6.0	5.0	5.0	5.0	6.0	3.7	4.4	5.0

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 0.4 point of GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +0.6%.

Cumulated GDP (KM/mln)		ECL Amount (KM/mln)		ECL difference vs Baseline (KM/mln)	ECL difference vs Baseline (%)	ECL Sensitivity vy 3-year cum GDP (KM/mln)	%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)
9.3	3.4	77	80	3	3%	0.4	0.6%

Incorporation of geo-political risk in ECL

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 IFRS 9 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.

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38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

Incorporation of geo-political risk in ECL (continued)

Specifically, the sub-portfolios deemed potentially vulnerable and as such impacted by the Geo-Political Overlay are the following ones:

- Corporate energy-intensive industry sectors, that are sensitive to increase of the energy prices / energy supply disruptions
- Private individuals having at least one product with an overdue installment (called Unpaid1), who are considered to already have difficulties in payments and as such are particularly vulnerable in case of stressed severe evolution of this specific contingency
- Private Individuals with a floating rate (not having overdue installments), given the sensitiveness in this context of increasing interest rate/inflation

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.

The Geo-political overlay is a multiplicative overlay to be applied on top to the ECL based on the following formula:

$$ECL_{Geo\text{-}political}=ECL\times Overlay_{Geo\text{-}political}$$

During 2023, the factor k* was introduced into the calculation of the geopolicial overlay with the aim of taking into account the evolution of the portfolio covered by the geopolicial overlay. The change was implemented for June 30, 2023 and the formula was amended to read:

additional amount of geopolitical overlay reserves of the current month = additional amount of geopolitical overlay reserves netted for the inflow of new default * factor k.

From December 31, 2023 a change was introduced in the calculation of the geopolitical overlay, for clients who enter the scope of the corporate energy-intensive industrial sector where the minimum amount of stage-2 coverage reserves is determined, with the aim of redistributing reserve coverage from stage 1 to stage 2.

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 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,

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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%

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.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

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.

Significant increase of credit risk (SICR)

The principle of the ECL model under IFRS 9 is a reflection of a general pattern of changes in the credit quality of financial instruments from the beginning, in order for a 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 measures for ECL measurement (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

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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.

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 2023	31 December 2022
Statement of financial position		
Current accounts at CBBH and other banks (Note 16)	948,066	698,639
Obligatory reserve at CBBH (Note 17)	598,146	550,064
Loans to and receivables from banks (Note 18)	496,982	630,746
Debt securities at fair value through other comprehensive income (Note 20)	501,495	679,725
Financial assets at fair value through profit or loss (Note 21)	7	47
Loans and receivables from clients (Note 19)	3,787,491	3,453,577
Debt securities at amortized cost (Note 22)	335,710	60,926
Derivatives used for hedging (Note 21)	8,933	11,701
Other assets exposed to credit risk (part of Note 23)	**111,955**	**61,211**
Total credit risk exposure relating to assets	**6,788,785**	**6,146,636**
Off-balance-sheet items (Note 35)		
Unused loan facilities	924,094	810,709
Guarantees	382,773	364,518
Letters of credit	16,342	16,749
Total off-balance sheet credit risk exposure	**1,323,209**	**1,191,976**
	8,111,994	**7,338,612**

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(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 (continued)

The above table represents the maximum credit risk exposure of the Bank as at 31 December 2023 and 2022, 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.

46.7% of the Bank's total maximum exposure to credit risk is derived from loans and receivables from clients (31 December 2022: 47.1%), while 6.1% refers to loans and receivables from banks (31 December 2022: 8,6%), and investments in financial assets at FVOCI 6.2% (31 December 2022: 9,3%).

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 2023	31 December 2022
Current account with CBBH (Note 16)	739,650	370,780
Obligatory reserve at CBBH (Note 17)	598,146	550,064
Bonds of the Government of Federation of Bosnia and Herzegovina	252,742	224,218
Bonds of the Government of Republika Srpska	167,528	239,588
Current tax liability	(6,899)	(3,770)
State and public sector (Note 19)	129,106	102,820
	1,880,273	**1,483,700**

In addition, liabilities to state institutions are as follows:

	31 December 2023	31 December 2022
Short-term deposits	(125)	(59)

The Bank had no off-balance sheet sovereign risk exposure or liabilities at 31 December 2023 and 31 December 2022.

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 pro-

Notes to the financial statements for the year ended 31 December 2023

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

gress, 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 2023, restructured portfolio of legal entities amounted to KM 53.333 thousand (2022: KM 83.983 thousand), with the portfolio coverage by provisions of 36,19% (2022: 45,6%), while restructured retail portfolio/private individuals amounted to KM 4.834 thousand (2022: KM 6.547 thousand), with the portfolio coverage by provisions of 37,26% (2022: 57,37%).

In 2023, the restructured portfolio of legal entities recorded decrease in volume by 36,5% compared to the portfolio of legal entities at the end of 2022. 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 2023, the restructured portfolio of private individuals recorded decrease of 26,16% 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

	Forborne (Restructured exposures)						
31 December 2023	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	2,292,039	6,660	3,615	0.4%	79,834	4,278	5.4%
Non-financial companies	1,519,238	21,645	12,687	2.3%	73,788	24,621	33.4%
Other financial companies	473	-	-	0%	4	-	0%
Total	**3,811,750**	**28,305**	**16,302**	**1%**	**153,626**	**28,899**	**18.8%**

	Restructured exposures (risk group)					
	Stage 1		Stage 2		Stage 3	
31 December 2023	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	388	25	6,083	602	3,803	3,652
Non-financial companies	-	-	12,684	5,477	21,649	19,143
Other financial companies	-	-	-	-	-	-
Total	**388**	**25**	**18,767**	**6,079**	**25,452**	**22,795**

	Forborne (Restructured exposures)						
31 December 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%**

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

	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**

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.

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 attention 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)

31 December 2023	Gross book value	Net book value	Collateral Mortgages	Securities	Other	Received guarantees State and central bank	Banks	Other financial institutions	Other
Secured balance exposure									
Full secured	1,016,638	1,015,276	659,539	209,104	13,760	-	132,873	-	-
-of which: NPL	6,706	6,705	6,705	-	-	-	-	-	-
Partially secured	625,974	432,582	366,448	-	8,659	-	57,475	-	-
-of which: NPL	2,151	1,857	1,857	-	-	-	-	-	-
Secured off-balance exposure									
Full secured	114,403	102,319	76,067	-	-	-	26,252	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-
Partially secured	107,743	25,195	23,634	-	-	-	1,561	-	-
-of which: NPL	-	-	-	-	-	-	-	-	-

31 December 2022	Gross book value	Net book value	Collateral Mortgages	Securities	Other	Received guarantees 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	-	-	-	-	-	-	-	-	-

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:

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Housing and consumer loans

Deposits and properties where material value is > 0

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**

2023 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	96	28	137	158	145	6	570
Gross consumer loans	1,529	1	2	1	1	0	1,533
Total	**1,625**	**29**	**139**	**159**	**146**	**6**	**2,103**

Deposits and mortgages independent of the material value

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**

2023 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	26	33	151	172	167	20	570
Gross consumer loans	1,529	1	2	1	1	0	1,533
Total	**1,555**	**34**	**153**	**173**	**168**	**20**	**2,103**

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)

38.1.6 Analysis by debt maturity and collaterals

Impairment allowance coverage of the non-performing loan portfolio in 2023 is 94.28% for the Bank (31 December 2022: 90.45%), 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 154,345 thousand (31 December 2022: KM 185,653 thousand), of which KM 67,398 thousand (31 December 2022: KM 94,427 thousand) relates to the impairment the value of loans for which impairment was individually identified, and the remaining value of KM 86,947 thousand (31 December 2022: KM 91,226 thousand) relates to impairment on a portfolio basis.

	31 December 2023	31 December 2022
Retail loans		
Loans that are neither past due nor impaired	2,194,593	1,952,396
Past due loans that are not impaired	40,013	41,170
Impaired loans	57,145	73,457
Gross	**2,291,751**	**2,067,023**
Less: Impairment allowance	(79,748)	(97,193)
Net	**2,212,002**	**1,969,830**

	31 December 2023	31 December 2022
Corporate, including state and public sector		
Loans that are neither past due nor impaired	1,583,966	1,481,279
Past due loans that are not impaired	16,550	21,953
Impaired loans	13,204	28,827
Gross	**1,613,720**	**1,532,059**
Less: Impairment allowance	(70,686)	(84,329)
Net	**1,543,034**	**1,447,730**
Finance lease		
Financial lease receivables that are not past due	35,226	37,076
Past due receivables on financial lease that are not impaired	-	955
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	1,141	2,117
Gross	**36,367**	**40,148**
Less: Impairment allowance	(3,912)	(4,131)
Net	**32,455**	**36,017**

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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	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 2023									
Standard monitoring	1,288,171	153,729	509,326	1,951,226	622,137	711,906	53,608	1,387,651	27,703
Special monitoring	163,532	25,465	54,369	243,366	98,123	93,839	4,353	196,315	7,523
	1,451,703	**179,194**	**563,695**	**2,194,592**	**720,260**	**805,745**	**57,961**	**1,583,966**	**35,226**
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**

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 2023									
Past due up to 30 days	28,089	7,904	1,157	37,150	11,996	4,447	107	16,550	-
Past due 31 to 60 days	2,415	349	99	2,863	-	-	-	-	-
Past due 61 to 90 days	-	-	-	-	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-
	30,504	**8,253**	**1,256**	**40,013**	**11,996**	**4,447**	**107**	**16,550**	**-**
Estimated value of collateral	**13**	**-**	**130**	**143**	**10,969**	**1,725**	**-**	**12,694**	**-**
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**	**-**

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38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.6 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 expects 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 2023 amounts to KM 71.490 thousand (31 December 2022: KM 104,401), while on net level before cash flows from received collateral instruments they amount to KM 4.135 thousand (31 December 2022: KM 9,974 thousand).

Breakdown of 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				Financial lease
	Cash and consumer loans	Credit cards and over-drafts	Housing loans	Total	Large	Medium	Small	Total	Total
31 December 2023									
Non-performing loans, gross	47,322	3,127	6,696	57,145	4,149	6,656	2,399	13,204	1,141
Non-performing loans, provision	(45,822)	(2,857)	(5,490)	(54,169)	(3,725)	(6,149)	(2,388)	(12,262)	(978)
Non-performing loans, net	1,500	270	1,206	2,976	424	507	11	942	163
Estimated value of collateral	**-**	**-**	**1,031**	**1,031**	**424**	**111**	**-**	**535**	**-**
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**	**-**

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,

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compliance of assets and liabilities, setting limits and planned liquidity indicators.

ALM&F 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

Structural liquidity management aims to ensure the financial stability of the Bank. The primary 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 2023	31 December 2022
Liabilities >1Y	4,306	4,167
Assets >1Y	3,805	3,326
Trigger	92%	90%
Limit	90%	86%
Ratio	**113%**	**125%**

	(in KM million)	
Structural Liquidity Ratio >3Y	31 December 2023	31 December 2022
Liabilities >3Y	3,598	3,248
Assets >3Y	2,378	1,971
Trigger	100%	100%
Limit	-	-
Ratio	**151%**	**165%**

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.

Changes in the ratio during 2023, compared to 2022, are mostly related to the sight deposit behavior model, which was updated twice during the year, and in October 2023 certain technical corrections were made to it.

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

38. RISK MANAGEMENT (CONTINUED)

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, BAM, 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 2023	31 December 2022
Liabilities >1Y	891	827
NET STL	-	-
Assets >1Y	687	709
Trigger	(252)	(984)
GAP	**204**	**118**

	(in KM million)	
Structural liquidity gap BAM >1Y	31 December 2023	31 December 2022*
Liabilities >1Y	3,410	-
Assets >1Y	3,118	-
Trigger	-	-
GAP	**292**	**-**

*Monitoring and Trigger for Structural liquidity gap in local ccy (BAM) introduced in 2023.

	(in KM million)	
Structural liquidity gap OTHER >1Y	31 December 2023	31 December 2022
Liabilities >1Y	6	9
NET STL	-	-
Assets >1Y	-	19
Trigger	(6)	(221)
GAP	**6**	**(10)**

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 2023	31 December 2022
Items that provide stable funding sources	5,295	5,189
Items that require stable funding sources	3,044	2,727
Trigger	110%	104.0%
Limit	105%	101%
Stable funding source ratio requirement (%)	**174%**	**190%**

*Starting from the reporting date 31 December 2022 and in accordance with local regulation, NSFR has become a binding metric in terms of an obligation to fulfill the requirements regarding NSFR from the FBA Decision on Liquidity Risk Management of the Bank. However, as of 31.12.2022. the results presented are in accordance with UniCredit Group's methodology, since the Bank then officially still included the group NSFR in the RAF. From 2023, after approval by UniCredit Group, the Bank started officially monitoring and reporting of local NSFR as part of the RAF.

It is the previously stated fact that is the cause of differences in 2023 vs. 2022 indicators.

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38.2.2 Future cash flows from financial instruments

The following table details the Bank's remaining contractual maturity for its non-derivative and 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.

Maturity for non-derivative and 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 2023							
Non-interest bearing	-	304,581	233	190	28	613	305,645
Variable interest rate instruments	4.82%	1,556,362	23,655	95,973	325,337	186,958	2,188,285
Fixed interest rate instruments	4.05%	958,033	344,408	595,799	2,124,067	1,003,944	5,026,252
		2,818,977	**368,296**	**691,963**	**2,449,432**	**1,191,514**	**7,520,182**
Derivative assets							
FX Derivatives		562,581	-	-	-	-	562,581
		562,581	**-**	**-**	**-**	**-**	**562,581**
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**
Derivative assets							
FX Derivatives		470,736	11,684	-	-	-	482,420
		470,736	**11,684**	**-**	**-**	**-**	**482,420**

The following table details the the Bank's remaining contractual maturity for its non-derivative and 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.

Maturity for non-derivative and derivative financial liabilities

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 2023							
Non-derivative liabilities							
Non-interest bearing	-	17,347	993	6,692	10,952	1,476	37,459
Variable interest rate instruments	0.56%	4,230,474	21,088	81,427	111,314	7	4,444,310
Fixed interest rate instruments	0.37%	1,222,628	46,572	153,961	124,844	2,693	1,550,698
Issued financial guarantee and letters of credit contracts	-	399,115	-	-	-	-	399,115
Issued loan commitments	-	924,094	-	-	-	-	924,094
		6,793,658	**68,653**	**242,080**	**247,110**	**4,177**	**7,355,676**
Derivative liabilities							
FX Derivatives		562,579	-	-	-	-	562,579
		562,579	**-**	**-**	**-**	**-**	**562,579**
Financial liability by type							
31 December 2022							
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
Issued 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**

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.2 Future cash flows from financial instruments (continued)

The Bank expects to meet their other obligations from operating cash flows and proceeds of maturing financial assets and assets at fair value through other comprehensive income.

38.3 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 continuously works on improving its business processes and quality of data.

Market risk measurement techniques:

On the 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 uses 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 (FVtOCI).

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 daily with a confidence level of 99%. The model uses historical simulation based on last 250 observations of daily indicators.

Notes to the financial statements for the year ended 31 December 2023

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

Bank's VaR according to risk types in 2023 and 2022 is as follows:

2023. (000) LE	Minimum	Mean	Max	End of year
FVtOCI Total	1,591.3	2,230.6	2,736.7	1,592.2
FVtPL Total	0.02	1.3	28.2	1.0

2022. (000) LE	Minimum	Mean	Max	End of year
FVtOCI Total	762.7	2,497.1	3,050.5	2,735.3
FVtPL Total	0,7	2.5	6.8	1.1

38.3.2 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. Scenario includes 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 directs bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits.

Notes to the financial statements for the year ended 31 December 2023
(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 2023	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	944,346	184,791	25,966	63,569	1,218,672
Obligatory reserve at CBBH	598,146	-	-	-	598,146
Loans and receivables from banks	932	326,221	102,555	67,274	496,982
Financial assets at FV OCI	199,062	277,246	25,187	-	501,495
Financial assets at fair value through profit or loss	-	7	-	-	7
Loans and receivables from clients	3,193,955	593,537	-	-	3,787,492
Hedging derivatives	-	8,933	-	-	8,933
Deffered tax assets	5,375	-	-	-	5,375
Other assets and receivables	15,512	101,578	(1,218)	(818)	115,054
Right-of-use assets	7,601	-	-	-	7,601
Securities at amortized cost	82,315	253,395	-	-	335,710
Property and equipment and intangible assets	90,383	-	-	-	90,383
	5,137,627	**1,745,708**	**152,490**	**130,025**	**7,165,850**
Liabilities					
Current accounts and deposits in banks	9,572	618	-	-	10,190
Current accounts and deposits from clients	3,987,580	1,722,680	149,049	127,927	5,987,236
Hedging	-	14,140	-	-	14,140
Lease liabilities	7,570	-	-	-	7,570
Financial liabilities at fair value through profit or loss	-	5	-	-	5
Borrowings and subordinated debt	-	16,977	-	-	16,977
Current tax liabilities	6,899	-	-		6,899
Other liabilities	146,893	40,647	3,341	1,249	192,130
Equity and reserves	881,758	-	-	-	881,758
Provisions for liabilities and expenses	38,906	8,982	219	838	48,945
	5,079,178	**1,804,049**	**152,609**	**130,014**	**7,165,850**
Net position	**58,449**	**(58,341)**	**(119)**	**11**	**-**

Notes to the financial statements for the year ended 31 December 2023

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

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 2023
(all amounts are expressed in thousands of KM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

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, the Bank is not exposed to risk of change of EUR exchange rate (fixed exchange rate, Convertible Mark (KM) is pegged to EUR).

The following table details the sensitivity to a 10% increase or decrease in KM against USD. BAM is pegged to EUR due to the Currency board, therefore the Bank does not have FX risk, so for this reason we stressed USD as our main currency which besides BAM and EUR has the largest open FX exposure as of 31.12.2023.

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	
Bank	**31 December 2022**	**31 December 2023**
Profit/Loss	83	117

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

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 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**	**(11)**	**(2)**

Notes to the financial statements for the year ended 31 December 2023

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

Overview according to IFRS9 classification:

IR BP01 FVOCI:

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)
USD	-	(3)	(1)	-	-	(4)
HRK	-	-	(1)	(4)	-	(5)
TOTAL	**(1)**	**(8)**	**(56)**	**(119)**	**-**	**(185)**

IR BP01 FVOCI:

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 BAM ths. Deviations in the "Total" line are possible due to rounding.

IRRBB BP01 sensitivity analysis for the Bank per currency in 2023:

31 December 2023	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	(1)	(42)	(95)	174	(43)	(6)
EUR	(9)	(5)	19	114	3	123
USD	-	-	-	-	-	-
OSTALO	-	-	(1)	-	-	(1)
TOTAL	**(10)**	**(47)**	**(75)**	**288**	**(40)**	**117**

Overview according to IFRS9 classification:

IR BP01 FVOCI:

31 December 2023	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	-	(6)	(22)	(27)	-	(55)
EUR	(1)	(7)	(8)	(41)	-	(57)
USD	-	-	-	-	-	-
OSTALO	-	-	-	-	-	-
TOTAL	**(1)**	**(13)**	**(30)**	**(68)**	**-**	**(112)**

(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 2023	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	-	-	-	-	-	-
EUR	-	-	-	-	-	-
USD	-	-	-	-	-	-
OSTALO	-	-	-	-	-	-
TOTAL*	**-**	**-**	**-**	**-**	**-**	**-**

* BP01 FVTPL usage in „Total“ is below 1ths BAM.

Values in 2023. are presented in BAM ths. Deviations in the "Total" line are possible due to rounding.

BP01 imits 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.

Overview of result for 2022 and 2023:

31 December 2022		31 December 2023	
+100 BP	-25/-50/-75/-100 BP	+50 BP	-25/-50/-75/-100 BP
7.64%	**-2.28%**	**5.39%**	**-5.48%**

Also,an overview of changes in the economic value of capital resulting from interest rate fluctuations for 2022 and 2023:

	31 December 2022	31 December 2023
EV sensitivity (SOT)	-4.66%	-4.74%
EV sensitivity +/-200 BP	**-2.05%**	**-4.44%**

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 2023 %	31 December 2022 %
Cash and cash equivalents	1.10%	(0.27%)
Obligatory reserve at CBBH	0.32%	(0.14%)
Financial assets at FVOCI	2.89%	2.21%
Loans and receivables from banks	3.32%	(0.03%)
Loans and receivables from clients	4.24%	4.13%
Current accounts and deposits from banks	0.00%	0.19%
Current accounts and deposits from clients	0.10%	0.07%
Interest-bearing borrowings	2.82%	1.10%

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.

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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 intends 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).

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.

38. RISK MANAGEMENT (CONTINUED)

38.8 Environmental, Social & Governance (ESG) Risks

Environmental, Social & Governance (ESG) Risks are risks of any negative financial impact stemming from the current or prospective impacts of ESG factors on its counterparties (e.g. a borrower, a client or an issuer) or invested assets (i.e. the risks arising from the core activities). ESG factors are environmental, social or governance matters that may have a negative impact on the financial performance or solvency.

UniCredit Bank d.d. Mostar, as a member of UniCredit Group (hereafter : UCG) started with the process of embedding C&E risks into existing risk management framework. In doing so, UCG has adopted a strategic approach to manage these risks, using the full array of the risk management instruments. This includes strategically realigning portfolios, setting clear risk appetites, developing mitigation strategies, adjusting qualitative credit criteria, and assessing materiality/capital adequacy.

Also, the Banking Agency of the Federation of Bosnia and Herzegovina published Guideline on climate and environmental risks management (hereinafter: Guideline) in the Official Gazette of Bosnia and Herzegovina. According to this Guideline UniCredit Bank d.d. Mostar (hereinafter: UCBM) needs to perform materiality assessment which includes:

- Identification of risk drivers (Mapping out risk drivers to identify transmission channels)
- Identification of exposures (Risk assessment methods to assess materiality of exposures)
- Determination of materiality (establishment of a methodology for assessing materiality with the aim of defining materiality thresholds and subsequent follow-up activities)

ESG risks are commonly understood to comprise two main risk drivers:

- Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorized as “acute” and “chronic”.
- Transition risk refers to an institution’s financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.

Transition and Physical Risks are considered to have a comprehensive view of Climate Risk. For the former, involving the policy and legal, technology, and market changes needed to address mitigation and adaptation requirements related to climate change, the macroeconomic variables of the scenario already account for its impact on an aggregate level. For the latter, the treatment is differentiated according to the Physical Risk type. Chronic Physical Risk, related to longer-term shifts in climate patterns (e.g.: sustained higher temperatures, sea level rise), is embedded in the values of the macroeconomic variables of the scenario. Differently, Acute Physical Risks, of event-driven nature, are incorporated through bottom-up models.

The assessment is developed for each Pillar I & Pillar II risk, in a qualitative way, considering current UCBM business/ operating model and leveraging on available literature to backup assumptions on the relevant mechanism to be considered in translating climate risk into existing financial & non financial risks.

Identification of relevant risk drivers is a prerequisite for sound risk management. The Bank recognizes C&E risks as risk drivers that impact existing risk categories and distinguish between various drivers of transition and physical risks.

The risks of climate change for the financial performance of borrowers can primarily materialize as transition risks (i.e. risks that arise from the transition to a low-carbon and climate-resilient economy) and physical risks, such as risks to the borrower that arise from the physical effects of climate change, including liability risks for contributing to climate change.

The Bank monitors following exposures exposed to C&E risk:

- Transition risk of corporate clients
- Physical risk of corporate clients
- Reputational risk
- Net zero relevant industries
- Transition and physical risk of collaterals

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Banks are expected to comprehensively include climate-related and environmental risks in their assessment of materiality for all of their business areas under various scenarios. methodological framework used by the Bank as well as by UniCredit Group seeks to estimate the impacts of Climate and Environment Risks, accounting both for transitional and physical components, for long term and short term horizons scenarios. The methodological assumptions for each individual type are:

Credit risk:

- Projection of risk parameters (PD/ LGD) leveraging on satellite models fed with OE macro variables capturing transition and chronic Physical Risk (rising temperature)
- Transition risk impact on PD differentiated at sector level leveraging on sectorial risk indexes linked to macro scenarios
- Risk index are estimates as a function of Debt Services Coverage Ratio and EBITDA. Balance Sheet of corporate counter-parts have been projected in coherence with GHG emissions, investment and costs assumptions path of the scenarios)
- Acute Physical Risk (flood risk) impacting collateralized LGD via haircuts depending on macro scenario and collateral position
- No loans growth have been considered on both short term and long term simulation
- Corporate portfolio reshaping at sectorial level aligned with medium-long term Group Risk Strategies
- Loan Loss Provisions are calculated at aggregate cluster level, and consider the following portfolio dynamics: default flows, write offs, recoveries, cures calibrated on historical data
- GCPM Inter-Correlation updated considering the sectorial equity indexes projections provided by OE in the considered scenario

Market risk:

- Impacts on FV affected by physical and transition risk via scenario simulation Stressed ICAAP-like
- Static Balance Sheet

Operational & Reputational risk:

- Regarding Physical and Transition Risk:
- (for Op risk), shock on probability (and correlation) of occurrence of climate events, given scenario analysis results
- (for Rep risk), shock on the average, volatility and share3 of the ESG-specific Media Tonality Index considering in both cases CO2 emissions (for physical risk) and carbon price (for transition risk) pathways

Business Risk:

- Volatility shock on cluster residuals to capture transition risk
- Regional/Cluster maximum shock derived by percentage of Interest Income deriving from sectors with high transition risk
- Differentiation by year and scenarios leveraging on sectorial risk indexes used for Credit Risk

Real Estate risk:

- Volatility shock on systematic and idiosyncratic component
- Transition risk impacts based on EPC at asset an country level. Physical risk impacts based on flood risk exposure at asset and country level
- Differentiation by year and scenarios leveraging both on sectorial risk indexes for transition risk and temperature for physical risk
- Portfolio revaluation based on House price indexes at EPC level

Risks are assessed as material if losses are greater thanmateriality threshold:

- Losses >1% of CET1 or
- Losses >5% of actual (avg 3-Y) gross Operating Profit

UCBM identifies the risks to which it is exposed or may be exposed at a minimum in annual dynamics.

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

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

2023.	Borrowings	Lease liabilities
Balance at 01 January	**26,379**	**9,052**
Payment of lease liability	-	(1,928)
New lease liability	-	369
Receipts from interest-bearing borrowings	-	-
Repayment of interest-bearing borrowings	(9,551)	(1,559)
Total changes from financing cash flows	**(9,551)**	
Liability-related	-	-
Interest expense	620	214
Interest paid	(547)	(137)
Accrued up front fee (IAS 18)	76	-
Total liability-related other changes	**149**	**77**
Balance as at 31 December	**16,977**	**7,570**

2022.	Borrowings	Lease liabilities
Balance as 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**

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 2023, 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 18,9%.

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 inclu-

Notes to the financial statements for the year ended 31 December 2023

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

sion of formed reserves for credit losses in the regular share capital of the Bank.

During 2023, 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.

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 2023 was significantly above the prescribed limit of 12%. The composition of capital and capital ratios as at 31 December 2023 is given in the table below.

Notes to the financial statements for the year ended 31 December 2023

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

40. CAPITAL MANAGEMENT (CONTINUED)

	31 December 2023	31 December 2023
Regulatory capital	**687,391**	**629,969**
Core capital	687,207	629,785
Regular core capital	687,207	629,785
Issued share capital – Ordinary shares	119,011	119,011
Share premium	48,354	48,354
Accumulated comprehensive income	(46,422)	(35,560)
Statutory, regulatory and other reserves	591,319	523,685
Deductions from regular core capital		
intangible assets	(19,453)	(21,399)
own shares	-	-
deferred tax assets	(5,602)	(4,306)
significant investment in capital of financial sector entities	-	-
Deductions from additional core capital exceeding the additional core capital	687,207	-
Total regular core capital capital	**687,207**	**629,785**
Additional core capital		
Core capital	**687,207**	**629,785**
Supplementary capital	**-**	**-**
Issued own capital – Priority shares	184	184
Own shares	-	-
General credit risk allowances	-	-
Missing credit loss provisions	-	-
Deductions from supplementary capital exceeding supplementary capital	-	-
Total regulatory capital	**687,391**	**629,969**
Risk weighted assets (unaudited)	**3,636,626**	**3,367,135**
Capital adequacy ratio	**18.90%**	**18.70%**

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 2023 it is significantly above the stated minimum, amounting to 9.18%.

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 Bank’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 2023

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

31 December 2023		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	-	-	170,427
Bonds of the Government of Republika Srpska	-	167,528	-
Bonds of the Government of Republic of Croatia	90,116	-	-
State Bonds of the Republic of Poland	-	-	-
Bonds of the Government of Romania	48,205	-	-
State Bonds of the Republic of Slovenia	25,187	-	-
Assets	-	-	7
Liabilities	-	5	-
	163,540	**167,533**	**170,434**

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**

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 for bonds classified as FVOCI, whose prices are not quoted on the market, is carried out according to Mark-to-Model prices.

Securities from 31.12.2023. have FVHL 1, 2 and 3 for the purposes of market risk, while levels 1 and 2 are considered for liquidity risk.

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.

(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 2023		31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
Loans and receivables from clients	3,787,492	3,743,595	3,453,577	3,349,624
Securities at amortized cost	335,710	324,244	60,926	60,926
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	5,987,236	5,942,912	5,516,710	5,396,296
- Borrowings	16,977	16,851	26,379	25,803

	Fair value hierarchy as at 31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	2,362,483	1,381,112	**3,743,595**
- Securities at amortized cost	251,502	84,208	-	**335,710**
	251,502	**2,446,691**	**1,381,112**	**4,079,305**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	5,942,912	**5,942,912**
- Borrowings	-	-	16,851	**16,851**
	-	**-**	**5,959,763**	**5,959,763**

The Bank provides finance lease of equipment and vehicles.

	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**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2023 are based on requirements of IFRS 13, by applying the methodology developed on UniCredit Group level.

Notes to the financial statements for the year ended 31 December 2023

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

Fair values of 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. This approach does not impact the evaluation methodology, but does impact calculation credit 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. AUDITING EXPENSES

In accordance with a contract to audit theannual report, the Group reporting package and regulatory reports for Banking Agency of Federation of Bosnia and Herzegovina for the year 2023, the bank contracted with KPMG B-H d.o.o. the amount of KM 180,012 without VAT and expenses (2022: KM 156,804 without VAT and expenses).

In accordance with a contract to perform limited review of Group reporting package for Q1, Q2 and Q3 the bank contracted with KPMG B-H d.o.o. the amount of KM 107,774 without VAT and expenses (2022: KM 93,879 without VAT and expenses).

In accordance with a contract for auditing the report on compliance with loan covenants and compliance of the Bank with anti-money laundering and terrorism financing procedures the bank contracted with KPMG B-H d.o.o. the amount of KM 13,696 without VAT and expenses (2022: KM 11,930 without VAT and expenses).

In accordance with a contract for auditing of the information system for 2023 (obligatory reporting to Banking Agency of Federation of Bosnia and Herzegovina) the bank contracted with KPMG B-H d.o.o. the amount of KM 20,462 without VAT and expenses (2022: KM 12,713 without VAT and expenses).

The total amount spent on auditing and other assurance services in 2023 amounted to KM 321,944 without VAT and expenses (2022: KM 275.326 without VAT and expenses).

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on the pages 32 to 178 were approved by the Management Board on 16 February 2024 for the submission to the Supervisory Board:

President of the Board
Amina Mahmutović

Member of the Board for Finance Management
Zvonimir Čolak

Address and phone numbers

Headquarters

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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

Business network of UniCredit Bank d.d. as at 31 December 2023

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	039 685 413	039 685 157
REGION SREDIŠNJA BOSNA					
Branch Vitez	Petra Krešimira IV	Vitez	72250	030 717 410	030 718 746
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	030 654 561
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

Business network of UniCredit Bank d.d. as at 31 December 2023

Branch/address	Address	City	PTT	Phone	Phone web
REGION ZENICA					
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032 887 904	032 887 904
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
REGION BIHAĆ					
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037 229 280	037 229 970
Branch 1 Bihać	Bosanska bb	Bihać	77000	037 229 988	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	033 253 383 033 253 378	033 253 378
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 16 Sarajevo (hotel Holiday)	Zmaja od Bosne 4	Sarajevo	71000	033 252 288	033 491 754
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo (hotel Holiday)	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

Business network of UniCredit Bank d.d. as at 31 December 2023

Branch/address	Address	City	PTT	Phone	Phone web
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	033 776 140	033 776 157
Branch Hadžići	Hadželi 177	Hadžići	71240	033 475 396	033 475 390
Branch Hadžići					
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	035 822 501	035 822 501
Branch Lukavac	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	031 716 707	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. 37	Banja Luka	78000	051 348 063	051 348 063
Branch Prijedor	Zanatska bb	Prijedor	79101	052 240 764	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