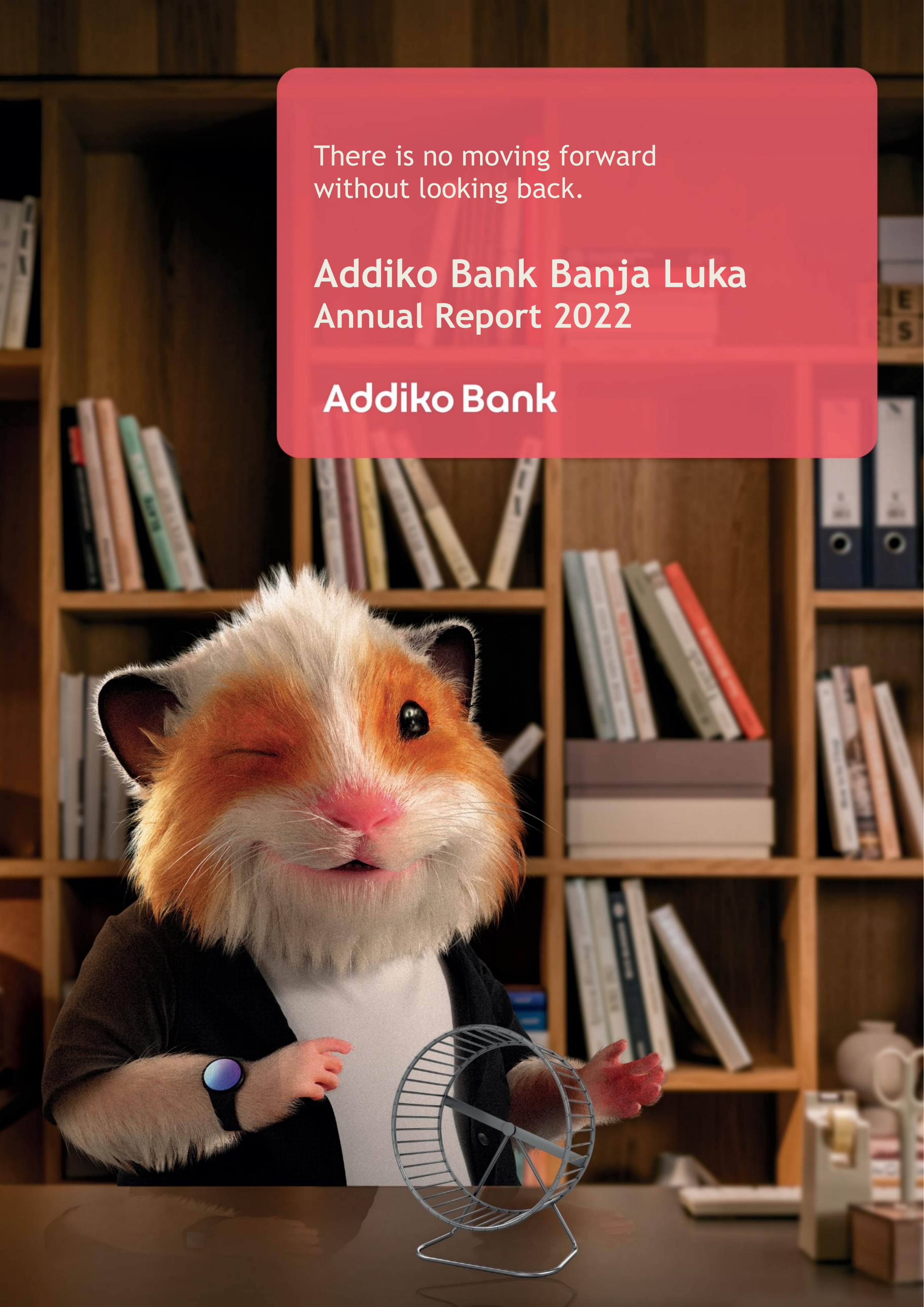
There is no moving forward
without looking back.

Addiko Bank Banja Luka
Annual Report 2022

Addiko Bank



Key data are based on individual financial statements compiled in accordance with the legal accounting regulations applicable to banks in the Republic of Srpska ("RS"), which is based on the Law on Accounting and Auditing of RS and the Law on Banks of RS and by-laws of the Banking Agency of Republic of Srpska.

			000 BAM
Selected items of the Profit or Loss statement	**2022**	**2021**	**(%)**
Net banking income	48.844	41.819	16,8%
Net interest income	31.714	27.079	17,1%
Net fee and commission income	17.130	14.740	16,2%
Net result on financial instruments	-23	508	>100%
Other operating result	-1.665	-475	>100%
Operating expenses	-30.232	-29.582	2,2%
Operating result before impairments and provisions	**16.924**	**12.270**	**37,9%**
Other result	120	-529	>100%
Credit loss expenses on financial assets	-2.636	-596	>100%
Tax on income	-1.773	-1.642	8,0%
Result after tax	**12.635**	**9.503**	**33,0%**
Performance ratios	**2022**	**2021**	**(pts)**
Net interest income/total average assets	3,3%	3,1%	0,2
Return on average tangible equity	8,2%	6,5%	1,7
Cost/income ratio	61,9%	70,7%	-8,8
Cost of risk ratio	0,3%	0,1%	0,2
Cost of risk ratio (net loans)	0,4%	0,2%	0,2
Earnings/loss per share (in BAM)	0,08	0,06	0,02
Selected items of the Statement of financial position	**2022**	**2021**	**(%)**
Loans and advances to customers	604.771	559.182	8,2%
o/w gross performing loans	624.915	574.908	8,7%
Deposits and borrowings of customers	752.896	729.119	3,3%
Equity	160.549	158.020	1,6%
Total assets	967.542	944.920	2,4%
Risk-weighted assets[2)]	663.638	644.494	2,9%
Balance sheet ratios	**2022**	**2021**	**(pts)**
Loan to deposit ratio	80,3%	76,7%	3,6
NPE ratio	2,9%	4,0%	-1,1
NPE Ratio (on balance loans)	3,7%	5,4%	-1,7
NPE coverage ratio	90,7%	88,5%	2,2
Liquidity coverage ratio	302,2%	333,9%	-31,7
Common equity tier 1 ratio	21,3%	21,8%	-0,5%
Total capital ratio	21,3%	21,8%	-0,5%

Letter from the CEO

Dear clients, shareholders and employees,

For Addiko Bank Banja Luka, 2022 was the most successful year so far. In very challenging circumstances, we have clearly set goals, demonstrated a strong ability to adapt and kept the needs of our clients - consumers and SME in the first place. Speed and simplicity in the business relationship with the bank have proven to be the key needs of clients in the times we live in. The transformation of Addiko came at the right time and we have achieved last year's result thanks to an excellent team approach and advanced digital solutions, and we strengthened the epithet of a specialist bank characterized by speed and simplicity on the market. As part of the transformation, we refreshed our identity and introduced a new Addiko ambassador - Oskar, who stands for speed, innovation and flexibility and who sends a clear message - that we are a digital bank which is there for clients, whenever and wherever they are.

Net profit in 2022 increased to BAM 12.6 million compared to BAM 9.5 million in the previous year, which is 33% year-on-year increase. Net interest income increased by 17,1%, while the net income from fees and commissions increased by 16,2% compared to 2021. The successful transformation program resulted in a 16% growth of our focus portfolio - loans for consumers and SME, and even 90% of the participation of these two segments in total gross revenue loans at the end of 2022 was achieved. Our non-focus portfolio decreased by -33% in line with the Bank's strategy.

Even in 2022, the citizens had confidence in Addiko Bank Banja Luka, which shows the growth of gross performing loans of as much as 16,9% (or BAM 58.4 million). Despite the strong inflationary pressure, operating costs increased by only 2%, while on the other hand, we have a significant increase in net banking income of as much as 16,8%. The bank remained consistent with the conservative approach to provisions for credit risk, and the net effect of provisions in 2022 is BAM -2.6 million (2021: BAM -0.6 million).

Client deposits increased by BAM 24 million (3,3%), which is also a reflection of the confidence of business community and citizens in Addiko Bank's strategy. The bank's assets increased by 2,4% comparing to 2021, more precisely by BAM 22.6 million. Addiko Bank's capital adequacy is 21,3%, which is significantly above the prescribed legal minimum and indicates an extremely stable position of the Bank.

These results would not be possible without our most valuable resource, Addiko Bank team, with whom we foster a culture of togetherness. We are focused on making sure that each of the 345 employees, as many as our team has today, feel comfortable and do their job to the best of their ability, and we have rewarded the dedicated work of the employees and the achieved effects in 2022 as well. The success of our employer and employee strategy is also shown by the award for the most desirable employer in the financial sector of the Republic of Srpska in 2022, which ranked us among the three most desirable employers in the financial sector in Bosnia and Herzegovina.

In addition to achieving excellent results in business with consumers and SME, we also worked on future goals. Also known as a Bank of social responsibility, we have decided to strategically approach the environment and the society in which we operate and live. In order to respond to sustainability challenges that could affect Addiko business activity and proactively contribute to sustainable growth, we also dedicate ourselves to the implementation of an environmental, social and governance (ESG) strategy, for which we will offer even more adequate solutions in the future.

I thank our clients for recognizing our speed, simplicity and commitment, and I also thank our shareholders and our employees for strongly believing in our strategy. In 2023, we will continue with stable and reliable financial solutions on the market, which we believe will bring even better results.

Sincerely,

Srđan Kondić, CEO of Addiko Bank Banja Luka

Addiko Bank a.d. Banja Luka
The Management Board


From left to right: Srđan Kondić – Chairman of the Management Board, Mile Todorović – Board Member, Slađan Stanić – Board Member

Addiko Bank

Annual Report 2022

Any data is presented on the Addiko Bank Banja Luka level (referred to as Addiko Bank or the Addiko Bank Banja Luka throughout the document) unless stated otherwise.

The tables in this report may contain rounding differences.

Management Report

1. Overview of Addiko Bank Banja Luka

Addiko Bank Banja Luka is a member of Addiko Group, a banking group specialized in doing business with consumers and small and medium-sized enterprises (SMEs) in Central and Southeastern Europe (CSEE). The Addiko Group consists of Addiko Bank AG, a fully licensed Austrian parent bank registered in Vienna, Austria, regulated by the Financial Markets Authority of Austria (FMA) and the European Central Bank, as well as six subsidiary banks, registered and licensed to provide services in five countries of Central and Southeastern Europe: Croatia, Slovenia, Bosnia and Herzegovina (where two banks operate: Addiko Bank a.d. Banja Luka and Addiko Bank d.d. Sarajevo), Serbia and Montenegro. As of December 31, 2022, Addiko Bank served approximately 141.000 clients, using a well-spread network of 28 branches and digital banking channels.

In accordance with its strategy, Addiko Bank Banja Luka has positioned itself as a specialist bank for consumers and SME with a focus on the growth of credit activities, as well as on payment services (from the "area in focus"), offering consumer loans for consumers and loans for working capital for SME, which are mainly financed from deposits of the population. Mortgage financing by Addiko Bank, financing of public institutions and large corporate clients ("areas that are not in the focus of business") are gradually reduced, providing liquidity and capital for gradual growth in the segment of business with consumers and SME.

Addiko Bank Banja Luka provides a modern user experience in accordance with its strategy of straightforwardbanking, which includes "focus on the essentials, efficiency and simple communication". Banking products and services are standardized, especially in the segment of business with consumers and the segment of business with small and medium-sized enterprises, with the aim of improving efficiency, reducing risk and maintaining asset quality.

2. Business updates

2.1. Addiko Brand Repositioning

Addiko is pursuing a process-driven transformation with the clear vision to grow and extend its financial platform into a larger ecosystem, where customers find simple and fast lending solutions to whatever lifestyle needs they have. Addiko's specialist bank strategy, purpose and brand promise were aligned towards this goal.

Addiko’s brand repositioning was introduced in all six markets in May 2022 through an omni-channel marketing campaign and amplified by media and PR activities.

The newly defined message of Addiko's brand strategy is: "Make life easier for customers, help them in unpredictable situations and help them get the things they want".

This simple sentence will give guidance, especially in the transformation efforts. Based on that, the new brand promise shall be: *“As experts in Consumer and SME lending, we stand for speed and flexibility, and we promise to be there for you in all situations whenever and wherever you need that extra boost.”* Translated to everyday life, this means the bank wants to be close to the customers and support them when they need it.

In August 2021, the Management of Addiko Bank launched the Transformation Program, with the aim of making Addiko Bank perceived as one of the leading specialized banks, and in addition as a universal bank with digital service and online banking, followed by customer credit service, whether it's about buying a new dishwasher or a bike for your kids. The new brand character, Oskar, replaces the previous triangle symbol. Since May 2022, Oskar is the message carrier for Addiko, both outside to potential and existing customers, as well as internally to the employees to reinforce customer centric focus. The brand character Oskar has a voice in every market in the respective local language and was visible across all media channels such as TV ads, outdoor billboards, social media, digital advertising and mobile in all Addiko's markets throughout 2022.

Oscar addresses existing and new clients, talking about how Addiko promises to deliver credit quickly and easily, whenever and wherever clients need an extra boost and wants to be their champion in that. Oskar invites new and existing clients to try Addiko and says that the bank is a support for all life situations.

2.2. War in Ukraine

In February 2022, the conflict between Russia and Ukraine began. Addiko Bank Banja Luka has no direct exposure to Russia and Ukraine, but indirect consequences, such as financial market instability or the impact of sanctions on some of Addiko Bank's clients, cannot be ruled out.
After the first events related to the war crisis in Ukraine, the Bank reacted in terms of an ad-hoc check of the portfolio of clients - legal entities. All clients were interviewed in detail, and their list of buyers and suppliers was checked. The Bank introduced the practice of filling out the form Questionnaire - impact of the Ukrainian crisis, in order to determine the connection and impact of the crisis with the client's business activities.
The Indirect Taxation Administration and the Chamber of Commerce submitted lists of clients that included all exporters and importers from the affected countries, and the Bank performed a portfolio check.

In addition, Bank identified business activities and clients that could be affected by the crisis (energy-dependent clients such as oil companies, construction and transport companies). Identified clients in the Bank's portfolio are treated with special attention and detailed monitoring.

2.3. Compliance with applicable regulations

According to financial data on December 31, 2022, the Bank meets all regulatory requirements and limits related to capital adequacy and liquidity.
The Bank has a strong capital base to cover the risks to which it is exposed in its operations, that is, a capital base that can support the current Bank's operations as well as any future operations, given the high capital adequacy rates and the financial leverage rate, which are significantly above the prescribed regulatory minimums.
In addition, the Bank fulfills all regulatory requirements regarding liquidity, i.e. requirements related to the maintenance of mandatory reserves within the reserve account at the Central Bank of BH, FX and maturity matching of financial assets and financial liabilities, etc., while the Bank's liquidity indicators (liquidity coverage ratio -LCR, net stable funding ratio-NSFR) are also significantly above the regulatory limits.

2.4. Change in the securities portfolio management

As part of the strategy of the Bank and transformation towards focus segments and reduction of non-focus loan books program, it is decided to introduce a change in the steering of the financial assets of the treasury portfolio, in order to have, next to the portfolio for liquidity steering, also a stable volume of instruments aimed to generate interest income until maturity. This change is allowed by the accelerated exit from the non-focus segment, generating the necessary liquidity to finance the new business volumes in the focus segment. Addiko adapted its treasury strategy with the aim to invest in long-term high-quality bonds to maturity for yield enhancement purposes and essentially the collection of interest income until maturity to support the main income driver, the net banking income.
New investments in bonds, especially long-term, would primarily aim to be classified as a "Hold to Collect - HTC" business model and measured at amortized costs, while for other investments and short-term liquidity management needs, the targeted model would still be "Hold to Collect or Sell" (HTCS) and measurement at fair value.
Bond investment strategy prioritizes maintaining the optimal stable position of liquidity and capital adequacy of the bank, and then generating additional stable income from interest. In addition to liquidity and capital management, and increasing profitability, the new strategy will also ensure that the bond portfolio is in line with the bank's appetite for credit risk management.

2.5. Capital requirements and guidelines in 2022

The Pillar 2 requirement (P2R) remained unchanged and amounts to 2%, so that the total capital adequacy rate cannot be below 14%, the core capital rate below 11% and the regular core capital rate below 8,75%. On December 31, 2022, all three mentioned rates amounted to 21,3%, which is significantly above the minimum prescribed requirement.

3. Corporate Governance

The President of the Bank's Management Board is Mr. Srđan Kondić, who was appointed to that position by the Supervisory Board on October 1, 2020. Mr. Kondić is responsible for the CEO area, but also for the Corporate Market area (CCMO). Mr. Kondić is an experienced banker who stands out for his excellent knowledge of the local business environment, as well as macro-economic trends, which he acquired through many years of work in banking and financial institutions, as well as his enviable ability to make optimal decisions in crisis situations.

Mr. Slađan Stanić is a member of the Management Board responsible for risk and financial management (CFO and CRO). He was appointed to the above position by the Supervisory Board of the Bank on December 18, 2020. Mr. Stanić is an excellent banker with unique experience in risk management in the banking sector of Bosnia and Herzegovina and beyond and has significant experience in financial management.

Since September 1, 2021, Mr. Mile Todorović, as a member of the Bank's Management Board, has been managing the business segment related to Retail sales (CRMO) and the management of information technologies (IT) in the Bank. Before being appointed to the Bank's Management Board, Mr. Todorović was managing the Bank's department responsible for doing business with consumers (Retail).

4. Addiko's ESG framework

Addiko supports the growing importance and relevance of the broad ESG (environmental-social-governance framework) agenda, particularly climate change, for its business and operational environment.

Addiko Bank's ESG framework consists of 3 strategic pillars:

4.1. ESG strategy

As a major milestone in its sustainable transformation, Addiko plans to adopt the ESG strategy by mid-2023 at the latest. The ESG strategy will be closely related to Addiko Bank's operations and risk strategy. The ESG strategy will support the inclusion of ESG indicators in governance, credit approval, risk management, financing decisions and reporting. The ESG strategy will also determine which climate and environmental (C&E) risks may affect the business strategy and how to reflect those risks in the implementation of the business strategy. Within the ESG strategy, Addiko Bank will establish specific sustainable development goals and demonstrate its commitment to meeting the adopted goals through the execution of 15 initiatives that promote ESG awareness.

4.2. ESG Management

A strong corporate governance framework forms another important pillar that ensures that strategic objectives are holistically promoted through Addiko. Therefore, a special ESG working group will be established with the aim of integrating ESG into all business lines and core processes of Addiko Bank and regularly monitors Addiko Bank's efforts in managing ESG risks.

4.3. ESG risk management and compliance

An important element of the ESG framework is the integration of ESG into the risk management and compliance framework. From a risk management perspective, Addiko continues to identify ESG risk factors (primarily climate and environmental risks), assessing their materiality and incorporating them into existing risk types rather than a single, stand-alone ESG risk type. From a compliance perspective, the dynamic development of regulatory requirements on ESG disclosure standards is duly monitored and incorporated, ensuring that all mandatory ESG disclosure requirements are compliant.

5. Financial development

5.1. Detailed analysis of the result

000 BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021	(abs)	(%)
Net banking income	48.844	41.819	7.025	16,8%
Net interest income	31.714	27.079	4.635	17,1%
Net fee and commission income	17.130	14.740	2.390	16,2%
Net result on financial instruments	-23	508	-531	>100%
Other operating result	-1.665	-475	-1.190	>100%
Operating income	**47.156**	**41.852**	**5.304**	**12,7%**
Operating expenses	**-30.232**	**-29.582**	**-650**	**2,2%**
Operating result before impairments and provisions	**16.924**	**12.270**	**4.654**	**37,9%**
Other result	120	-529	649	>100%
Credit loss expenses on financial assets	-2.636	-596	-2.040	>100%
Result before tax	**14.408**	**11.145**	**3.263**	**29,3%**
Tax on income	-1.773	-1.642	-131	8,0%
Result after tax	**12.635**	**9.503**	**3.132**	**33,0%**

Net banking income improved by BAM 7.025 thousand to BAM 48.844 thousand (2021: BAM 41.819 thousand), mainly due to strong growth in both focus segments Consumers (growth of BAM 5.211 thousand) and SME (growth of BAM 2.091 thousand). This positive development was partially neutralized by the accelerated reduction of business with segments that are not in focus during 2022 (reduction of BAM -1.384 thousand).

Net interest income was positively influenced by the development of business in the Consumer and Small and medium-sized enterprises segments, which increased by BAM 4.886 thousand compared to the end of 2021. This development was achieved by a higher volume of loans of BAM 64.931 thousand in the Consumer segment, which compensated for the lower interest rate (-29 bp), which led to a total increase in regular interest income in the amount of BAM 2.878 thousand. The increase in regular interest income in the segment of SME in the amount of BAM 1.543 thousand was driven both by a larger volume of loans in the amount of BAM 14.895 thousand, and by a significant increase in the interest rate (+43 bp on an annual basis). The accelerated decrease in business with segments that are not in focus is visible through the decrease in the volume of loans in the amount of BAM 29.818 thousand compared to the previous year, mainly through regular repayments in the segments of Large Corporates and Mortgage Loans. The aforementioned targeted reduction was also reflected in the reduction of regular interest income in the amount of BAM 1.541 thousand, partially reducing the positive development generated by the focus segments. On the liabilities side, interest expenses decreased in the amount of BAM 851 thousand, driven by the lower amount of term deposits of clients in the amount of BAM 9.502 thousand and a slightly lower interest rate on deposits (+13 bp compared to the end of 2021), while the share of demand deposits increased from 63% at the end of 2021 to 65% at the end of 2022. Total net interest income increased from BAM 27.079 thousand at the end of 2021 to BAM 31.714 thousand at the end of 2022, which is an increase of BAM 4.635 thousand or 17% compared to 2021.

Net fee and commission income increased to BAM 17.130 thousand (2021: BAM 14.740 thousand) as a result of increased business activities in the Consumer segment (BAM +1.831 thousand) and the segment of SME (BAM +585 thousand). In the Consumer segment, this increase was mainly achieved by higher income from fees in the positions of accounts and packages, transactions, cards, loans, foreign exchange transactions and dynamic currency conversion and bancassurance, while in the segment of SME, the increase in income from fees mainly refers to the positions of accounts and packages, transactions, loans and documentary business.

Net result on financial instruments is BAM -23 thousand at the end of 2022 as a result of foreign exchange trading, compared to BAM 508 thousand, which was at the end of 2021. The previous year, in addition to the results of foreign exchange trading, included BAM 450 thousand realized income from the sale of bonds.

Other operating result, as a sum of other operating income and other operating expenses, changed by BAM -1.190 thousand, i.e. from BAM -475 thousand at the end of 2021 to BAM -1.665 thousand at the end of 2022.

This position includes the following significant items:
- Deposit insurance costs in the amount of BAM -1.652 thousand (2021: BAM -1.482 thousand).
- Bank charges and other fees increased slightly to BAM -1.133 thousand in 2022 (2021: BAM -1.040 thousand).
- Profits from the sale of non-financial assets on the reporting date amount to BAM 798 thousand (2021: BAM 1.885 thousand).
- Income from investment real estate in the amount of BAM 321 thousand (no change compared to 2021).

Operating expenses increased from BAM -29.582 thousand at the end of 2021 to BAM -30.232 thousand at the end of 2022, which relate to the following main positions:

- Personnel expenses increased compared to the previous period from BAM -13.196 thousand at the end of 2021 to BAM -13.619 thousand as they amounted at the end of 2022. Personal expenses without bonuses and sales incentives were reduced in 2022 by BAM 64 thousand due to the effect of the so-called "cost savings" initiative implemented by the Bank during the year.
- Other administrative costs increased by BAM 183 thousand from BAM -12.797 thousand at the end of 2021 to BAM -12.980 thousand at the end of 2022.
- Depreciation and amortisation increased by BAM 44 thousand from BAM -3.589 thousand at the end of 2021 to BAM -3.633 thousand at the end of 2022.

Other result in the amount of BAM 120 thousand at the end of 2022 (2021: BAM -529 thousand) is mainly the result of the collected income upon out-of-court settlement in the amount of BAM 598 thousand.

Credit loss expenses on financial assets in the total amount of BAM 2.636 thousand (cost) are primarily influenced by the recorded fixed values for insured and uninsured exposures for the LGD parameter and the effects caused by the implementation of the Decision on temporary measures to mitigate the risk of interest rate growth, which were partially compensated by the effects of the release of provisions after a regular update of the model.

Tax on income increased by BAM 131 thousand (from BAM -1.642 thousand in 2021 to BAM -1.773 thousand at the end of 2022) as a direct consequence of the increase in business results.

5.2. Detailed analysis of the statement of financial position

000 BAM

	31.12.2022	31.12.2021	(abs)	(%)
Cash reserves	235.261	250.090	-14.829	-5,9%
Financial assets held for trading	0	31	-31	-100,0%
Loans and advances to credit institutions	12.374	8.496	3.878	45,6%
Loans and advances to customers	604.771	559.182	45.589	8,2%
Investment securities	82.317	88.353	-6.036	-6,8%
Tangible assets	22.632	26.430	-3.798	-14,4%
Intangible assets	4.487	5.740	-1.253	-21,8%
Tax assets	1.889	1.971	-82	-4,2%
Current tax assets	0	439	-439	-100,0%
Deferred tax assets	1.889	1.532	357	23,3%
Other assets	3.811	4.228	-417	-9,9%
Non-current assets held for sale	0	399	-399	-100,0%
Total assets	**967.542**	**944.920**	**22.622**	**2,4%**

The statement of financial position of Addiko Bank shows a solid interest-bearing asset structure: 63% of the Bank's total assets are customer loans, most of which (90% of net loans) belong to the focus area of operations. In addition, a significant part of assets is represented by cash reserves and bonds. Based on the report on the financial position, it is visible that the Addiko strategy continues to change the structure of operations from Large Corporates, Mortgage Loans and the Public Finance with lower yields, towards high-yield lending in the focus segments of Consumers and SME. This was also reflected in the further increase in the share of these two segments, which corresponds to a share of 90,4% in total gross revenue loans at the end of 2022 (2021: 84,4%).

Addiko Bank's total assets at the end of 2022 amount to BAM 967.542 thousand, with an increase of BAM 22.622 thousand or 2,4% compared to 2021 (2021: BAM 944.920 thousand). Total risk, i.e., the total amount of risk-weighted assets including credit, market and operational risk increased to BAM 663.638 thousand (2021: BAM 644.494 thousand).

Cash reserves decreased to BAM 235.261 thousand as of December 31, 2022, reflecting a still solid liquidity position, which represents 24% of the Bank's total assets (2021: BAM 250.090 thousand).

Loans and advances to credit institutions (net) increased by BAM 3.878 thousand to BAM 12.374 thousand (2021: BAM 8.496 thousand).

Loans and advances to customers (net) increased by BAM 45.589 thousand to BAM 604.771 thousand (2021: BAM 559.182 thousand). This development was driven by the successful growth in lendings to the focus segments, where the gross performing loans of Consumers and SME show a growth of BAM 79.826 thousand, i.e., BAM 564.993 thousand at the end of 2022 (2021: BAM 485.167 thousand), while in the non-focus segments, Large Corporate, Mortage and Public Finance, the gross performing loans decreased by BAM 29.818 thousand, i.e., BAM 59.924 thousand, which they amounted to at the end of 2022 (2021: BAM 89.741 thousand), in line with the Bank strategy.

The portfolio of investment securities was reduced from BAM 88.353 thousand at the end of 2021 to BAM 82.317 thousand as at December 31, 2022, but this was primarily the result of the decrease in the fair value of bonds and the drop in their prices during 2022, due to turbulence in the financial markets related to with a sharp jump in inflation and a reaction by central banks, all over the world, in terms of raising interest rates. Due to the good liquidity position and the fact that it is expected that the new volume of business in the focus segments will be financed by the accelerated exit from the non-focus segments, Addiko Bank has adjusted its investment strategy in securities, with the aim of investing in long-term high-quality bonds and holding them to maturity in order to increase yield and essentially collect interest income to maturity to support the main driver of income, net banking income.
New bond investments would not be intended to be classified as "Hold to Collect or Sell (HTCS)" and measured at fair value, but, where applicable, classified as "Hold to Collect or Sell" (Hold to Collect - HTC) business model and measured at amortized costs.

Tax assets decreased to BAM 1.889 thousand (2021: BAM 1.971 thousand) mainly due to the reduction of overpaid income tax in the amount of BAM 439 thousand as a direct consequence of the increase in the realized result, i.e. the increase in the current tax liability. At the same time, deferred tax assets increased by BAM 357 thousand primarily due to the creation of deferred tax assets based on the negative change in the fair value of bonds through other comprehensive income.

Other assets were reduced to BAM 3.811 thousand (2021: BAM 4.228 thousand). The main reason for the decrease is the collection of other receivables in the amount of BAM 182 thousand and BAM 80 thousand based on the sale of acquired tangible assets. The largest part of this position refers to prepaid expenses as well as receivables based on card business.

Assets intended for sale were reclassified as investment assets in 2022.

	31.12.2022	31.12.2021	(abs)	(%)
Financial liabilities held for trading	0	13	-13	-100,0%
Deposits of credit institutions	15.969	313	15.656	>100%
Deposits of customers	752.896	729.119	23.777	3,3%
Borrowings	22.519	35.370	-12.851	-36,3%
Other financial liabilities	8.698	15.827	-7.129	-45,0%
Provisions	3.501	3.917	-416	-10,6%
Tax liabilities	456	0	456	>100%
Current tax liabilities	456	0	456	>100%
Other liabilities	2.954	2.341	613	26,2%
Equity	160.549	158.020	2.529	1,6%
Total equity and liabilities	**967.542**	**944.920**	**22.622**	**2,4%**

Deposits of credit institutions increased from BAM 313 thousand at the end of 2021 to BAM 15.969 thousand at the end of 2022, including deposits of Addiko Group members in the total amount of BAM 11.900 thousand.

Deposits of customers increased to BAM 752.896 thousand, which they amounted to at the end of 2022 (2021: BAM 729.119 thousand). The given liquidity profile is one of the advantages of both the Bank itself and the entire Group, which causes the Bank's low dependence on market financing conditions. About 33% of deposits are term deposits, mostly denominated in BAM, followed by EUR and US dollars (USD).

Borrowings were reduced from BAM 35.370 thousand at the end of 2021 to BAM 22.519 thousand at the end of 2022 in line with regular repayments of existing credit lines from banks and other financial institutions.

Other financial liabilities decreased from BAM 15.827 thousand at the end of 2021 to BAM 8.698 thousand at the end of 2022, mainly due to the reduction of the liability for advances received.
This position consists of the following important items:

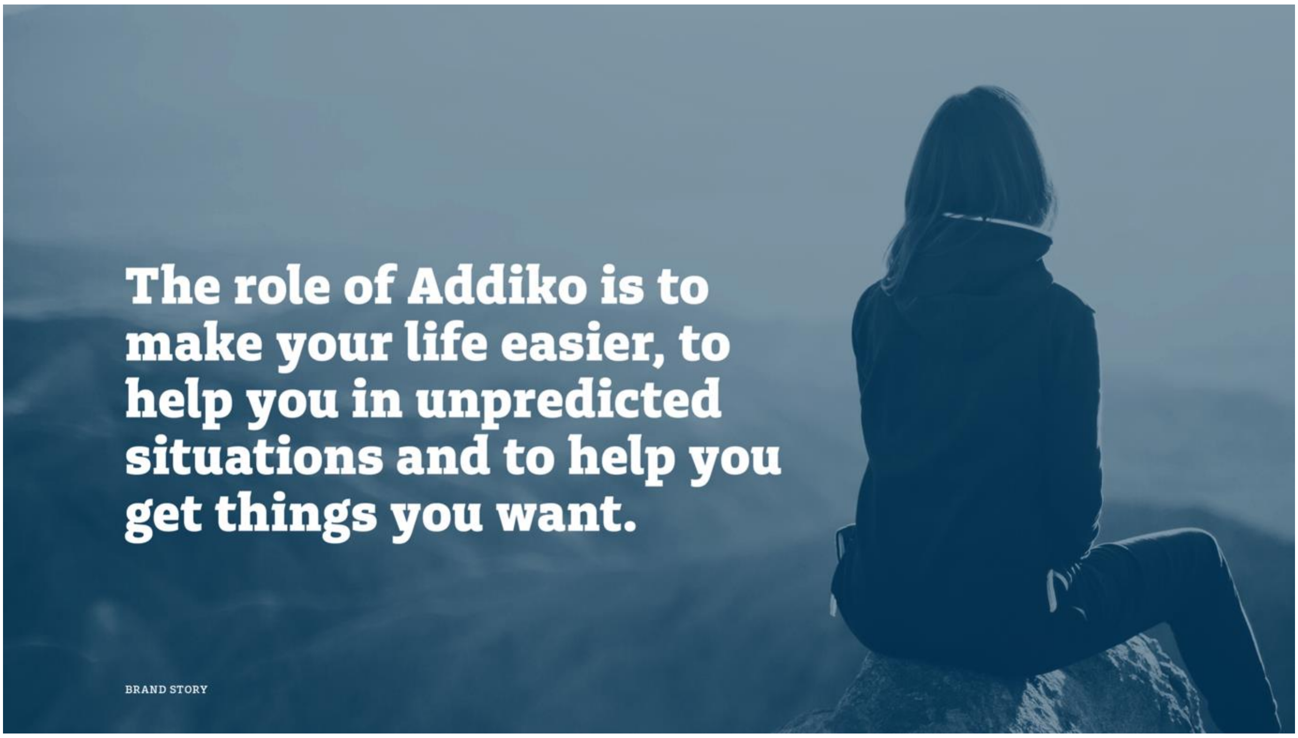
- Prepaid loans (reduced from BAM 4.528 thousand in 2021 to BAM 3.566 thousand in 2022)
- Liabilities to suppliers and calculated uninvoiced costs (reduced from BAM 3.363 in 2021 to BAM 2.244 thousand in 2022).
- Liabilities for advances received (reduced from BAM 4.563 thousand in 2021 to BAM 687 thousand in 2022 based on the sale of real estate).
- Leasing obligations (increased from BAM 1.157 thousand in 2021 to BAM 1.872 thousand in 2022).
- Liabilities based on card settlement decreased by BAM 1.299 thousand compared to the previous year.

Provisions were reduced from BAM 3.917 thousand, which they amounted to in 2021, to BAM 3.504 thousand at the end of 2022. This position mainly includes provisions for litigation, provisions for contingent liabilities and guarantees, and provisions for variable compensation-bonuses based on performance. More detailed information can be found in note 49 of the financial statements.

Other liabilities increased in the amount of BAM 639 thousand (from BAM 2.341 thousand in 2021 to BAM 2.954 thousand in 2022) mainly due to the liquidation of inactive accounts and their transfer to the accounts of other liabilities. This position mainly consists of payroll liabilities, accrued income and temporary/pass-through accounts.

5.3. Capital and liquidity requirements

As of December 31, 2022, the Bank's capital base consisted exclusively of regular core capital (CET1) at a rate of 21,3% (YE21: 21,8%), which is significantly above the prescribed minimum. The bank's liquidity position remained very good, meeting all regulatory and internal requirements



6. Capital, shares, voting and control rights

The Bank's share capital on the reporting date amounts to BAM 153.094.025 and is divided into 153.094.025 voting shares with a nominal value of BAM 1.00 per share. The Company's Statute does not contain any restrictions regarding the right to vote or the transfer of shares, and the Management Board is not aware of any other such provisions. There is no control of voting rights for employees who own shares.
The Management confirms that one shareholder - Addiko Bank AG, Vienna, Austria, owns 99,88% of the Bank's share capital.
No compensation contracts have been concluded between the Bank and members of its Management Board and Supervisory Board or employees in the event of a public takeover bid.

7. Internal Control System for accounting procedures

Addiko Bank has an internal control system (ICS) for accounting procedures, in which appropriate structures and processes are defined and implemented throughout the organization.

The goal of Addiko Bank's internal control system is to ensure effective and efficient operations, appropriate identification, measurement and mitigation of risks, reasonable business management, reliability of reported financial and non-financial information, internally and externally, and compliance with laws, regulations, regulatory requirements and internal regulations and decisions.
The internal control system consists of a series of rules, procedures and organizational structures aimed to:
- ensure the implementation of the corporate strategy,
- achieve effective and efficient corporate processes;
- preserve the value of corporate assets;
- ensure the reliability and integrity of accounting and management data,
- ensure that business is in compliance with all applicable rules and regulations.

Special goals in relation to Addiko Bank's accounting procedures are that the Internal Control System ensures that all business transactions are recorded immediately, correctly and in a unique way. Implementation of the internal control system in relation to the financial reporting process is also determined by internal rules and regulations.
The Bank's internal control system is built on a process-oriented approach. Addiko Bank manages control activities through process documentation, which includes monitoring and documenting each process, including information on the flow of the process according to internal guidelines for process management.
The overall effectiveness of internal controls is regularly monitored. Monitoring key risks is part of Addiko Bank's daily activities, as well as periodic assessments by business lines, internal control functions, internal audit departments, risk management departments, Compliance and AML departments.
Regular monitoring of the internal control system and timely reporting on the lack of internal control and escalation of problems to interested parties (e.g., boards) has been established. Deficiencies in internal control, whether recognized by the business line, internal audit, or other control functions, are promptly reported to the appropriate level of management for further decision-making and immediately addressed.
Internal audit performs independent and regular checks of business compliance with legal provisions and internal rules. The internal control system itself is not static, but constantly adapts to the changing environment. The implementation of the internal control system is basically based on the integrity and ethical behavior of employees. The Management Board and management of the Bank actively and consciously accept their role of leading by example by promoting high standards of ethics and integrity and by establishing a culture of risk and control within the organization that emphasizes and demonstrates to employees at all levels the importance of internal controls.

8. Corporate governance standards

Addiko Bank Banja Luka applies the Corporate Governance Standards (https://cms.blberza.com/api/files/cms2/docver/20830/files/Stabdardi%20eng..pdf). The standards of corporate management determine in more detail the mechanisms of functioning and protection of interests in the mutual relations of various interest holders (interested parties) in the joint stock company. The standards are established on the basis of the following principles of corporate governance:
1. Ensuring the basis for effective application of principles of management of joint stock companies;
2. Shareholder rights and key ownership functions;
3. Equal treatment of shareholders;
4. The role of interested parties - interest holders in the management of joint stock companies;
5. Publication and publicity of information;
6. Role and responsibilities of the board.

9. Other disclosures

For requirements on events after the reporting date, see note (76). Additionally, information on the use of financial instruments is presented in note (70) Fair value disclosure.

10. Research & Development

Addiko Bank Banja Luka does not conduct research and development activities.

11. Mid-Term Targets, Outlook & Risk factors

11.1. Dividend policy

Addiko ability and intention to pay dividends depends on the financial position, operating results, regulatory capital requirements, including capital reserve requirements, MREL objectives, investment alternatives and other factors that the Management Board and the Supervisory Board may consider relevant, and all proposals of the Management Board and the Supervisory Board regarding the payment of dividendswill be subject to approval at the General Meeting of Shareholders. The payment of dividends is also subject to the maintenance of relevant thresholds in terms of capital ratios which, among other things, require that the payment of such dividends be consistent with the Bank's long-term and sustainable operations and in accordance with applicable regulatory requirements.

11.2. Outlook 2023

The global economy recorded positive developments in the first half of 2022, but these were largely canceled out by the consequences of the conflict in Ukraine and developments in energy markets due to the introduction of Western sanctions against Russian petrochemicals.
From the point of view of the countries where Addiko operates, including Bosnia and Herzegovina, the war in Ukraine is reflected mainly through inflation, rising credit prices and a drop in external demand. A key consequence of the conflict remains inflation, which continues to erode real incomes. With central banks increasing interest rates, EU economies will likely enter recession with a negative impact on the countries where Addiko operates, which, along with rapidly rising energy prices, could result in the closure of many companies.
The deterioration of the business mood will dramatically reduce investments, both by domestic and foreign companies, which will further contribute to the slowdown of the economy. Finally, the region is characterized by pronounced political instability, related to conflicts from the not-so-distant past, which can be particularly pronounced in the current conditions of geopolitical tensions.
The expectations are that the Addiko Group's key markets will record GDP growth of 1,5%-2,5% in 2023. Inflation will remain a primary theme throughout the year and is expected to remain relatively high, between 5,5% and 8,0%.
Unemployment rates are expected to remain without significant fluctuations compared to current levels, in all markets.

In Bosnia and Herzegovina, the economy is expected to grow by 1,9% in 2023, which is still lower than in most other countries of the Western Balkans. Due to political uncertainty, it is likely that public infrastructure projects and private sector investment will be put on hold, while consumption and exports will grow, but at a slower pace. With a further increase in energy prices, it is predicted that inflation will reach 6% in 2023. The above constantly reduces the standard of living because salaries and pensions are not aligned with rising market prices.

In short, for 2023 the Bank expects:

- Gross performing loans of about 674 million BAM with growth of more than 10% in focus segments,
- Net banking income increased by around 15%, positively stimulated by the growth of reference interest rates, despite the increase in financing costs and the decrease in business with segments that are not in focus,
- Operating costs slightly below 31 million BAM, with an increase in costs caused primarily by the impact of inflation,
- Basic capital rate of 20,3%.

11.3. Risk factors

Considering Addiko Bank's focus on consumers and small and medium-sized enterprises, business is particularly linked to the economic cycle, and the bank's financial performance could be better or worse than expected, depending on how the economy will behave.

Addiko operates in countries, including Bosnia and Herzegovina, which are characterized by pronounced political instability, which also affects the political stability of the region. External factors play a decisive role for local economies: the economic effects of tensions surrounding the war in Ukraine and the pace of monetary policy tightening - all of this will have a major impact on external demand and local price dynamics. The main risks are seen in the potential flare-up of inflationary pressures, in parallel with the negative development of the embargo on oil and gas, which, along with possible new shocks resulting from possible new mutations and the spread of the corona virus, reduces real incomes and economic growth. Compared to the previous period, the risk and uncertainties have increased significantly, and the macroeconomic environment at the moment can only be described as very unstable and very unpredictable.

The development of the situation between Russia and Ukraine does not directly affect Addiko Bank, but indirect consequences such as the instability of the financial market or the impact of sanctions on some of Addiko Bank's clients cannot be ruled out.

Banja Luka, March 17, 2023

Addiko Bank a.d. Banja Luka

MANAGEMENT BOARD

Srđan Kondić, Chairman

Slađan Stanić
Member od the Management Board

Mile Todorović
Member od the Management Board

Financial Statements

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

I. Statement of comprehensive income

Statement of profit or loss

(000) BAM

	Note	01.01. - 31.12.2022	01.01. - 31.12.2021
Interest income calculated using the effective interest method		36.526	32.898
Other interest income		156	0
Interest expenses		-4.968	-5.819
Net interest income	(28)	**31.714**	**27.079**
Fee and commission income		21.342	18.567
Fee and commission expenses		-4.212	-3.827
Net fee and commission income	(29)	**17.130**	**14.740**
Net result on financial instruments	(30)	-23	508
Other operating income	(31)	1.485	2.482
Other operating expenses	(31)	-3.150	-2.957
Operating income		**47.156**	**41.852**
Personnel expenses	(32)	-13.619	-13.196
Other administrative expenses	(33)	-12.980	-12.797
Depreciation and amortisation	(34)	-3.633	-3.589
Operating expenses		**-30.232**	**-29.582**
Operating result before impairments and provisions		**16.924**	**12.270**
Other result	(35)	120	-529
Credit loss expenses on financial assets	(36)	-2.636	-596
Result before tax		**14.408**	**11.145**
Tax on income	(37)	-1.773	-1.642
Result after tax		**12.635**	**9.503**
thereof attributable to equity holders of parent		12.635	9.503

	31.12.2022	31.12.2021
Result after tax attributable to ordinary shareholders (in TBAM)	12.635	9.503
Number of ordinary shares (in units of shares)	153.094.205	153.094.205
Earnings per share (in BAM)	0,08	0,06

The following notes (1) - (77) are an integral part of these financial statements.

Statement of other comprehensive income

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Result after tax	**12.635**	**9.503**
Other comprehensive income	**-7.457**	**-350**
Items that will not be reclassified to profit or loss	**-192**	**-51**
Tangible assets	-294	0
Actuarial gains or losses on defined benefit plans	10	-63
Fair value reserve - equity instruments	12	4
Net change in fair value	12	4
Income Tax	80	8
Items that may be reclassified to profit or loss	**-7.265**	**-299**
Fair value reserve - debt instruments	-7.265	-299
Net change in fair value	-8.059	82
Net amount transferred to profit or loss	2	-450
Income Tax	792	69
Total comprehensive income for the year	**5.178**	**9.153**
thereof attributable to equity holders of parent	5.178	9.153

The following notes (1) - (77) are an integral part of these financial statements.

II. Statement of financial position

(000) BAM

	Note	31.12.2022	31.12.2021
Assets			
Cash reserves	(38)	235.261	250.090
Financial assets held for trading	(39)	0	31
Loans and receivables	(40)	617.145	567.678
Loans and advances to credit institutions		12.374	8.496
Loans and advances to customers		604.771	559.182
Investment securities	(41)	82.317	88.353
Tangible assets	(42,44)	22.632	26.430
Property, plant and equipment		20.656	22.587
Investment property		1.976	3.843
Intangible assets	(43,44)	4.487	5.740
Tax assets	(37)	1.889	1.971
Current tax assets		0	439
Deferred tax assets		1.889	1.532
Other assets	(45)	3.811	4.228
Non-current assets held for sale	(46)	0	399
Total assets		**967.542**	**944.920**
Liabilities			
Financial liabilities held for trading	(47)	0	13
Financial liabilities measured at amortised cost	(48)	800.082	780.629
Deposits of credit institutions		15.969	313
Deposits of customers		752.896	729.119
Borrowings		22.519	35.370
Other financial liabilities		8.698	15.827
Provisions	(49)	3.501	3.917
Tax liabilities	(37)	456	0
Current tax liabilities		456	0
Deferred tax liabilities		0	0
Other liabilities	(50)	2.954	2.341
Total liabilities		**806.993**	**786.900**
Equity	(51)		
Share capital		153.094	153.094
Legal reserves		377	0
Revaluation reserves		69	802
Fair value reserve		-6.156	1.098
Retained earnings		13.165	7.537
Other reserves		0	-4.511
Total equity		**160.549**	**158.020**
Total liabilities and equity		**967.542**	**944.920**

The following notes (1) - (77) are an integral part of these financial statements.

III. Statement of changes in equity

(000) BAM

31.12.2022	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 31.12.2021	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**
Adjustements	0	0	0	0	0	0	0
Equity as at 01.01.2022	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**
Result after tax	0	0		0	12.635		12.635
Other comprehensive income	**0**	**0**	**-733**	**-7.254**	**530**	**0**	**-7.457**
Actuarial gains or (-) losses on defined benefit pension plans	0	0	10	0	0	0	10
Fair value changes (equity instruments)	0	0	0	12	0	0	12
Fair value changes (debt instruments)	0	0	0	-8.059	0	0	-8.059
Transfer to profit or loss	0	0		2	0	0	2
Other	0	0	-743	791	530	0	578
Total comprehensive income	**0**	**0**	**-733**	**-7.254**	**13.165**	**0**	**5.178**
Dividend payment	0	0	0	0	-2.649	0	-2.649
Other changes	0	377	0	0	-4.888	4.511	0
Equity as at 31.12.2022	**153.094**	**377**	**69**	**-6.156**	**13.165**	**0**	**160.549**

(000) BAM

31.12.2021	Share capital	Legal reserves	Revaluation reserves	Fair value reserve	Retained earnings	Other reserves	Total
Equity as at 31.12.2020	**153.094**	**300**	**874**	**1.393**	**-2.283**	**-4.511**	**148.867**
Adjustements	0	0	0	0	0	0	0
Equity as at 01.01.2021	**153.094**	**300**	**874**	**1.393**	**-2.283**	**-4.511**	**148.867**
Result after tax	0	0		0	9.503		9.503
Other comprehensive income	0	0	-72	-295	17	0	-350
Actuarial gains or (-) losses on defined benefit pension plans	0	0	-63	0	0	0	-63
Fair value changes (equity instruments)	0	0	0	4	0	0	4
Fair value changes (debt instruments)	0	0	0	82	0	0	82
Transfer to profit or loss	0	0	0	-450	0	0	-450
Other	0	0	-9	69	17	0	77
Total comprehensive income	**0**	**0**	**-72**	**-295**	**9.520**	**0**	**9.153**
Other changes	0	-300	0	0	300	0	0
Equity as at 31.12.2021	**153.094**	**0**	**802**	**1.098**	**7.537**	**-4.511**	**158.020**

The following notes (1) - (77) are an integral part of these financial statements.

IV. Statement of cash flows

(000) BAM

	2022	2021
Cash flows from operating activities		
Interest, fees and commissions received	56.419	47.584
Interest, fees and commissions paid	-8.791	-8.207
Collection of loans previously written off	3.461	1.301
Cash paid to employees and suppliers	-30.845	-30.305
Loans to credit institutions	-4.833	-6.903
Receipts and payments on extraordinary items	-587	4.039
Disbursement of loans extended to customers	-51.602	-2.806
Customer deposits	40.729	125.188
Income taxes paid	-403	-3
Net cash from operating activities	**3.548**	**129.888**
Cash flows from investing activities		
Interest received	2.049	1.016
Dividend received	4	42
Investments in securities at fair value through other comprehensive income	-2.562	-29.646
Purchases of intangible assets	-950	-1.247
Sale and purchases of tangible assets	-865	4.339
Net cash from investing activities	**-2.324**	**-25.496**
Cash flows from financing activities		
Interest paid on borrowings	-551	-808
Increase in borrowings	0	0
Dividend payment	-2.646	0
Repayment of borrowings	-12.817	-11.757
Net cash generated by financing activities	**-16.014**	**-12.565**
Net increase in cash and cash equivalents	**-14.790**	**91.827**
Cash and cash equivalents at the beginning of year	**250.523**	**158.474**
Foreign exchange gains	13	222
Cash and cash equivalents at the end of year	**235.746**	**250.523**

The following notes (1) - (77) are an integral part of these financial statements.

V. Notes to the Financial Statements

Company

Addiko Bank a.d. Banja Luka (hereinafter the ''Bank'') is a legal successor of Kristal Banka a.d., Banja Luka which was initially registered as a separate legal entity as at September 30, 1992, and subsequently transformed into a shareholders' company as at May 16, 1997. Prior to its establishment as an independent bank, the Bank operated as a main branch of Jugobanka Jubanka d.d., Sarajevo, a related party of Jugobanka d.d., Beograd.
Under Decision of the district Commercial court of Banja Luka (no. 057-0-Reg-16-002147) dated October 28, 2016, the Bank changed its name to the current legal name.
The Bank is licensed in the Republic of Srpska to perform banking operations related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Srpska banking legislation, it is obligated to operate based on the principles of liquidity, solvency and profitability.
The Bank's registered Head Office is located at no. 13, Aleja Svetog Save St., Banja Luka, Republic of Srpska. As of December 31, 2022, besides the Head Office located in Banja Luka, the Bank had 28 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2021: the Head Office located in Banja Luka and 28 branch offices).
The Bank's owner is Addiko Bank AG, a member of Addiko Group, holding a 99,88% equity interest therein.

Accounting policies

(1) Accounting principles and statement of compliance

The financial statements of the Bank have been prepared in accordance with the accounting regulations applicable to banks in Republika Srpska (RS), which are based on the Law on Accounting and Auditing in RS, Law on Banks of RS, and bylaws of the Banking Agency of RS, passed based on aforementioned laws.

- The Law on Accounting and Auditing in RS stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).
- The Law on Banks of RS stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in RS, this law and bylaws passed based on both laws.
- The Banking Agency of Republic of Srpska (BARS) adopted the Decision on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2020, and which resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision, which are not required by IFRS 9: Financial Instruments (IFRS 9). The Decision has an effect on 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 BAM 15.603 thousand compared to the amount calculated by using the Bank's internal methodology in line with the requirements of IFRS 9. This difference as at 31 December 2022 (2021: BAM 6.093 thousand) arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 2.205 thousand (2021: BAM 1.759 thousand),
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 10.593 thousand (2021: BAM 2.946 thousand),
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of BAM 2.805 thousand (2021: BAM 1.387 thousand), of which the amount of BAM 2.668 thousand (2021: BAM 1.260 thousand) refers to exposures not secured by acceptable collateral, the amount of BAM 127 thousand (2021: BAM 127 thousand) refers to exposures secured by acceptable collateral, and the amount of BAM 169 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding) (2021: BAM 148 thousand).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets by amount of BAM 638 thousand (2021: BAM 678 thousand) compared to the value of those assets in accordance with IAS 2 (BAM 799 thousand); hence value of the repossessed assets as at 31 December 2022 was BAM 41 thousand (see note 45). In accordance with the Decision, the Bank recorded the acquired tangible assets at net carrying amount of receivables acquired in the process of collection of receivables, so that it does not recognize revenue from acquisition of assets before its actual sale / realisation.

The aforementioned difference arose based on the assets:
- acquired in the last three years in amount BAM 0 (2021: BAM 0 thousand),
- acquired in the period longer then three years in amount of BAM 638 thousand (2021: BAM 678 thousand).

Previously described differences between the statutory accounting regulations applicable to banks in RS and requirements for recognition and measurement under International Financial Reporting Standards have resulted in the following effects:

(000) BAM

	31.December 2022.	31.December 2021.
Total Assets (carrying amount)	**967.542**	944.920
Diffrence in provisions for loans and advances	15.102	5.189
Diffrence in repossessed assets	638	678
Total Assets	**983.282**	**950.787**
Total Liabilities (carrying amount)	806.993	786.900
Diffrence in provisions for off-balance	-286	-416
Total Liabilities	**806.707**	**786.484**
Equity (carrying amount)	160.549	158.020
Diffrence in provisions for debt secuirites	-216	-488
Diffrence in retained earnings	16.242	6.771
Total Equity	**176.575**	**164.303**
Liabilities and Equity	**983.282**	**950.787**

	Year ended	
	31. December 2022.	31. December 2021.
Result before tax (carrying amount)	**14.408**	**11.145**
Repossessed assets	-40	-813
Diffrence in provisions	9.510	-627
Result before tax	**23.878**	**9.705**

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. Generally, the statement of financial position is structured in order from a higher liquidity ratio to a lower one. Amounts expected or achievable within twelve or more months from the reporting date are set out in Note (65) Analysis of Remaining Maturities.

The financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate in the foreseeable future. For estimates and assumptions in accordance with IAS 1, please see Note (5) Use of estimates and assumptions / material uncertainties regarding estimates.

1.1. Basis of presentation

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards, except where the Regulator requires alignment (see Note 1). They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

The figures in the financial statements are generally stated in thousands of convertible marks (ths BAM); the convertible mark (BAM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1,95583). The tables shown may contain rounding differences.

On 28 February 2023, the Management Board of the Bank approved the financial statements as at 31 December 2022 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and it approves the financial statements as at 31 December 2022.

(2) Changes in the accounting policies

In 2022, the Bank adopted the cost model for intangible assets in accordance with IAS 38. This resulted in a change in the accounting policy for measuring of intangible assets. The Bank performed an analysis of intangible assets and concluded that the book value of intangible assets according to the cost model is equal to the book value according to the revaluation model for the years 2022 and 2021, i.e. there is no impact on the Bank's capital or result in the current and previous period.

(3) Application of new standards and amendments

New standards, interpretations and their amendments are listed below.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2022:

Standard	Name	Description	Effective for financial year
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual improvements to IFRS Standards 2018-2020 Cycle	IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial instruments, IFRS 16 Leases, IAS 41 Agriculture	2022
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework	2022
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use	2022
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts	2022

3.1. Annual improvements to IFRS Standards 2018-2020 Cycle

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

- The amendments to **IFRS 1** permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent´s date of transition to IFRSs.
- The amendments to **IFRS 9** clarify which fees an entity includes when it applies to "10 percent" test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other´s behalf.
- The amendment to **IFRS 16** only regards changes in illustrative example 13 (no effective date is stated).
- The amendments to **IAS 41** remove the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

3.2. IFRS 3 Business combinations

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

3.3. IAS 16 Property, plant and equipment

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

3.4. IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The amendments to **IAS 37** clarify which costs should be considered as costs of fulfilling the contract when assessing whether a contract is onerous. Costs of fulfilling a contract comprise the costs that relate directly to the contract. They can be incremental costs of fulfilling a contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments do not result in any significant changes within the Bank.

New standards, interpretations and amendments to existing standards issued by the IASB but not yet effective were not early adopted by the Bank and application of these standards, interpretations and amendments is not expected to have a significant impact on Bank´s financial statements.

3.5. New standards not yet effective

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

Standard	Name	Description
IFRS 17	IFRS 17 Insurance contracts	New Standard replacing IFRS 4
IFRS 17	Amendments to IFRS 17 Insurance contracts	Initial application of IFRS 17 and IFRS 9 – Comparative information
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Disclosure of Accounting policies
IAS 8	Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors	Definition of Accounting Estimates
IAS 12	IAS 12 Income Taxes	Deferred Tax related to Assets and liabilities arising from a Single Transaction
IFRS 16	Amendments to IFRS 16 Leases	Lease liability in sale and leaseback
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current

New **IFRS 17** Insurance contracts will replace IFRS 4. It applies to annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. This new standard as well as its amendments are not expected to result in any significant changes within the Bank.

The amendments to **IAS 1** clarify the requirements for disclosure of material accounting policy instead of significant accounting policies. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to **IAS 8** replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

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

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

The amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

(4) Interest rate benchmark reform – Phase 2

The Bank has exposure to IBORs on its financial instruments that will be reformed (EURIBOR and LIBOR for CHF). Although some of the IBORs were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. As at 31 December 2022, it is known that the remaining USD LIBOR tenors will be ceased as at 30 June 2023 and it is still unclear when the announcement that will set a date for the termination of the publication of EURIBOR will take place. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates. It is expected that the local reference rates used in the Bank will not be significantly affected by IBOR reform

The Bank is in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rates, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform. Regarding the LIBOR interest rate, the Bank has exclusively 12-month LIBOR in its portfolio, which was last published on 31 December 2021. year and was valid for the entire year 2022. The Bank adjusted the interest rate on this type of loan starting from January 1, 2023. year, with the fact that according to the agreed duration of the loan on the specified date (31.12.2022), there will be 8 active loans whose current exposure is 168 thousand BAM, by fixing the interest rate so that it will be equal to the interest rate that was valid on 31 December 2022. The Bank has no obligations to creditors related to LIBOR.
Financial risk is predominantly limited to interest rate risk.

The Bank's IBOR exposures to non-derivative financial assets as at 31 December 2022 were Loans and advances indexed to EURIBOR and LIBOR. The Bank’s IBOR exposures to non-derivative financial liabilities as at 31 December 2022 were deposits indexed to EURIBOR. The Bank holds swaps (FX swaps) and forward exchange transactions that are indexed to EURIBOR and LIBOR.

On 22 October 2021, the European Commission adopted the implementing regulations on the designation of a statutory replacement rate for two interest rate benchmarks, the Swiss Franc London Interbank Offered Rate (CHF LIBOR) and the Euro Overnight Index Change (EONIA).

EURIBOR was so far reformed (the calculation methodology was changed) rather than being replaced. The Bank expects that EURIBOR will continue to exist as a benchmark rate, but to be prepared on different scenario, fallback clauses were prepared and will be incorporated in any existing as well as new loan agreements.

(5) Use of estimates and assumptions/material uncertainties in relation to estimates

The financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experiences and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Bank relate to:

Credit risk provisions
The Bank regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. The model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (14) Financial instruments as well as to the Risk Report under note (58) Development of risk provisions.

Fair value of financial instruments
Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used, or the fair value is determined on the basis of accepted measurement models. The input parameters used are based – whenever available – on observable market data. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely linked markets are taken into account in order to arrive at the best possible market benchmark. To determine the fair value, the Bank uses the comparison to the current fair value of other largely identical financial instruments, the analysis of discounted cash flows and option pricing models.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

For further details regarding the measurement of financial instruments, see note (14) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (70) 70.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (40) Loans and receivables as well as note (41) Investment securities.

Deferred tax assets

The Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows.

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details regarding provisions for legal cases and uncertainty of estimates are described in note (49) Provisions for pending legal disputes.

Lease contracts
The application of IFRS 16 requires the Bank make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by the Bank comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option If there is a significant event or significant changes in circumstances, the lease terms are reassessed, especially with regards to extension or termination options. Bank does not have lease contracts with indefinite term.

The present value of the lease payments is determined using the incremental borrowing rate (discount rate) representing the risk free rate, adjusted by default swap rates and adjusted by add-on based on mid-to-long credit facilities. The Bank secured interest rate curve reflects a loan-to-value ratio of 60%. In general, the determination of the discount rates is based on an arm's length pricing principal.

For further details regarding the treatment of leasing contracts please refer to the note (7) Leases.

(6) Foreign currency translation

Foreign currency translation within the Bank follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss. Open forward transactions are translated at forward rates at the reporting date.

Transactions in currencies other than Bosnia and Herzegovina BAM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date.
Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2022	1 EUR = 1,95583 BAM	1 USD = 1.833705 BAM
31 December 2021	1 EUR = 1,95583 BAM	1 USD = 1,725631 BAM

(7) Leases

7.1. Leases in which the Bank is a lessee

At inception of the Bank assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset through-out the period of use, and whether the Bank has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognised off the statement of financial position and lease ex-penses are accounted on straight-line basis over the remaining lease term.

IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient.

Lease payments generally include fixed payments less lease incentives and variable payments that depend on an index or an interest rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (5) "Use of estimates and assumptions/material uncertainties in relation to es-timates"), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IFRS 16 expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities.
In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.
The Bank also assesses the right of use asset for impairment when such indicators exist. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets.

IFRS 16 requires that a lessee recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor.

7.2. Leases in which the Bank is a lessor

Lessor accounting depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor (as finance or operating lease), the economic effect of the lease contract prevails over the legal ownership of the leased asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

7.3. Presentation in the financial statements

The Bank as a lessee presents the right of use assets in the line item "Property, plant and equipment“ in tangible assets in the statement of financial position. Lease liabilities are presented in the line item "Other financial liabilities" in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities is presented in the line item "Interest expenses" in the statement of profit or loss.

The Bank as a lessor in an operating lease, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well direct operating expenses, are reported under the line item “Other operating income” or "Other operating expense", scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

With regards to the presentation in the Cashflow Statement, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. The Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of operating activities.

(8) Earnings per share

The Bank presents basic earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the bank by weighted average number of shares outstanding during the period.

(9) Net interest income

For all financial instruments measured at amortised cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (with the exception of purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).

Interest income from assets held for trading, as well as interest components of derivatives are presented in “Net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “Net result on financial instruments”.

Negative interest from financial assets and financial liabilities is presented in “Net interest income”.

(10) Net fee and commission income

Fee and commission income and expense (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “Net fee and commission income”. Bank derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

Fees earned for the provision of services over a period of time are accrued over that period.
Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognised upon completion of the underlying transaction. Taking into consideration the Bank product classes the following services are accrued over the period:

- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).
- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bancassurance*, representing commission income and expense from insurance brokerage

The fees generated by the following products are recognised upon completion of the underlying transaction:

- *Transaction services*, representing fee income charged to clients for transactions performed (except credit cards) like payment order, standing order
- *Cards*, representing fee income related to prepaid and credit cards (like monthly membership fees) and acquiring business like membership fees, interchange fees, scheme fees, service fees, etc.
- *FX & DCC*, representing fee income related to foreign exchange transactions like fees from FX spot transaction or Dynamic currency conversions.

Trade finance, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities

Other fee and commission expenses relate mainly to transaction and service fees which are expensed as the services are received.

In the Note 29 Net fee and commission income in the Notes to the statement of profit or loss, the product view is used as a base for presentation.

(11) Net result on financial instruments

Net result on financial instruments held for trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realised gains and losses from derecognition, dividends and foreign exchange gains and losses on monetary assets and liabilities. The Bank has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income and interest expense, which are presented in “Net interest income”.

Net result on financial instruments at fair value through other comprehensive income gains and losses from derecognition and dividends. Financial assets and liabilities at amortised cost includes all gains and losses from dereognition.

(12) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities as restructuring expenses or income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme).

(13) Other result

The other result includes impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups and for non financial assets. In addition, it shows the result from legal provisions and legal income and expense. Furthermore, the insignificant modification gains and losses are presented in this position.

(14) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with **IFRS 9** Financial Instruments.

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

14.1. Classification and measurement

Business models

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition, if it belongs to the following category:

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above, not identified in the Bank.

In the infrequent case that the entity changes its business model for managing certain financial assets, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as 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 (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows in a way that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets and features that modify consideration for the time value of money.

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features.

The SPPI compliance is assessed as follows:
- Unilateral changes of margins and interest rates: passing on costs related to the basic lending agreement, introducing the clauses designed to maintain a stable profit margin, and the changes of the interest rates that reflect the worsening of the credit rating, but are not SPPI harmful.
- Prepayment clauses: are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features: those could be typically side business clauses where the the penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event. Such clauses are not SPPI harmful.
- Project financing: if there is no reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates: if the loan contains contains interest mismatch features (fixation date is before the start of the period, reference rate´s tenor is different to the rate reset frequency, etc.) it has to be assessed whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), and a quantitative benchmark test has to be performed.

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at FVTOCI.

During 2022 and 2021, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

Financial assets
Based on the entity's business model and the contractual cash flow characteristics the Bank classifies financial assets in the following categories:

- A financial asset is measured at amortised cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.
Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a "held to collect" business model.

On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expenses on financial assets". The major volume of financial assets of the Bank is measured at amortised cost. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

Financial assets at fair value through other comprehensive income
A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the new expected credit loss (ECL) model.

Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expense on financial assets ". The difference between fair value and amortised cost is presented in "Fair value reserve" in the consolidated statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Dividend income and gains and losses from derecognition are presented in the line "Net result on financial instruments".

For equity instruments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line "Fair value reserve - equity instruments" in the statement of other comprehensive income without recycling in the statement of profit or loss.

The Bank has designated at FVTOCI investments a small portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

Financial assets at fair value through profit or loss
A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. In addition, the Bank may use option to designate some financial assets as measured at FVTPL. Interest income and dividend income are presented in the line "Other interest income". Dividend income and gains and losses from revaluation and derecognition are presented in the line "Net result on financial instruments". In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model. Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

Equity instruments that are held for trading as well as equity instruments that are not held for trading (and they were not designated at FVTOCI at initial recognition) are measured at FVTPL.

Financial liabilities
Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

When modification or exchange of financial liability measured at amortised cost that does not result in the derecognition of the original financial liability, an entity recognises an adjustment to the amortised cost of the financial liability arising from a modification or an exchange in profit or loss at the date of the modification or exchange.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2022 and 2021.

There were no changes to the Bank´s business model during 2022 and 2021.

The Bank has not designated any hedge accounting relationships in the current or in the previous year.

14.2. Impairment

While applying the forward-looking ECL model, the Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets.

The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

The lifetime ECL is the expected present value of losses that arise if borrowers' default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

The Bank determines an ECL amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. The Bank calculates in total three outcomes: Base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (see chapter Forward-looking information).

The observed period and the applied parameters within the ECL calculation depend on the maturity of the transaction, the IFRS 9 stage of the transaction and the macro scenario applied. For stage 1 the up to one year expected credit loss has to be considered while for stage 2 and 3 the expected lifetime loss has to be recognised.

The PD (probability of default) parameters reflects the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank internal model development units. In general, models are developed at the market segment level and wherever possible, an internal history of customer behavior is used in development. In exceptional cases, external data obtained from rating agencies were used. Methodology wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

EAD (exposure at default) is an estimate of the exposure including repayments of principal and interest and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time of default while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames).

LGD (loss given default) is an estimate of the economic loss under condition of a default. When calculating expected credit losses for 31 December 2022 the Bank applied the rates defined by the Instruction for the Classification and Valuation of Financial Assets of Banking Agency of Republika Srpska.

As stated in Note (1) Accounting principles and statement of compliance, the Decision on Credit Risk Management and Determination of Expected Credit Losses prescribes minimum rates for the calculation of provisions for credit losses, ie. if the Bank, in accordance with its internal methodology, determines higher amounts of provisions for credit losses in relation to the amounts calculated by applying the Decision, it will apply higher amounts of provisions for credit losses.

Minimum rates of expected credit losses as stipulated by Decision are as follows.

Stage 1
The Bank determines ECL for exposures in Stage 1 at least in the following amounts:
a) for low-risk exposures referred to in Article 18, paragraph (2) of the Decision - 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 level of 3 and 4 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 1% of exposures,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 1, 2 or 3 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 0.1% of exposures
d) for other exposures - 0.5% of exposures.

Stage 2
The Bank determines ECL for exposures in Stage 2 at least in amount equal 5% of exposure.

Stage 3

The Bank determines ECL for exposures in Stage 3 at least in amounts defined in Table 1 or Table 2 below.

Table 1. Minimum expected credit loss rates for exposures secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	25%
271 - 365 days	40%
366 - 730 days	60%
731 - 1,460 days	80%
Above 1,460 days	100%

Table 2. Minimum expected credit loss rates for exposures not secured by eligible collateral

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	45%
271 - 365 days	75%
366 - 456 days	85%
Above 456 days	100%

Significant increase in credit risk

The Bank measures ECL in three stages as the deterioration in credit quality takes place. Namely, for stage 1 up to 12-month ECL is reported and for stage 2 and 3 the full lifetime expected credit loss is recognised.

Stage 1 begins as soon as a financial instrument is originated and up to 12-month ECL are recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated on the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly compared to initial recognition, assets move into stage 2, referring to Bank's defined criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortized cost carrying amount. (i.e. gross carrying amount adjusted for the loss allowance.) Regulatory default definition according to local regulation is followed:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

The Bank uses the definition of default according to Banking Agency Decision on credit risk management and determination of expected credit losses, as this is the industry standard and it allows consistency between entities and risk management processes. The determination that a financial asset is credit-impaired is achieved through the tracking of default criteria defined in the Default detection and recovery policy.

For the ECL calculation the Bank classifies transactions in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken across countries and portfolios types. The staging indicators are classified as follows:

Qualitative staging criteria:
- Contractual payments are more than 30 days past due in materially significant amount.
- Forborne exposures: are those exposures where the Bank has extended forbearance measures because of the debtor facing financial difficulties. Forbearance events may result in an exposure being classified as performing or non-performing which implies a stage transfer into stage 2 or 3.

Further qualitative criteria in connection with the watchlist/early warning systems are reflected in the PD via the automatic downgrade of the client (as incorporated within the rating models and processes) or as a specific stage trigger depending on the portfolio.

Quantitative criteria are applied based on the probability of default, namely significant adverse changes in the 12-months probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed by different thresholds of PD changes for different portfolios. These thresholds are regularly evaluated from a qualitative and/or quantitative point of view to ensure reasonable stage criteria (see chapter "Validation. Due to limited timeseries there are cases where the rating at origination is not available. For such cases, a simplified proxy approach based on historically simulated ratings is used (PD at certain point in time is used as a proxy for the initial recognition) while additional mechanisms are applied to account for potential adverse effects resulting from this assumption.

The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition.
Following quantitative PD thresholds which is in use is relative 300% relative increase.

Both, the qualitative and quantitative factors used for the staging determination are undergoing a constant validation and monitoring process to ensure their appropriateness and applicability over time (see chapter “Validation”).

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country and portfolio level whenever possible and plausible.

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from both internal and external data source. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect Bank’s view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current estimates, assumptions and projections of the Bank as well as currently available public information. For these purposes, the Bank uses the forecasts of the Vienna Institute for International Economic Studies (wiiw). They are not guaranteeing future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements.

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalized upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

The Bank distinguishes between an initial and an ongoing validation:
- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values
- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed).

In addition to the yearly process a close monthly monitoring is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled.

The validation is performed by an independent internal unit which deliver reports to local and Group senior management.

Write-offs

When the Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the Bank’s judgment that it is no longer reasonable to expect any recovery of that amount.

An accounting write-off is a transfer of a balance sheet exposure to an off-balance sheet one, whereby the Bank reserves the right to take further measures to collect receivables from debtors.
If, during the debtor's recovery process, the Bank recognizes that financial assets measured at amortized cost will not be repaid, in part or in full, and the conditions for derecognition under IFRS are derecognised, it will re-serve 100% of special risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.
The Bank must perform accounting write-off the balance sheet exposure two years after it has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

After meeting the aforementioned conditions, it is necessary to write off all types of balance sheet receivables (principal, interest, fees) that are written off internally and record them in off-balance sheet records.

The Bank has implemented the functionality related to the automatic implementation of accounting write-offs in accordance with the criteria defined by the Decision on credit risk management and determination of expected credit losses number.

14.3. Derecognition and contract modification

Contract modifications resulting from negotiations with customers can lead to two types of modifications to initially contracted cash flows: significant and insignificant modifications.

A financial asset is derecognised when:
- The contractual rights to receive cash flows from the asset have expired; or
- The Bank transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- And either: (i) it has transferred substantially all risks and rewards connected with ownership of the asset, or (ii) has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows.

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in stage 1. If the borrower is in default or the modification leads to the derecognition of the original financial asset and to the origination of a new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favourable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:
- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
  - change of debtor
  - currency change
  - change of the purpose of financing
  - SPPI critical features are removed or introduced in the loan contract.

Insignificant modifications not leading to derecognition of financial assets
If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in the derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss is recognised in profit or loss in the line "Other result".

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(15) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.
The Bank did not have repurchase agreement in year 2022. and 2021.

(16) Fiduciary transactions

Fiduciary transactions concluded by the Bank in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(17) Financial guarantees

Financial guarantees are contracts that oblige the Bank to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value including transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount of ECL provision and the amortised balance of initially recognised premium.

(18) Cash reserves

Cash and cash equivalents comprise cash, cash balances at Central bank that are daily due, placements to banks that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

The Minimum Reserve requirement is one of the indirect instruments of monetary policy of Central Bank BiH and the basis for its calculation consists of deposits and borrowed funds. Minimum Reserve requirement is 10% from average deposits and it is calculated every ten-days (3 times a month), also represents minimum amount the Bank is obliged to have with Central Bank, at least in average during mentioned period.

(19) Tangible assets: Property, plant and equipment and Investment properties

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (7) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at at their fair value, as periodically determined by certified appraisers, subsequently decreased by the accumulated depreciation and impairment, if any. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. Increases in the carrying amount arising on revaluation of buildings and equipment are credited to equity as revaluation reserve. The increase is recognized in the profit or loss statement only to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense in the profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense in the profit or loss statement. The decrease is debited directly to revaluation reserve within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
As of 31 December 2019 book value of assets was adjusted to fair value, based on the appraisal performed by certified appraiser.

Revaluation reserves included in equity in respect of property and equipment are transferred directly to retained earnings successively (annually) or when the asset is derecognized. This may involve transferring the entire revaluation reserves when the asset is retired or disposed of. The following depreciation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for immovable assets (buildings)	up to 1.67%	up to 60 yrs
for movable assets (plant and equipment)	up to 11.1%	up to 9 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are initially carried at cost, subsequently investment property are measured at fair value according to the fair value method admissible under IAS 40.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Bank is reported under Depreciation and amortisation in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under "Other operating income" or "Other operating expenses".

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item "Other operating income" only to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense or under the item "other operating expenses" only to the extent if eceeds existing credit balance in the revaluation reserve in equity. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed.

(20) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation.

Scheduled amortisation is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortisation. The following amortisation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	up to 14.3%	up to 7 yrs

In case there are indications of impairments, an impairment test is conducted in accordance with IAS 36 in order to identify possible impairments. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “Other result”. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

(21) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “Tax assets” and “Tax liabilities”. Income tax expense based on income tax represents the sum of the current tax payable and deferred taxes.

The tax expense is based on taxable income for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

(22) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.
Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

(23) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale and disposal groups are presented in “Other operating income and other operating expense”. For detailed information, please refer to note (46) Non-current assets and disposal groups classified as held for sale.

(24) Provisions

24.1. Short-term employee benefits

The Bank performs payment of liabilities in terms of taxes, contributions, and benefits from employment in accordance with positive regulations in RS, as meal allowances, transport, one-time fee. These costs are recognized in the income statement in the same period as the cost of staff salaries.

24.2. Long-term employee benefits: retirement severance payments

In accordance with positive regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the way of employment contract termination and for cases in whichthere is obligation for the Bank to pay termination.
In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 3 (three) average net individual salaries of the employee.
In case of termination by the Bank, after the empyloee worked for at least 2 (two) years in the Bank, with an unlimited contract, the Bank pays severance payments in the amount of 1/3 (one third) of the average net individual salaries of the employee in last three months before termination, for each working year in the Bank, except if otherwise determined by Bank’s decision.

Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the end of each year, an assessment of accuracy of the amounts of provisions for retirement benefits and unused holiday accrual is performed.

In accordance with the Amendments to International Accounting Standard ("IAS") 19: Employee Benefits", additional provisions or reversal of such provisions are recognized in the Income statement, under "Personnel expenses", assuming they are not related to actuarial gains and losses, otherwise they shall be immediately recognized in other comprehensive income.

24.3. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9 and BARS Decision on Credit Risk Management and Determination of Expected Credit Losses.
Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item "Credit loss expenses on financial assets".

24.4. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.
For disclosure of restructuring expenses, see note (31) Other operating income and other operating expenses.

24.5. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(25) Other liabilities

This item includes deferred income and non-financial liabilities that due to their nature could not be classified in specific balance sheet item.

(26) Share-based payments

26.1. Cash-settled share-based payments

Liabilities for share-based payments are recognised as Personnel expenses over the relevant service period. The liabilities are remeasured to fair value at each reporting date until the settlement and are presented as Provisions in the balance sheet. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Changes in the measurement of the liability are reflected in the statement of profit or loss.

26.2. Share-settled share-based payments

The Bank does not have share-based payments settled in equity instruments.

(27) Equity

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Share capital represents the amounts paid in by shareholders in accordance with the articles of association.

Legal reserves represent reserve fund formed in accordance with the Law on Companies.

Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Revaluation reserves represent result of value increase of tangible assets according to IAS 16.

Other reserves were including transferred balance form account Formed reserves for credit losses according to regulatory rules based on Shareholder Assembly decisions.

The retained earnings include the cumulated profits generated by the Bank.

Notes to the profit or loss statement

(28) Net interest income

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Interest income calculated using the effective interest method	**36.526**	**32.898**
Financial assets at fair value through other comprehensive income	1.431	807
Financial assets at amortised cost	35.095	32.091
Other interest income	**156**	**0**
Other assets	156	0
Total interest income	**36.682**	**32.898**
Financial liabilities measured at amortised cost	-4.302	-5.046
o/w lease liabilites	-56	-18
Other liabilities	-1	-1
Negative interest from financial assets	-665	-772
Total interest expense	**-4.968**	**-5.819**
Net interest income	**31.714**	**27.079**

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -4.968 thousand (YE21: BAM -5.819 thousand) includes expenses of BAM -2.653 thousand (YE21: BAM -3.198 thousand) related to deposits from households and non-financial corporations.

Interest income break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Debt securities	**1.431**	**807**
Governments	1.167	554
Credit institutions	264	253
Loans and advances	**35.095**	**32.091**
Governments	165	292
Credit institutions	163	4
Other financial corporations	450	589
Non-financial corporations	7.929	7.348
Households	26.388	23.858
Other assets	**156**	**0**
Total	**36.682**	**32.898**

Interest expenses break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Deposits and borrowings	**-4.246**	**-5.028**
Governments	-29	-116
Credit institutions	-542	-649
Other financial corporations	-1.022	-1.065
Non-financial corporations	-214	-263
Households	-2.439	-2.935
Other financial liabilities	**-56**	**-18**
Other liabilities	**-1**	**-1**
Negative interest from financial assets	**-665**	**-772**
Debt securities	-2	**-2**
Other assets	-663	**-770**
Central bank	-485	-571
Credit institutions	-178	-199
Total	**-4.968**	**-5.819**

Out of total interest expense on Deposits and borrowing, BAM -677 thousand refers to interest expense for borrowing (2021: BAM -808 thousand)

(29) Net fee and commission income

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Accounts and Packages	6.647	6.047
Transactions	3.667	3.374
Cards	3.220	2.708
Loans	1.437	1.164
Trade finance	750	735
Securities	0	0
Bancassurance	2.152	1.660
Foreign exchange & Dynamic currency conversion	3.385	2.845
Deposits	46	0
Other	38	34
Fee and commission income	**21.342**	**18.567**
Accounts and Packages	0	0
Transactions	-725	-676
Cards	-3.183	-2.902
Securities	-28	-19
Bancassurance	0	0
Client incentives	-179	-118
Trade finance	0	0
FX changes	-69	-2
Loans	-1	-3
Other	-27	-107
Fee and commission expenses	**-4.212**	**-3.827**
Net fee and commission income	**17.130**	**14.740**

The nature of fee and comission income and expenses is described in Note (10).

(30) Net result on financial instruments

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Held for trading financial instruments	-25	16
o/w exchange difference	11	49
o/w gain or losses on financial instruments	-36	-33
Financial assets at fair value through other comprehensive income	-2	450
Dividend income from financial asssets at fair value through other comprehensive income	4	42
Total	**-23**	**508**

The amount of BAM -2 thousand (YE21: BAM gain 450 thousand) is related to loss on sale of debt securities.

Result on financial instruments not measured at fair value through profit or loss can be shown:

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Gains or losses on financial assets and liabilites, measured at fair value through other comprehensive income	-2	450
Dividend income from financial asssets at fair value through other comprehensive in-come	4	42
Total	**2**	**492**

(31) Other operating income and other operating expenses

Other operating income and other operating expenses - net

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Deposit guarantee	-1.652	-1.482
Banking levies and other taxes	-1.133	-1.040
Restructuring expenses	0	0
Net result from from sale of non financial assets	797	1.851
Result from operating lease	310	308
Result from other income and other expenses	13	-112
Total	**-1.665**	**-475**

Other operating income and other operating expenses - gross

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Other operating income	**1.485**	**2.482**
Gains from sale of non financial assets	798	1.885
Income from operating lease assets	32	24
Income from Investment property	321	321
Other income in connection with other assets	0	0
Other income	334	252
Other operating expenses	**-3.150**	**-2.957**
Losses from sale of non financial assets	-1	-34
Restructuring expenses	-43	**-37**
Expense incurred in earning the operating lease assets income	0	0
Deposit guarantee	-1.652	-1.482
Banking levies and other taxes	-1.133	-1.040
Other expenses in connection with other assets	0	0
Other provisions	-47	0
Other expenses	-274	-364
Total	**-1.665**	**-475**

Banking levies and other taxes includes expenses of BAM -704 thousand related to fees to Banking Agency RS (YE21: BAM -685 thousand).

(32) Personnel expenses

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Wages and salaries	-7.998	-7.482
Social security	-1.509	-1.652
Variable remuneration	-1.734	-1.402
Bonus and sales incentives	-1.734	-1.247
Cash-settled share-based payments	0	-155
Other personal tax expenses	-17	-17
Voluntary social expenses	-432	-384
Expenses for retirement benefits	-2.211	-2.126
Expenses for severance payments	-17	-461
Income from release of other employee provisions	440	457
Other personnel expenses	-141	-129
Total	**-13.619**	**-13.196**

	31.12.2022	31.12.2021
Employees at closing date (Full Time Equivalent - FTE)	345,00	351,00
Employees average (FTE)	346,25	352,50

(33) Other administrative expenses

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
IT expense	-6.998	-7.477
Premises expenses (rent and other building expenses)	-2.475	-2.381
Legal and advisory costs	-916	-687
Advertising costs	-1.443	-1.121
Other administrative expenses	-1.148	-1.131
Total	**-12.980**	**-12.797**

(34) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Property, plant and equipment	-1.430	-1.312
o/w right of use assets	-657	-486
Intangible assets	-2.203	-2.277
Total	**-3.633**	**-3.589**

(35) Other result

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Net result from legal provision and legal income/expense	**64**	**418**
Release of provisions for legal cases from legal cases	414	812
Other income from legal cases	598	0
Allocation of provisions for passive legal cases and legal costs	-536	-298
Other costs from legal cases	-412	-96
Impairment / reversal of impairment from non financial assets	**56**	**-947**
Reversal of impairment	124	1.010
Impairment	-68	-1.957
Total	**120**	**-529**

The line item “Impairment on non-financial assets” in 2022 in amount of BAM -68 thousand represents impairment of repossessed assets(YE21: BAM -1.957 thousand includes impairment of Investment poperties in amount of BAM -1.336 thousand and includes impairment of repossessed in amount of BAM -25 thousand).
The line item "Other income from legal cases" includes an amount of 598 thousand BAM of direct income based on an out-of-court settlement (2021: 0 thousand BAM).

(36) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Change in CL on financial instruments at FVTOCI	**69**	**-162**
Change in CL on financial instruments at amortised cost	**-3.045**	**-483**
Net allocation to risk provision	-7.733	-3.028
Proceeds from suspended and written-off loans and receivables	4.705	2.676
Directly recognised impairment losses	-17	-131
Net allocation of provisions for commitments and guarantees given	**340**	**49**
Total	**-2.636**	**-596**

(37) Taxes on income

(000) BAM

	01.01. - 31.12.2022	01.01. - 31.12.2021
Current tax	-1.258	-988
of which: from previous year	0	-312
Deferred tax	-515	-654
Total	**-1.773**	**-1.642**

37.1. Reconciliation of effective tax rate

The reconciliation from expected income tax to the effective tax is as follows:

(000) BAM

	31.12.2022	31.12.2021
Operating result before tax	**14.408**	**11.145**
Theoretical income tax expense based on corporate tax rate of 10 %	-1.441	-1.115
Tax effects		
Effects of non-deductible expenses	-278	-199
Effects of non-deductible income	461	470
Used tax losses from previous years	0	167
The change of deferred taxes and temporary differences	-515	-653
Tax effects from prior years	0	-312
Actual income tax (effective tax rate: 12,3% (2021: 14,7%))	**-1.773**	**-1.642**

37.2. Movements in deferred tax balances

Deferred tax assets related to temporary difference are recognised since future tax profits that allow utilisation appear highly likely.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and book values with regard to the following items:

(000) BAM

				Balance at 31 December		
2022	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	728	-236	0	492	492	0
Accelerated depreciation for tax purposes	548	-321	0	227	227	0
Revaluation of tangible assets	-96	0	83	-13	0	13
Revaluations of debt instruments at FVTOCI	-45	0	797	752	752	0
Allowances for expected credit losses of investment securities at FVOCI	63	0	-7	56	56	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	32	0	-1	31	31	0
Other	302	42	0	344	344	0
Total deferred Tax	**1.532**	**-515**	**872**	**1.889**	**1.902**	**13**

The total change in deferred taxes in the financial statements is BAM 357 thousand (YE21: BAM -577 thousand). Of which, BAM -515 thousand is recognized in the profit and loss statement (YE21: BAM -654 thousand) and an amount of BAM 872 thousand - is shown in other comprehensive income in equity (YE21: BAM 77 thousand).

(000) BAM

2021	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Provisions for loans and advances	964	-236	0	728	728	0
Accelerated depreciation for tax purposes	850	-302	0	548	548	0
Revaluation of tangible assets	-97	0	1	-96	0	96
Revaluations of debt instruments at FVTOCI	-98	0	53	-45	0	45
Allowances for expected credit losses of investment securities at FVOCI	46	0	17	63	63	0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	26	0	6	32	32	0
Other	418	-116	0	302	302	0
Total deferred Tax	**2.109**	**-654**	**77**	**1.532**	**1.673**	**141**

The development of deferred taxes in net terms is as follows:

(000) BAM

	2022	2021
Balance at start of period (01.01.)	**1.532**	**2.109**
Impact of adopting IFRS 9	**0**	**0**
Tax income/expense recognised in profit or loss	-515	-654
Tax income/expense recognised in OCI	872	77
Fx-difference	0	0
Balance at end of period (31.12.)	**1.889**	**1.532**

(000) BAM

	2022	2021
Deferred tax assets	1.902	1.673
Deferred tax liabilities	-13	-141
Total	**1.889**	**1.532**

37.3. Tax losses carried forward

The Bank currently does no have tax losses carried forward.

Notes to the statement of financial position

(38) Cash reserves

(000) BAM

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	31.238	0	31.238
Cash balances at central banks	159.970	-160	159.810
Other demand deposits	44.538	-325	44.213
Total	**235.746**	**-485**	**235.261**

[1)]Cash on hand

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	36.820	0	36.820
Cash balances at central banks	167.993	-168	167.825
Other demand deposits	45.710	-265	45.445
Total	**250.523**	**-433**	**250.090**

[1)]Cash on hand

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held was BAM 78.780 thousand (YE21: BAM 76.300 thousand).

38.1. Cash reserves at central banks and other demand deposits - development of gross carrying amount

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**212.907**	**796**	**0**	**213.703**
Changes in the gross carrying amount	-11.099	2.083	0	-9.016
Transfer between stages	655	-655	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-239	60	0	-179
Gross carrying amount at 31.12.2022	**202.224**	**2.284**	**0**	**204.508**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**114.930**	**13.118**	**0**	**128.048**
Changes in the gross carrying amount	82.755	3.653	0	86.408
Transfer between stages	15.975	-15.975	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-753	0	0	-753
Gross carrying amount at 31.12.2021	**212.907**	**796**	**0**	**213.703**

38.2. Cash reserves at central banks and other demand deposits - development of ECL allowance

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-393**	**-40**	**0**	**-433**
Changes in the loss allowance	55	-100	0	-45
Transfer between stages	-30	30	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-3	-4	0	-7
ECL allowance as at 31.12.2022	**-371**	**-114**	**0**	**-485**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2021	**-222**	**-656**	**0**	**-878**
Changes in the loss allowance	50	402	0	452
Transfer between stages	-217	217	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-4	-3	0	-7
ECL allowance as at 31.12.2021	**-393**	**-40**	**0**	**-433**

(39) Financial assets held for trading

Financial assets held for trading and measured according to fair value can be shown like in table below:

(000) BAM

	31.12.2022	31.12.2021
Derivatives	0	31
Total	**0**	**31**

(40) Loans and advances

The Bank measures all loans and advances at amortised cost.

40.1. Loans and advances to credit institutions

(000) BAM

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	12.433	-59	12.374
Credit institutions	12.433	-59	12.374
Total	**12.433**	**-59**	**12.374**

(000) BAM

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	8.531	-35	8.496
Credit institutions	8.531	-35	8.496
Total	**8.531**	**-35**	**8.496**

Loans and advances to credit institutions - development of gross carrying amount

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2022	**8.531**	**0**	**0**	**8.531**
Changes in the gross carrying amount	2.968	0	0	2.968
Transfer between stages	0	0	0	0
Write-offs	-7	0	0	-7
Foreign exchange and other movements	941	0	0	941
Gross carrying amount at 31.12.2022	**12.433**	**0**	**0**	**12.433**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 01.01.2021	**3.267**	**1**	**0**	**3.268**
Changes in the gross carrying amount	5.486	-1	0	5.485
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Foreign exchange and other movements	-222	0	0	-222
Gross carrying amount at 31.12.2021	**8.531**	**0**	**0**	**8.531**

Loans and advances to credit institutions - development of ECL

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2022	**-35**	**0**	**0**	**-35**
Changes in the loss allowance	-24	0	0	-24
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2022	**-59**	**0**	**0**	**-59**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01.01.2021	**-1**	**0**	**0**	**-1**
Changes in the loss allowance	-34	0	0	-34
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
ECL allowance as at 31.12.2021	**-35**	**0**	**0**	**-35**

40.2. Loans and advances to customers

(000) BAM

31.12.2022	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Carrying amount (net)
Loans and advances	**659.512**				**604.771**
Governments	3.597	-15	-36	0	3.546
Other financial corporations	11.532	-141	-2.074	0	9.317
Non-financial corporations	199.422	-1.030	-5.566	-2.291	190.535
Households	444.961	-2.961	-14.041	-26.586	401.373
Total	**659.512**	**-4.147**	**-21.717**	**-28.877**	**604.771**

(000) BAM

31.12.2021	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Carrying amount (net)
Loans and advances	**620.157**				**559.182**
Governments	5.806	-34	-167	0	5.605
Other financial corporations	12.341	-133	-1.732	0	10.476
Non-financial corporations	207.415	-2.792	-5.473	-1.764	197.386
Households	394.595	-2.777	-10.269	-35.834	345.715
Total	**620.157**	**-5.736**	**-17.641**	**-37.598**	**559.182**

Development of gross carrying amount of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**413.446**	**164.231**	**42.480**	**620.157**
Changes in the gross carrying amount	89.480	-34.748	-1.760	52.972
Transfer between stages	4.739	-9.482	4.743	0
Write-offs	-1	-10	-13.640	-13.651
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	4	0	30	34
Gross carrying amount at 31.12.2022	**507.668**	**119.991**	**31.853**	**659.512**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**462.132**	**115.395**	**48.008**	**625.535**
Changes in the gross carrying amount	49.104	-41.565	-1.784	5.755
Transfer between stages	-97.760	90.509	7.251	0
Write-offs	-23	-108	-10.798	-10.929
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-7	0	-197	-204
Gross carrying amount at 31.12.2021	**413.446**	**164.231**	**42.480**	**620.157**

Development of ECL allowances of loans and advances to customers

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2021	**-5.736**	**-17.641**	**-37.598**	**-60.975**
Changes in the loss allowance	4.057	-4.727	-6.994	-7.664
Transfer between stages	-2.467	648	1.819	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Changes in models/risk parameters	0	0	0	0
Write-offs	0	4	13.636	13.640
Foreign exchange and other movements	-1	-1	260	258
Unwinding	0	0	289	289
ECL allowance as at 31.12.2022	**-4.147**	**-21.717**	**-28.877**	**-54.741**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2020	**-8.360**	**-17.332**	**-42.787**	**-68.479**
Changes in the loss allowance	4.824	-2.531	-5.739	-3.446
Transfer between stages	-2.200	2.175	25	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Changes in models/risk parameters	0	0	0	0
Write-offs	0	47	10.750	10.797
Foreign exchange and other movements	0	0	153	153
Unwinding	0	0	348	348
ECL allowance as at 31.12.2021	**-5.736**	**-17.641**	**-37.598**	**-60.975**

Loans and advances to households

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**259.606**	**94.589**	**40.400**	**394.595**
Changes in the gross carrying amount	77.213	-11.179	-2.472	63.562
Transfer between stages	2.413	-7.028	4.615	0
Write-offs	-1	-3	-13.226	-13.230
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	4	0	30	34
Gross carrying amount at 31.12.2022	**339.235**	**76.379**	**29.347**	**444.961**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**253.072**	**63.177**	**44.260**	**360.509**
Changes in the gross carrying amount	57.024	-12.853	-407	43.764
Transfer between stages	-50.461	44.337	6.124	0
Write-offs	-22	-72	-9.380	-9.474
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-7	0	-197	-204
Gross carrying amount at 31.12.2021	**259.606**	**94.589**	**40.400**	**394.595**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2021	**-2.777**	**-10.269**	**-35.834**	**-48.880**
Changes in the loss allowance	1.809	-3.945	-6.033	-8.169
Transfer between stages	-1.992	171	1.821	0
Write-offs	0	3	13.222	13.225
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	-1	-1	238	236
Unwinding	0	0	267	267
ECL allowance as at 31.12.2022	**-2.961**	**-14.041**	**-26.586**	**-43.588**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2020	**-2.417**	**-11.927**	**-40.067**	**-54.411**
Changes in the loss allowance	3.038	-1.910	-5.101	-3.973
Transfer between stages	-3.398	3.550	-152	0
Write-offs	0	18	9.366	9.384
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	120	120
Unwinding	0	0	315	315
ECL allowance as at 31.12.2021	**-2.777**	**-10.269**	**-35.834**	**-48.880**

Loans and advances to non-financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**144.856**	**60.478**	**2.081**	**207.415**
Changes in the gross carrying amount	14.233	-22.517	712	-7.572
Transfer between stages	-553	425	128	0
Write-offs	0	-7	-414	-421
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**158.536**	**38.379**	**2.507**	**199.422**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**190.382**	**37.675**	**3.141**	**231.198**
Changes in the gross carrying amount	5.780	-27.339	-770	-22.329
Transfer between stages	-51.305	50.178	1.127	0
Write-offs	-1	-36	-1.417	-1.454
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2021	**144.856**	**60.478**	**2.081**	**207.415**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2021	**-2.792**	**-5.473**	**-1.764**	**-10.029**
Changes in the loss allowance	2.093	-427	-961	705
Transfer between stages	-331	333	-2	0
Write-offs	0	1	414	415
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	22	22
Unwinding	0	0	22	22
ECL allowance as at 31.12.2022	**-1.030**	**-5.566**	**-2.291**	**-8.887**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2020	**-5.252**	**-3.250**	**-2.602**	**-11.104**
Changes in the loss allowance	971	-797	-531	-357
Transfer between stages	1.489	-1.455	-34	0
Write-offs	0	29	1.383	1.412
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	20	20
Unwinding	0	0	20	20
ECL allowance as at 31.12.2021	**-2.792**	**-5.473**	**-1.764**	**-10.029**

Loans and advances to other financial corporations

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**6.512**	**5.829**	**0**	**12.341**
Changes in the gross carrying amount	88	-897	0	-809
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**6.600**	**4.932**	**0**	**11.532**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**9.035**	**11.192**	**0**	**20.227**
Changes in the gross carrying amount	-6.528	-1.358	0	-7.886
Transfer between stages	4.005	-4.005	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2021	**6.512**	**5.829**	**0**	**12.341**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2021	**-133**	**-1.732**	**0**	**-1.865**
Changes in the loss allowance	-8	-342	0	-350
Transfer between stages	0	0	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2022	**-141**	**-2.074**	**0**	**-2.215**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2020	**-460**	**-1.524**	**0**	**-1.984**
Changes in the loss allowance	618	-499	0	119
Transfer between stages	-291	291	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2021	**-133**	**-1.732**	**0**	**-1.865**

Loans and advances to general governments

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2021	**2.472**	**3.335**	**-1**	**5.806**
Changes in the gross carrying amount	-2.054	-155	0	-2.209
Transfer between stages	2.879	-2.879	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2022	**3.297**	**301**	**-1**	**3.597**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 31.12.2020	**9.643**	**3.351**	**607**	**13.601**
Changes in the gross carrying amount	-7.172	-15	-607	-7.794
Transfer between stages	1	-1	0	0
Write-offs	0	0	-1	-1
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Gross carrying amount at 31.12.2021	**2.472**	**3.335**	**-1**	**5.806**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2021	**-34**	**-167**	**0**	**-201**
Changes in the loss allowance	163	-13	0	150
Transfer between stages	-144	144	0	0
Write-offs	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	0	0
Unwinding	0	0	0	0
ECL allowance as at 31.12.2022	**-15**	**-36**	**0**	**-51**

(000) BAM

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31.12.2020	**-231**	**-631**	**-118**	**-980**
Changes in the loss allowance	197	675	-107	765
Transfer between stages	0	-211	211	0
Write-offs	0	0	1	1
Changes due to modifications that did not result in derecognition	0	0	0	0
Foreign exchange and other movements	0	0	13	13
Unwinding	0	0	13	13
ECL allowance as at 31.12.2021	**-34**	**-167**	**0**	**-201**

(41) Investment securities

(000) BAM

	31.12.2022	31.12.2021
Fair value through other comprehensive income (FVTOCI)	82.317	88.353
Total	**82.317**	**88.353**

Investment securities - development of gross carrying amount (Debt Securities)

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2022	**88.715**
Changes in the gross carrying amount	-6.117
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2022	**82.598**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2021	**58.878**
Changes in the gross carrying amount	29.837
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2021	**88.715**

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2022	**-627**
Changes in the loss allowance	69
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2022	**-558**

(000) BAM

	Stage 1
ECL allowance as at 01.01.2021	**-465**
Changes in the loss allowance	-162
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2021	**-627**

41.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

	31.12.2022	31.12.2021
Debt securities	**82.040**	**88.088**
Governments	53.930	56.671
Credit institutions	28.110	31.417
Equity instruments	**277**	**265**
Other financial corporations	277	265
Total	**82.317**	**88.353**

The following table shows equity investment securities designated to be measured at FVTOCI and their fair values:

(000) BAM

	31.12.2022	31.12.2021
Banja Luka Stock Exchange	175	175
S.W.I.F.T	72	60
Central Register of Securities, Banja Luka	30	30
Total	**277**	**265**

(42) Tangible assets

(000) BAM

	31.12.2022	31.12.2021
Owned property, plant and equipment	**18.771**	**21.427**
Land and buildings	17.448	20.124
Plant and equipment	1.053	1.017
Plant and equipment - under construction	270	286
Right of use assets	**1.885**	**1.160**
Land and buildings	1.508	660
Plant and equipment	377	500
Investment property	1.976	3.843
Total	**22.632**	**26.430**

(43) Intangible assets

(000) BAM

	31.12.2022	31.12.2021
Goodwill	0	0
Purchased software	960	1.506
Other intangible assets	1.883	2.425
Intangible assets under development	1.644	1.809
Total	**4.487**	**5.740**

(44) Development of tangible and intangible assets

44.1. Development of cost and carrying amounts

(000) BAM

2022	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Plant and equipment	Plant and equipment - under construction	Land and buildings	Plant and equipment	Investment property	Total
Acquisition cost 01.01	**32.469**	**7.200**	**286**	**1.698**	**977**	**9.790**	**52.420**
Reclasification from assets held for sale	0	0	0	0	0	553	553
Additions	8	215	636	1.334	48	0	2.241
Disposals	-5.438	-559	0	0	0	-5.252	-11.249
Other changes	472	180	-652	0	0	0	0
Acquisition cost 31.12	**27.511**	**7.036**	**270**	**3.032**	**1.025**	**5.091**	**43.965**
Cumulative depreciation 31.12	-10.063	-5.983	0	-1.524	-648	-3.115	-21.333
Carrying amount 31.12	**17.448**	**1.053**	**270**	**1.508**	**377**	**1.976**	**22.632**

(000) BAM

2021	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Plant and equipment	Plant and equipment - under construction	Land and buildings	Plant and equipment	Investment property	Total
Acquisition cost 01.01	**32.021**	**7.909**	**708**	**1.135**	**464**	**10.159**	**52.396**
Reclasification from assets held for sale	0	0	0	0	0	0	0
Additions	30	161	533	563	513	0	1.800
Disposals	-458	-949	0	0	0	-369	-1.776
Other changes	876	79	-955	0	0	0	0
Acquisition cost 31.12	**32.469**	**7.200**	**286**	**1.698**	**977**	**9.790**	**52.420**
Cumulative depreciation 31.12	-12.345	-6.183	0	-1.038	-477	-5.947	-25.990
Carrying amount 31.12	**20.124**	**1.017**	**286**	**660**	**500**	**3.843**	**26.430**

(000) BAM

2022	Intangible assets		
	Purchased software	Intangible assets under development	Total
Acquisition cost 01.01	**28.606**	**1.810**	**30.416**
Additions	0	949	949
Internal development	0	0	0
Disposals	-2.164	0	-2.164
Other changes	1.115	-1.115	0
Acquisition cost 31.12	**27.557**	**1.644**	**29.201**
Cumulative depreciation 31.12	-24.714	0	-24.714
Carrying amount 31.12	**2.843**	**1.644**	**4.487**

(000) BAM

2021	Intangible assets		
	Purchased software	Intangible assets under development	Total
Acquisition cost 01.01	**27.687**	**1.481**	**29.168**
Additions	160	1.088	1.248
Internal development	0	0	0
Disposals	0	0	0
Other changes	759	-759	0
Acquisition cost 31.12	**28.606**	**1.810**	**30.416**
Cumulative depreciation 31.12	-24.676	0	-24.676
Carrying amount 31.12	**3.930**	**1.810**	**5.740**

44.2. Development of depreciation and amortisation

(000) BAM

2022	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Pland and equipment	Plant and equipment - under construction	Land and buildings	Pland and equipment	Investment property	Total
Cumulative depreciation 01.01	**-12.345**	**-6.183**	**0**	**-1.038**	**-477**	**-5.947**	**-25.990**
Reclassification from assets held for sale	0	0	0	0	0	-154	-154
Disposals	2.698	557	0	0	0	2.986	6.241
Scheduled depreciation	-416	-357	0	-486	-171	0	-1.430
Impairment	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	**0**
Write-ups	0	0	0	0	0	0	0
Cumulative depreciation 31.12	**-10.063**	**-5.983**	**0**	**-1.524**	**-648**	**-3.115**	**-21.333**

(000) BAM

2021	Owned property, plant and equipment			Right of use assets			
	Land and buildings	Pland and equipment	Plant and equipment - under construction	Land and buildings	Pland and equipment	Investment property	Total
Cumulative depreciation 01.01	**-12.142**	**-6.719**	**0**	**-727**	**-302**	**-4.636**	**-24.526**
Reclassification from assets held for sale	0	0	0	0	0	0	0
Disposals	239	920	0	0	0	24	1.183
Scheduled depreciation	-442	-384	0	-311	-175	0	-1.312
Impairment	0	0	0	0	0	-1.335	-1.335
Other changes	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Write-ups	0	0	0	0	0	0	0
Cumulative depreciation 31.12	**-12.345**	**-6.183**	**0**	**-1.038**	**-477**	**-5.947**	**-25.990**

(000) BAM

2022	Intangible assets		
	Purchased software	Intangible assets under development	Total
Cumulative depreciation 01.01	**-24.676**	**0**	**-24.676**
Disposals	2.165	0	2.165
Scheduled depreciation	-2.203	0	-2.203
Impairment	0	0	0
Other changes	0	0	0
Write-ups	0	0	0
Cumulative depreciation 31.12	**-24.714**	**0**	**-24.714**

(000) BAM

2021	Intangible assets		
	Purchased software	Intangible assets under development	Total
Cumulative depreciation 01.01	**-22.399**	**0**	**-22.399**
Disposals	0	0	0
Scheduled depreciation	-2.277	0	-2.277
Impairment	0	0	0
Other changes	0	0	0
Write-ups	0	0	0
Cumulative depreciation 31.12	**-24.676**	**0**	**-24.676**

(45) Other assets

The other assets contain the following main positions:

(000) BAM

	31.12.2022	31.12.2021
Prepayments and accrued income	1.249	976
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	41	121
Other remaining assets	2.521	3.131
Total	**3.811**	**4.228**

Other remaining assets amount of 2.521 thousand BAM (2021: 3.130 thousand BAM) and include an amount of 1.378 thousand BAM related to cash outflow from ATMs after the cut-off time (2021: 1,404 thousand BAM) and which are temporarily recognised as Other assets. The mentioned ATM transactions in the amount of 1.378 thousand BAM are related:

- 778 thousand BAM to the Bank's clients who had sufficient funds in their deposit account at the time of the transaction,
- 154 thousand BAM to the Bank's clients who would use the approved overdraft at the time of the transaction,
- 446 thousand BAM to clients of other banks.

(46) Non-current assets and disposal groups classified as held for sale

In the previous reporting period, this position mainly included real estate assets which were part of a project to dispose non-core assets. During 2022, the Bank reclassified the remaining assets into Investment properties.

(000) BAM

	31.12.2022	31.12.2021
Property plant and equipment	0	399
Total	**0**	**399**

(47) Financial liabilities held for trading

(000) BAM

	31.12.2022	31.12.2021
Derivatives	0	13
Total	**0**	**13**

(48) Financial liabilities measured at amortised cost

(000) BAM

	31.12.2022	31.12.2021
Deposits and borrowings	791.384	764.802
Deposits of credit institutions	15.969	313
Deposits of customers	752.896	729.119
Borrowings	22.519	35.370
Other financial liabilities	8.698	15.827
o/w lease liabilities	1.872	1.157
Total	**800.082**	**780.629**

48.1. Deposits of credit institutions

(000) BAM

	31.12.2022	31.12.2021
Current accounts / overnight deposits	200	313
Deposits with agreed terms	15.769	0
Total	**15.969**	**313**

48.2. Deposits of customers

(000) BAM

	31.12.2022	31.12.2021
Current accounts / overnight deposits	**431.096**	**414.597**
Governments	26.059	85.276
Other financial corporations	7.453	3.464
Non-financial corporations	173.944	123.948
Households	223.640	201.909
Deposits with agreed terms	**321.800**	**314.522**
Governments	5.508	0
Other financial corporations	55.092	60.161
Non-financial corporations	16.380	13.646
Households	244.820	240.715
Total	**752.896**	**729.119**

48.3. Borrowings

(000) BAM

	31.12.2022	31.12.2021
Credit insitutions	4.805	9.304
Other financial institutions	17.714	26.066
Total	**22.519**	**35.370**

Overwiev by client can be show in following table:

(000) BAM

	Interest rates in %	31.12.2022	31.12.2021
EBRD	from 3,0 - 3,5	4.805	9.304
EFSE	5,1	1.743	5.222
Development and Employment Fund of the RS	from 0,5 - 1,0	6.494	7.992
Housing Fund of the RS	from 0,8 - 1,8	8.754	11.036
Fund for Development of Eastern Region of the RS	from 1,0 - 2,3	723	1.816
Total		**22.519**	**35.370**

EBRD (European Bank for Reconstruction and Development) approved a long-term loan to the Bank for general long-term financing of micro-sized, small and medium entities. The interest rate was defined as 6-month EURIBOR adjusted for percentage points as the determined minimum interest rate in accordance with the relevant Financing Agreement. The companies that are extended loans from these funds are required to comply with the prescribed environmental and social provisions of the legislation of Bosnia and Herzegovina and the Republic of Srpska.

EFSE (European Fund for Southeast Europe) approved a long-term loan to the Bank for general long-term financing of micro-sized, small and medium entities. The interest rate was defined as 6-month EURIBOR adjusted for percentage points as the determined minimum interest rate in accordance with the relevant Financing Agreement. The companies that are extended loans from these funds are required to comply with the prescribed environmental and social provisions of the legislation of Bosnia and Herzegovina and the Republic of Srpska.

Development and Employment Fund of the RS, Banja Luka approved a loan to the Bank for financing development projects. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Fund for Development of Eastern Region of the RS – which assist in development projects in the eastern region of the Republic of Srpska – approved a loan to the Bank. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Housing Fund of the RS, Banja Luka has provided a loan to the Bank for financing the purchase, reconstruction, and extension of homes. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

Reconciliation of borrowings and cash flows from financial activities can be shown as follows:

(000) BAM

	2022	2021
Change of cash flows from financial activities		
Balance 01.January	35.370	47.174
Increase of borrowings	0	0
Repayment of borrowings	-12.817	-11.757
Paid interest	-551	-808
Total change of cash flows from financial activities	**22.002**	**34.609**
Other changes related to liabilities		
Interest expense	517	761
Other changes	0	0
Total other changes related to liabilities	**517**	**761**
Balance 31.December	**22.519**	**35.370**

(49) Provisions

(000) BAM

	31.12.2022	31.12.2021
Pending legal disputes	332	980
Commitments and guarantees granted	1.110	1.449
Cash-settled share-based payments	1.595	994
Provisions for variable payments	92	155
Pensions and other post employment defined benefit obligations	309	319
Restructuring measures	0	4
Other provisions	63	16
Total	**3.501**	**3.917**

The item “pending legal disputes” includes provisions for legal risks in connection with customer protection claims. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes. More information see in Note 64- Legal risk.

The line item "provision for variable payments" include long- and short-term bonus provision for key management as well as employees.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason final timing could significantly deviate from original estimate.

49.1. Provisions – development of loan commitments, financial guarantee and other commitments given

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2022	**130.796**	**9.882**	**1**	**0**	**140.679**
Changes in the nominal value	-2.288	-545	-65	0	-2.898
Transfer between stages	-6.101	6.037	64	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	138	-16	0	0	122
Nominal value at 31.12.2022	**122.545**	**15.358**	**0**	**0**	**137.903**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2021	**122.343**	**18.713**	**23**	**0**	**141.079**
Changes in the nominal value	29.383	-29.308	-427	0	-352
Transfer between stages	-20.882	20.477	405	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-48	0	0	0	-48
Nominal value at 31.12.2021	**130.796**	**9.882**	**1**	**0**	**140.679**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-1.201**	**-248**	**0**	**0**	**-1.449**
Changes in the loss allowance	770	-430	0	0	340
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-1	0	0	0	-1
ECL allowance as at 31.12.2022	**-432**	**-678**	**0**	**0**	**-1.110**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-1.060**	**-429**	**-9**	**0**	**-1.498**
Changes in the loss allowance	-38	42	45	0	49
Transfer between stages	-103	139	-36	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2021	**-1.201**	**-248**	**0**	**0**	**-1.449**

49.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2022	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2022
Pensions and other post employment defined benefit obligations	319	4	-14	0	0	309
Restructuring measures	4	0	-4	0	0	0
Pending legal disputes	980	536	-770	-414		332
Provision for variable payments	994	1.734	-1.134	0	1	1.595
Cash settled share-based payments	155	0	-61	0	-1	93
Other	16	47	0	0	0	63
Total	**2.468**	**2.321**	**-1.983**	**-414**	**0**	**2.392**

(000) BAM

	Carrying amount 01.01.2021	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2021
Pensions and other post employment defined benefit obligations	257	65	-3	0	0	319
Restructuring measures	110	0	-106	0	0	4
Pending legal disputes	2.047	298	-553	-812	0	980
Provision for variable payments	625	1.247	-518	-360	0	994
Cash settled share-based payments	0	155	0	0	0	155
Other	16	0	0	0	0	16
Total	**3.055**	**1.765**	**-1.180**	**-1.172**	**0**	**2.468**

49.3. Provisions - development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarised.

(000) BAM

	2022	2021
Present value of the defined benefit obligations as of 01.01	**319**	**257**
+ Current service cost	14	3
+ Contributions paid to the plan	0	0
+/- Actuarial gains/losses	-10	62
+/- Actuarial gains/losses arising from changes in demographic assumptions	-5	52
+/- Actuarial gains/losses arising from changes in financial assumptions	-5	10
+/- Actuarial gains/losses arising from changes from experience assumptions	0	0
- Payments from the plan	-14	-3
+ Past service cost	0	0
+/- through business combinations and disposals	0	0
+/- Other changes	0	0
Present value of the defined benefit obligations as of 31.12	**309**	**319**

Due to the low amount of personnel provisions for the Bank as at 31 December 2022, further disclosures according to IAS 19 are omitted.

(50) Other liabilities

(000) BAM

	31.12.2022	31.12.2021
Deferred income	178	156
Accruals	1.763	1.813
Other liabilities	1.013	372
Total	**2.954**	**2.341**

Accruals and other liabilities include liabilities for services provided and not yet paid as well as salaries and salary compensations not yet paid.

(51) Equity

(000) BAM

	31.12.2022	31.12.2021
Equity	**160.549**	**158.020**
Share capital	153.094	153.094
Legal reserves	377	0
Revaulation reserves	69	802
Fair value reserve	-6.156	1.098
Retained earnings	13.165	7.537
Other reserves	0	-4.511
Non-controlling interest	**0**	**0**

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 153.094 thousand (2021: BAM 153.094 thousand) corresponds to the fully paid in share capital, which is divided into 153.094.205 common stock (ordinary) shares with a par value of BAM 1 per share, which was registered with the District Commercial Court of Banja Luka on January 25, 2017 under Decision no. 057-0-Reg-17-000103.

Legal reserves are created from the net profit in the amount of at least 5% of the profit until it reaches an amount that cannot be less than 10% of the core capital.

The revaluation reserves includes the measurement results – after taking deferred taxes into account – for the tangible and intangible assets measured at fair value model.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Retained earnings represent accumulated net earnings brought forward.

The Bank recorded a profit in the amount of BAM 12.635 thousand in the financial year 2022.

(52) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers.

The cash flow from investing activities includes cash inflows and outflows arising from securities, intangible assets and property, plant and equipment.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Segment Reporting

The Bank’s segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting. The business segmentation is subdivided into Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes, deposit volumes and belonging KPIs. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Bank by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Bank evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes as management´s consideration of the most relevant items in evaluating the results of the respective segments.

Business Segmentation

The segment reporting comprises the five following business segments:

Consumer: the Bank’s Consumer segment serves more then a hundred thousand customers, which includes Private Individuals (excluding mortgage and housing loans) through a network of 28 branches and state of the art digital channels.

SME Business: the Bank offers the full product suite to circa 3,5 thousand active SME clients (companies with annual turnover up to BAM 97.791 thousand). SME business is a main strategic segment of the Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Mortgage: Mortgage and housing loans portfolio

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than BAM 97.791 thousand. The Bank services local and international companies by centralised and specialized local teams.

Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in countriy as Ministry of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Bank as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation.

(000) BAM

31.12.2022	Focus segments			Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	35.281	10.309	1.266	1.482	55	451	48.844
Net interest income	22.271	6.821	1.266	940	-63	479	31.714
Net fee and commission income	13.010	3.488	0	542	118	-28	17.130
Net result from financial instruments	0	0	0	0	0	-23	-23
Other operating result	0	0	0	0	0	-1.665	-1.665
Operating income	**35.281**	**10.309**	**1.266**	**1.482**	**55**	**-1.237**	**47.156**
Operating expenses	**-18.489**	**-4.036**	**-30**	**-1.147**	**-910**	**-5.620**	**-30.232**
Operating result before impairments and provisions	**16.792**	**6.273**	**1.236**	**335**	**-855**	**-6.857**	**16.924**
Other result	0	0	0	0	0	120	120
Credit loss expenses on financial assets	-4.487	896	568	99	347	-59	-2.636
Result before tax	**12.305**	**7.169**	**1.804**	**434**	**-508**	**-6.796**	**14.408**
Business volume							
Net loans and receivables	369.494	176.188	21.762	33.779	3.548	12.374	617.145
o/w gross performing loans customers	381.881	183.111	21.768	34.600	3.555	0	624.915
Financial liabilities at AC	456.652	120.836	0	93.227	98.099	31.268	800.082

(000) BAM

31.12.2021	Focus segments			Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	30.071	8.218	1.741	2.077	368	-656	41.819
Net interest income	18.892	5.315	1.741	1.519	250	-638	27.079
Net fee and commission income	11.179	2.903	0	558	118	-18	14.740
Net result from financial instruments	0	0	0	0	0	508	508
Other operating result	0	0	0	0	0	-475	-475
Operating income	**30.071**	**8.218**	**1.741**	**2.077**	**368**	**-623**	**41.852**
Operating expenses	**-18.256**	**-4.065**	**-61**	**-1.223**	**-975**	**-5.002**	**-29.582**
Operating result before impairments and provisions	**11.815**	**4.153**	**1.680**	**854**	**-607**	**-5.625**	**12.270**
Other result	0	0	0	0	0	-529	-529
Credit loss expenses on financial assets	-2.999	-225	1.470	-450	1.352	256	-596
Result before tax	**8.816**	**3.928**	**3.150**	**404**	**745**	**-5.898**	**11.145**
Business volume							
Net loans and receivables	307.816	161.447	30.320	51.744	7.855	8.496	567.678
o/w gross performing loans customers	316.950	168.216	28.295	53.460	7.987	0	574.908
Financial liabilities at AC	433.209	95.091	0	93.002	128.614	30.713	780.629

The relation between net commission income and reportable segments can be seen in the tables below:

(000) BAM

31.12.2022	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	5.149	1.339	128	31	0	6.647
Transactions	2.113	1.280	170	104	0	3.667
Cards	3.122	97	1	0	0	3.220
Loans	1.190	242	5	0	0	1.437
Trade finance	4	575	167	4	0	750
Securities	0	0	0	0	0	0
Bancassurance	2.152	0	0	0	0	2.152
FX & DCC	2.997	301	87	0	0	3.385
Deposits	0	24	22	0	0	46
Other	34	4	0	0	0	38
Fee and commission income	**16.761**	**3.862**	**580**	**139**	**0**	**21.342**
Accounts and Packages	0	0	0	0	0	0
Transactions	-416	-254	-34	-21	0	-725
Cards	-3.084	-98	-1	0	0	-3.183
Securities	0	0	0	0	-28	-28
Bancassurance	0	0	0	0	0	0
Client incentives	-179	0	0	0	0	-179
Trade finance	0	0	0	0	0	0
FX changes	-61	-7	-1	0	0	-69
Loans	-1	0	0	0	0	-1
Other	-10	-15	-2	0	0	-27
Fee and commission expenses	**-3.751**	**-374**	**-38**	**-21**	**-28**	**-4.212**
Net fee and commission income	**13.010**	**3.488**	**542**	**118**	**-28**	**17.130**

[1)]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

(000) BAM

31.12.2021	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Accounts and Packages	4.794	1.100	125	28	0	6.047
Transactions	1.913	1.177	178	106	0	3.374
Cards	2.667	40	1	0	0	2.708
Loans	1.034	109	21	0	0	1.164
Trade finance	3	464	263	5	0	735
Securities	0	0	0	0	0	0
Bancassurance	1.660	0	0	0	0	1.660
FX & DCC	2.465	374	6	0	0	2.845
Deposits	0	0	0	0	0	0
Other	30	4	0	0	0	34
Fee and commission income	**14.566**	**3.268**	**594**	**139**	**0**	**18.567**
Accounts and Packages	0	0	0	0	0	0
Transactions	-383	-237	-35	-21	0	-676
Cards	-2.858	-43	-1	0	0	-2.902
Securities	0	0	0	0	-19	-19
Bancassurance	0	0	0	0	0	0
Client incentives	-118	0	0	0	0	-118
Trade finance	0	0	0	0	0	0
FX changes	-2	0	0	0	0	-2
Loans	-3	0	0	0	0	-3
Other	-23	-84	0	0	0	-107
Fee and commission expenses	**-3.387**	**-364**	**-36**	**-21**	**-19**	**-3.827**
Net fee and commission income	**11.179**	**2.904**	**558**	**118**	**-19**	**14.740**

[1)]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

Risk Report

(53) Risk control and monitoring

The Bank steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Bank to the bank's overall controlling:
- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
- Bank implements appropriate, mutually compatible procedures for identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(54) Risk strategy & Risk Appetite Framework (RAF)

The Bank's risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Company's business strategy and risk orientation. It is also a management tool of the highest level for the purposes of bank's risk steering and as such it provides a framework for controlling, monitoring and limiting risks inherent in the banking business, as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

The Bank's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities.

The Bank has established a Risk Appetite Framework (RAF) which sets the bank's risk appetite and forms part of the process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the budget, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(55) Risk organisation

Ensuring adequate risk management structures and processes is in the responsibility of the Chief Risk Officer (CRO). The CRO acts independently of business units.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2022, the following organisational units were operative:

Corporate Risk Management -The bank is responsible for credit risk management for all segments of clients that are segmented as non-retail (individuals), and includes clients with the segmentation of Standard, Small, Medium, as well as Large and Public clients (state and sub-state). This includes operational and strategic roles. It operationally covers the analysis and approval of credit requests, while strategically defining policies, procedures, manuals, guidelines and all other documents for the above-mentioned segments of credit risk management.

In addition to the aforementioned activities, it includes monitoring all clients within its jurisdiction and taking preventive measures to prevent the deterioration of credit risk as well as proposing measures to reduce it as well as complete monitoring of problematic NPL loans until collection in full. Strategically defines policies, procedures, manuals, guidelines and other documents for the above segments of monitoring management and restructured risk exposures.

Retail Risk Management - aims to support the profitable growth of the retail portfolio, while ensuring that credit risk is aligned with the bank's budget. It covers portfolio reporting and collection analysis in the retail segment. Monthly meetings on portfolio quality ensure monitoring of portfolio development, identification of problems in the early stages and taking corrective action. Retail Risk Management department is also a key participiant in product approval and the audit process. It ensures that the willingness to take risks of credit products is in line with the Bank's willingness to take risks.
Important goal is implementation and continuously optimize collecttion processes, preventing migration of the portfolio in high categories delays, as well as the reduction of non-performing exposure in line with the strategy and the planned budget. The management of non-performing exposures for retail segment means the process of debt collection from the first day of delay until the final recovery of clients.

Risk controlling department – the risk management control function is organizationally located within the Risk Control Department.It consists of Financial Risks Controlling Team, Nonfinancial Risks Controlling Team and two expert functions: Data Management and Real Estate Valuation.
Financial **Risks** Controlling provides the risk strategy, economic capital management, stress testing and coordination of national bank examinations and coordinates Banks units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of the Bank within the defined risk appetite, and regulatory limitations. Nonfinancial Risks Controlling Team provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience, creates strategic framework and managing key aspects of information security in accordance with all ISO standards relevant to the management of information security system and risks coordinates and supports business continuity management processes and coordinates and support the implementation of the externalization process.

Expert functions Data Management is responsible for data and data quality management in local DWH and relevant group databases.

Expert function Real Estate Valuation is responsible for preparation of valuations, statistical valuations, and control of external real estate valuations, development of an action plan related to valuations, and all types of reports on valuations of collateral and bank assets.

(56) Internal risk management guidelines

The Bank defines risk management guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing guidelines are reviewed yearly to determine whether an update is required. This ensures that the actual and documented processes match.

The Bank has clearly defined responsibilities for all risk guidelines, including preparation, review and update. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

(57) Credit risk

57.1. Definition

According to the Strategy and Business Policy and Risk Management Strategy, credit risk is the most important driver of risk in the Bank. It is divided into different subtypes of risk, of which the counterparty risk (basic; eng. single name risk) is the most important and requires special treatment.

57.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In accordance with the instructions of the competent authorities, as defined by the Management Board and the Supervisory Board, decisions on credit placements are made exclusively by the Bank's Credit Committee. The Credit Board is the permanent board of the Bank and the highest body for making credit decisions.
If the credit request leads to the Bank's total exposure of more than 10% of recognized capital to the GoB or to any subsequent increase in that exposure, it is necessary to obtain prior consent for concluding a legal transaction from the Supervisory Board, i.e. the body appointed by the Supervisory Board. The final decision on the loan application is made by the Supervisory Board.

57.3. Risk measurement

The Bank uses its own rating procedures to analyse and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

57.4. Risk limitation

The steering of total Bank wide commitments with an individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

Any client (legal entity or natural person) who has any credit risk exposure or obligations within the Bank must be connected to other private persons or to groups of connected clients.
When it comes to the assessment/underwriting (assuming credit risk) of an individual client or GoB, which is carried out through defined credit risk assessments, whether for the purpose of new business or review of existing business, it is necessary to consider and analyze all types the connection and influence of the observed client connected to one or more other clients, regardless of whether other clients have credit risk exposure in the Bank or not. The sources of information used are: detailed information on the main customers, suppliers, ownership structure, management structure of the observed company, cash flows of the client and all other aspects of economic interconnection based on control, management or ownership, as well as the Central Credit Registry.

Based on the aforementioned assessment, ie. relationship control and economic dependence, and in accordance with the definition of affiliated clients, two or more clients with exposure in the Bank are treated as one risk.

In order to appropriately assess and mitigate the risk that arises due to different types of business and exposure to banks and when investing in securities, the Bank monitors and limits the aforementioned primarily through a limit establishment system, applying different categories of limits depending on the type of business /exposures and counterparties. Applying for limits, managing exposures, as well as monitoring and reporting, is the responsibility of the relevant local departments and committees, as well as the Group ones. In the event that the limits are exceeded, escalation processes are defined, and measures to mitigate the aforementioned risks are also defined.

57.5. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (on and off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

Breakdown of net exposure within the Bank in accordance with IFRS 7.35M as at 31 December 2022:

(000) BAM

31.12.2022		Performing			Non-Performing				Total
Financial instruments	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net	Exposure	ECL[2]	Net
Cash reserves [1]	204.508	-485	204.023	0	0	0	204.508	-485	204.023
Financial assets held for trading	0	0	0	0	0	0	0	0	0
Loans and receivables	640.092	-25.923	614.169	31.853	-28.877	2.976	671.945	-54.800	617.145
of which credit institutions	12.433	-59	12.374	0	0	0	12.433	-59	12.374
of which customer loans	627.659	-25.864	601.795	31.853	-28.877	2.976	659.512	-54.741	604.771
Investment securities	82.598	-558	82.040	0	0	0	82.598	-558	82.040
On balance total	**927.198**	**-26.966**	**900.232**	**31.853**	**-28.877**	**2.976**	**959.051**	**-55.843**	**903.208**
Off balance	137.903	-1.110	136.793	0	0	0	137.903	-1.110	136.793
Total	**1.065.101**	**-28.076**	**1.037.025**	**31.853**	**-28.877**	**2.976**	**1.096.954**	**-56.953**	**1.040.001**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**1.065.101**	**-28.076**	**1.037.025**	**31.853**	**-28.877**	**2.976**	**1.096.954**	**-56.953**	**1.040.001**

[1] The position does not include cash on hand in

[2] Expected credit losses

The following table shows the exposure in accordance with IFRS 7.35M as at 31 December 2021:

(000 BAM)

31.12.2021 Financial instruments	Exposure	ECL[2]	Performing Net	Exposure	ECL[2]	Non-Performing Net	Exposure	ECL[2]	Total Net
Cash reserves [1]	213.703	-433	213.270	0	0	0	213.703	-433	213.270
Financial assets held for trading	31	0	31	0	0	0	31	0	31
Loans and receivables	586.208	-23.412	562.796	42.480	-37.598	4.882	628.688	-61.010	567.678
of which credit institutions	8.531	-35	8.496	0	0	0	8.531	-35	8.496
of which customer loans	577.677	-23.377	554.300	42.480	-37.598	4.882	620.157	-60.975	559.182
Investment securities	88.715	-627	88.088	0	0	0	88.715	-627	88.088
On balance total	**888.657**	**-24.472**	**864.185**	**42.480**	**-37.598**	**4.882**	**931.137**	**-62.070**	**869.067**
Off balance	140.678	-1.449	139.229	1	0	1	140.679	-1.449	139.230
Total	**1.029.335**	**-25.921**	**1.003.414**	**42.481**	**-37.598**	**4.883**	**1.071.816**	**-63.519**	**1.008.297**
Adjustments	0	0	0	0	0	0	0	0	0
Total credit risk exposure	**1.029.335**	**-25.921**	**1.003.414**	**42.481**	**-37.598**	**4.883**	**1.071.816**	**-63.519**	**1.008.297**

[1] The position does not include cash on hand in

[2] Expected credit losses

57.6. Credit risk exposure by rating class

At 31 December 2022 roughly 26,4% (YE21: 23,9%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2022 is mainly influenced by accounting write-off repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2022 by BAM 10.553 thousand.

The following table shows the on balance and off balance exposure by rating classes and market segment as at 31 December 2022:

(000) BAM

31.12.2022	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	183.982	128.826	50.165	37.718	24.456	3.235	428.383
SME	27.213	115.344	120.937	19.926	1.884	46	285.349
Non-Focus	30.596	31.629	55.309	15.152	5.450	2	138.139
o/w Large Corporate	0	13.512	29.456	9.500	693	0	53.162
o/w Mortgage	462	18.029	971	2.419	4.757	0	26.638
o/w Public Finance	30.134	89	24.882	3.233	0	2	58.339
Corporate Center[1]	47.917	34.147	163.019	0	0	0	245.083
Total	**289.708**	**309.947**	**389.430**	**72.795**	**31.791**	**3.283**	**1.096.954**

[1] Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

The following table shows the on balance and off balance exposure by rating classes and market segment as at 31 December 2021:

(000) BAM

31.12.2021	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	148.609	108.095	40.906	33.551	25.343	4.076	360.580
SME	14.253	92.577	118.938	35.136	2.138	14	263.056
Non-Focus	35.805	59.355	72.067	12.007	14.863	354	194.451
o/w Large Corporate	2.000	36.399	42.838	4.351	0	1	85.589
o/w Mortgage	741	22.872	1.600	2.838	14.785	351	43.187
o/w Public Finance	33.064	84	27.629	4.818	78	2	65.675
Corporate Center[1)]	57.047	26.266	170.416	0	0	0	253.729
Total	**255.714**	**286.293**	**402.327**	**80.694**	**42.344**	**4.444**	**1.071.816**

[1)]Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

The classification of credit assets into risk grades is based on Bank internal ratings. For external reporting, internal rating grades are grouped into the following five risk categories:

- 1A-1E: representing customers with a very low risk, having the best, excellent or very good credit standing;
- 2A-2E: representing customers with a good or moderate credit standing;
- 3A-3E: representing customers with a medium or high credit risk;
- Watch: representing customers with a very high credit risk or who are likely to default. This class includes customers which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term;
- NPE (default): one or more of the default criteria under Decision about credit risk management and establishment of expected credit losses are met: payments have been overdue for more than 90 days in material significant amount or the bank considers that the debtor will not fully settle his obligations to the bank „Unlikeliness to pay-UTP“ (i.e. significantly doubts the customer's credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated).

As at the reporting date, exposures with "No rating" can be identified, which are related to newly originated placements which receive the first behavioural rating 6 months after approval or clients that left the "default" status, and which will be assigned a rating in the following monthly rating calculation cycle.
The Bank applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	178.997	1.427	0	180.424
2A-2E	204.136	20.058	38	224.232
3A-3E	115.223	42.891	0	158.114
Watch	6.432	55.338	25	61.795
NPE	0	0	31.792	31.792
No rating	2.878	277	0	3.155
Total gross carrying amount	**507.666**	**119.991**	**31.855**	**659.512**
Loss allowance	-4.147	-21.717	-28.877	-54.741
Carrying amount	**503.519**	**98.274**	**2.978**	**604.771**

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	137.846	4.691	0	142.537
2A-2E	163.047	44.179	0	207.226
3A-3E	104.401	45.254	0	149.655
Watch	4.855	69.101	139	74.095
NPE	0	0	42.343	42.343
No rating	3.295	1.006	0	4.301
Total gross carrying amount	**413.444**	**164.231**	**42.482**	**620.157**
Loss allowance	-5.736	-17.641	-37.598	-60.975
Carrying amount	**407.708**	**146.590**	**4.884**	**559.182**

Loans and advances to banks at amortised cost:

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	0	0	0	0
2A-2E	11.744	0	0	11.744
3A-3E	689	0	0	689
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**12.433**	**0**	**0**	**12.433**
Loss allowance	-59	0	0	-59
Carrying amount	**12.374**	**0**	**0**	**12.374**

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	6.903	0	0	6.903
2A-2E	0	0	0	0
3A-3E	1.628	0	0	1.628
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**8.531**	**0**	**0**	**8.531**
Loss allowance	-35	0	0	-35
Carrying amount	**8.496**	**0**	**0**	**8.496**

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	58.275	0	0	58.275
2A-2E	0	0	0	0
3A-3E	24.323	0	0	24.323
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**82.598**	**0**	**0**	**82.598**
Loss allowance	-558	0	0	-558
Carrying amount	**82.040**	**0**	**0**	**82.040**

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	64.531	0	0	64.531
2A-2E	0	0	0	0
3A-3E	24.184	0	0	24.184
Watch	0	0	0	0
NPE	0	0	0	0
No rating	0	0	0	0
Total gross carrying amount	**88.715**	**0**	**0**	**88.715**
Loss allowance	-627	0	0	-627
Carrying amount	**88.088**	**0**	**0**	**88.088**

Commitments and financial guarantees given:

(000) BAM

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	31.202	32	0	31.234
2A-2E	51.084	484	0	51.568
3A-3E	39.429	4.546	0	43.975
Watch	703	10.296	0	10.999
NPE	0	0	0	0
No rating	127	0	0	127
Total gross carrying amount	**122.545**	**15.358**	**0**	**137.903**
Loss allowance	-344	-765	0	-1.109
Carrying amount	**122.201**	**14.593**	**0**	**136.794**

(000) BAM

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Rating class				
1A-1E	22.934	133	0	23.067
2A-2E	51.157	1.641	0	52.798
3A-3E	52.856	5.214	0	58.070
Watch	3.705	2.895	0	6.600
NPE	0	0	2	2
No rating	142	0	0	142
Total gross carrying amount	**130.794**	**9.883**	**2**	**140.679**
Loss allowance	-1.113	-336	0	-1.449
Carrying amount	**129.681**	**9.547**	**2**	**139.230**

57.7. Exposure by business sector

The following tables present the on balance exposure of non-financial corporations by industry based on the “NACE Code 2.0”.

(000) BAM

31.12.2022	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	5.026	-171
B Mining and quarrying	5.243	-67
C Manufacturing	57.772	-1.010
D Electricity, gas, steam and air conditioning supply	27.722	-2.208
E Water supply	1.128	-11
F Construction	25.904	-874
G Wholesale and retail trade	49.558	-1.757
H Transport and storage	10.015	-860
I Accommodation and food service activities	7.212	-1.419
J Information and communication	4.045	-32
K Financial and insurance activities	0	0
L Real estate activities	73	-1
M Professional, scientific and technical activities	4.941	-372
N Administrative and support service activities	498	-98
O Public administration and defence, compulsory social security	0	0
P Education	11	0
Q Human health services and social work activities	221	-1
R Arts, entertainment and recreation	3	-1
S Other services	50	-5
Loans and advances	**199.422**	**-8.887**

31.12.2021	Non-financial corporations Gross carrying amount	ECL
A Agriculture, forestry and fishing	5.551	-182
B Mining and quarrying	8.147	-188
C Manufacturing	63.487	-1.948
D Electricity, gas, steam and air conditioning supply	31.563	-2.016
E Water supply	495	-12
F Construction	22.591	-960
G Wholesale and retail trade	48.161	-2.774
H Transport and storage	7.223	-268
I Accommodation and food service activities	8.712	-1.339
J Information and communication	5.671	-98
K Financial and insurance activities	0	0
L Real estate activities	631	-4
M Professional, scientific and technical activities	1.966	-126
N Administrative and support service activities	384	-60
O Public administration and defence, compulsory social security	0	0
P Education	25	-6
Q Human health services and social work activities	38	0
R Arts, entertainment and recreation	2	0
S Other services	2.768	-48
Loans and advances	**207.415**	**-10.029**

57.8. Presentation of exposure by overdue days

(000) BAM

31.12.2022	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	393.062	12.077	2.041	1.096	20.107	428.383
SME	282.708	1.214	0	31	1.396	285.349
Non-Focus	133.494	1.113	305	44	3.182	138.139
o/w Large Corporate	53.162	0	0	0	0	53.162
o/w Mortgage	21.993	1.113	305	44	3.182	26.638
o/w Public Finance	58.339	0	0	0	0	58.339
Corporate Center	245.083	0	0	0	0	245.083
Total	**1.054.347**	**14.405**	**2.346**	**1.170**	**24.686**	**1.096.954**

(000) BAM

31.12.2021	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	327.169	9.924	2.203	688	20.596	360.580
SME	261.077	69	990	0	920	263.056
Non-Focus	174.759	5.615	509	48	13.520	194.451
o/w Large Corporate	81.238	4.351	0	0	0	85.589
o/w Mortgage	27.846	1.264	509	48	13.520	43.187
o/w Public Finance	65.675	0	0	0	0	65.675
Corporate Center	253.729	0	0	0	0	253.729
Total	**1.016.734**	**15.608**	**3.702**	**736**	**35.036**	**1.071.816**

57.9. Breakdown of financial assets by degree of impairment

Overdue but not impaired financial assets:

(000) BAM

	31.12.2022		31.12.2021	
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	13.700	738	14.504	2.435
- overdue 31 to 60 days	1.816	74	2.170	400
- overdue 61 to 90 days	1.053	31	601	94
- overdue 91 to 180 days	0	0	0	0
- overdue 181 to 365 days	0	0	0	0
- overdue over 1 year	0	0	0	0
Total	**16.569**	**843**	**17.275**	**2.929**

Impaired financial instruments:

(000) BAM

Loans and advances to customers (on- and off-balance)	31.12.2022	31.12.2021
Exposure	31.855	42.481
Provisions	28.877	-37.598
Collateral	5.844	14.804

Forbearance

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Forbearance measures and risks are monitored by the operative risk units responsible for Corporate center and Retail. Additionally, forbearance measures represent a trigger event in order to perform impairment tests in accordance with IFRS requirements.

The following tables provides an overview of the forbearance status at the Bank in the course of the financial year 2022 and 2021

(000) BAM

	1.1.2022	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2022
General governments	2.879	0	-2.879	0	0	0	0
Non-financial corporations	11.276	0	-4.677	0	0	0	6.599
Households	8.731	803	-3.009	0	0	0	6.525
Loans and advances	**22.886**	**803**	**-10.565**	**0**	**0**	**0**	**13.124**

(000) BAM

	1.1.2021	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	31.12.2021
General governments	3.349	0	-470	0	0	0	2.879
Non-financial corporations	846	11.169	-739	0	0	0	11.276
Households	4.624	5.142	-1.035	0	0	0	8.731
Loans and advances	**8.819**	**16.311**	**-2.244**	**0**	**0**	**0**	**22.886**

The forbearance exposure was as follows in 2022 and 2021:

(000) BAM

2022	Closing Balance 31.12.2022	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments	0	0	0	0	0
Non-financial corporations	6.599	6.585	0	14	349
Households	6.525	3.276	619	2.630	233
Loans and advances	**13.124**	**9.861**	**619**	**2.644**	**582**

(000) BAM

2021	Closing Balance 31.12.2021	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments	2.879	0	2.879	0	1
Non-financial corporations	11.276	11.073	0	203	362
Households	8.731	4.109	1.320	3.302	328
Loans and advances	**22.886**	**15.182**	**4.199**	**3.505**	**691**

The following table shows the collateral allocation for the forbearance exposure at the YE 2022:

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	0	0	0	0	0	0
Medium and Small Corporate	19.482	18.998	96	77	0	0
Retail	1.839	207	1.633	0	0	0
Total	**21.321**	**19.205**	**1.729**	**77**	**0**	**0**

Following table shows the collateral allocation for the forbearance exposure at the YE 2021:

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	1.949	1.949	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	1.466	1.466	0	0	0	0
Medium and Small Corporate	32.783	31.992	282	77	0	432
Retail	3.107	470	2.637	0	0	0
Total	**39.305**	**35.877**	**2.919**	**77**	**0**	**432**

Carrying amounts of inventories (incl. Repossessed collaterals)

In the financial year 2022, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 41 thousand (2021: BAM 121 thousand). Inventories (incl. rescue acquisitions) mainly consist of collateral acquired by the Bank due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

Moratoria due to COVID-19

During the duration of the COVID-19 crisis (years 2020 and 2021), the Bank granted relief to clients in accordance with the current regulatory decisions - Decision on temporary measures for banks to mitigate the negative economic consequences caused by the viral disease "COVID-19"

On 31.12.2022. there was no exposure with an active COVID-19 moratorium.

The following table shows the amount of exposure under moratoria per market segment for 2021:

(000 BAM)

31.12.2021	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	12.547	-3.287	201	-5	12.748	-3.292
SME	54.475	-5.599	108	-14	54.583	-5.613
Non Focus	8.636	-661	1.024	-801	9.660	-1.462
o/w Large Corporate	2.350	-314	0	0	2.350	-314
o/w Mortgage	2.694	-195	946	-733	3.640	-928
o/w Public Finance	3.592	-152	78	-68	3.670	-220
Corporate Center	0	0	0	0	0	0
Total	**75.658**	**-9.547**	**1.333**	**-820**	**76.991**	**-10.367**

(58) Development of risk provisions

58.1. Method of calculating risk provisions

Provisions are calculated in line with the international accounting standard for financial instruments (IFRS 9). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelve-month expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures. For the part of the non performing portfolio where the exposure at default (EAD) on group of borrowers level is below a certain country specific materiality threshold the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach).Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment, or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from potential repossession of available collaterals (primarily real estates), the Bank bases its assumptions on the collateral's market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

Model timeseries (under the same methodology used in the preparation of the prevoius financial statements) were prolonged taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

The risk provisions also include expectations of future economic circumstances ("forward-looking") in accordance with the IFRS 9 standard and local regulations. For these purposes, the Bank uses the forecasts of the Vienna Institute for International Economic Studies (wiiw). In the following, we present the key items from the current report "Analysis of macro and financial scenarios for the countries in which Addiko operates" from November 2022, which the Vienna Institute prepared for the needs of the Addiko Group.

The following table shows the realized and forecasted key macroeconomic parameters for the period 2020-2027 for Bosnia and Herzegovina.

Macroeconomic parameter	2020	2021	2022	2023	2024	2025	2026	2027
BDP%, yearly rate	-3,10	7,50	2,10	1,90	2,40	2,90	2,90	2,90
Unemployment %	15,90	17,40	16,40	16,10	15,70	15,00	14,50	14,50
Inflation, % yearly rate	-1,10	2,00	13,00	6,00	2,00	3,00	2,50	2,10
Budget balance % of BDP	-5,30	-0,30	-1,00	0,50	1,00	1,00	1,00	1,00
Foreign trade % of BDP	-3,30	-2,40	-3,20	-3,10	-2,70	-2,80	-2,80	-3,10

In general, last year was marked by a sharp recovery of the economies in which Addiko operates. This recovery reflects rising global economic sentiment following the post-Covid recovery, although the scars associated with COVID are still visible in some industries. This mostly positive development was partially reversed by the war in Ukraine and Western sanctions. Although the countries where Addiko operates are not directly exposed to the conflict zone, inflation is high everywhere and economic sentiment is plummeting. For this reason, the main driver of economic uncertainty in the coming period will be related to the further course of the conflict in Ukraine and Western sanctions against Russia. Bearing in mind the stated scenario probabilities used to assign weights to a particular scenario adjusted in favor of the negative scenario as shown in the table below.

Scenario probabilities[1]	Baseline case	Optimistic case	Pesimistic case
October 2021 wiiw forecast report	55%	10%	35%
October 2022 wiiw forecast report	45%	5%	50%

[1] wiiw calibrates also adverse scenario that reflects extreme severity of calibrated shocks, used for static and dynamic stress testing purposes. No probability is assigned to this type of scenario, considered to be highly unlikely, yet plausible.

When defining each of the scenarios, it starts from two narratives: the economic narrative and the climate change narrative. The economic narrative refers to assumptions about economic and political developments in the future. In this report, the most important assumptions are reduced to three main points:

- The length and intensity of the war between Russia and Ukraine
- Price changes on world commodity markets
- The average temperature of the winter season in Europe and adherence to gas consumption measures in the EU

The Climate Change Narrative is a new section that describes how the effects of climate change will affect economies over the forecast horizon. The narrative of these assumptions focuses on the consequences of political actions – should world leaders agree on climate change policies – or on the consequences of inaction materializing through increased likelihood of natural disasters and productivity losses due to rising temperatures.

Basic assumptions of each scenarios are:

- Baseline: The first half of 2022 was better than expected in terms of GDP, which is why full-year 2022 growth is being revised upwards for most countries. But inflation has also been higher and is already threatening real incomes. Three main generators of the crisis in the coming period can be identified. The first generator will be inflation, through the reduction of real incomes and the erosion of consumer and business confidence. The second generatot will be a restrictive monetary and fiscal policy. On top of that, there is also the energy crisis, which should not have major direct consequences on the Balkan countries where Addiko operates, but may have indirect effects, through the reduction of exports to Germany and the EU. Overall, growth in 2023 will be lower than previously expected, and inflation significantly higher. Inflation is in double digits everywhere, and still rising. Generally speaking, it is driven by three categories everywhere: food, housing (utilities, ie electricity, heating, etc.) and transport (fuel). When these three categories are excluded, core inflation is still in single digits everywhere, but above 5%, which means that inflationary pressures have spilled over to other goods and services, but not too much. Real wages are starting to fall almost everywhere in the region, and this will be a serious drag on economies in the coming months. This will reduce household consumption, the main driver of growth in the first half of the year. Accumulated savings may help for a while, but if inflation turns out to be persistent and nominal wages do not rise accordingly, then it is only a matter of time before household consumption also declines. Rising inflation has reduced consumer confidence to levels not seen even at the start of the pandemic. As inflation is likely to remain near or above current levels for some time, consumer confidence is likely to continue to decline in the coming months. This will be another channel that will tend to reduce consumption, along with the decline in real incomes. The increase in interest rates by central banks will be problematic for the region as well, because it will increase the interest rates of commercial banks and the cost of government borrowing. The energy crisis should not have strong direct effects on the region since dependence on gas is low everywhere. Most countries also do not import a lot of electricity, and some even export a lot, meaning they could benefit from the current high electricity prices. But there could be some indirect effects, through reduced demand from Germany, if Germany goes into recession, which seems very likely at the moment. Political risks in the region remain at the same level.

- Overall, 2022 will show positive growth thanks to good results in the first half of the year, but 2023 will see only slight nominal growth. EU energy supply issues and the tightening of monetary policy by major central banks are already having a major impact on economic sentiment and activity. These effects will intensify in Q4 2022 and Q1 2023, where we expect the EU economy to enter recession. Issues related to climate change are mostly of a long-term nature for the region.
- Optimistic: The probability for this scenario is set at a very low level (5%) for two main reasons. First, it assumes an immediate strengthening of greenhouse gas ambitions and the implementation of those policies by the largest CO2 emitters. Second, the scenario also assumes that the war in Ukraine ends in the fourth quarter of 2023. However, this does not seem like a plausible outcome. The positive scenario assumes that the active war between Russia and Ukraine ends in the fourth quarter of 2023, followed by long political negotiations with a gradual easing of restrictions on the supply of essential goods. The possibility of reopening trade routes relieves pressure from the food and metal markets, putting downward pressure on the respective markets. Temperatures in the 2022-2023 season are above average values, and EU member states manage to reduce gas consumption without causing major disruptions in the global energy market. China begins treating COVID as an endemic virus and lifts restrictions on mobility in major production areas. Global commodity prices stabilize by Q1 2023 with positive news from China and Europe, and the effects of central bank policy tightening become visible in Q4 2022. Credit risks do not materialize, emerging markets enjoy increased capital flows and appreciating exchange rates relative to EUR.
- Pessimistic: The probability for this scenario is now set at 45% to reflect the increase in downside risks for which there are three main reasons. First, there is great uncertainty regarding the path of inflation in the coming months. Although the WIIW believes that the inflationary shock peaks in 2022 and will subside in 2023, it is possible that the pace of monetary tightening may be too slow to affect expectations. Second, volatility in energy markets could reach new highs if the winter season is colder than average and Russian gas supplies experience additional disruptions. Third, the Chinese authorities may adhere to the shutdown policy until the second quarter of 2023, preventing supply bottlenecks from being resolved. Finally, the war in Ukraine has an increasing chance of actively continuing until the end of next year. Considering climate risks, we see a significant chance that global leaders will not coordinate the implementation of climate action programs beyond nationally determined contributions. Although major CO2-emitting countries have submitted more ambitious targets, it remains open whether domestic policy in countries will change in the coming decades to unconditionally support climate change policies. Credit risks materialize on real estate markets outside the European Union, but without insurmountable negative externalities on the EU financial system. Emerging markets face capital outflows, resulting in an increase in the LCY/EUR rate. The fragile recovery is resulting in slower consumption growth, relieving some of the existing inflationary pressures amid ongoing supply constraints

The following table shows how the ECL allowance for stage 1 and stage 2 for each economic scenario and probability-weighted ECL allowance continues to reflect a 50 per cent weighting of base case, optimistic a 5per cent weighting and pessimistic case a 45 per cent weighting. Final ECL is further adjusted according to minimal coverage prescribed by Decision on Credit Risk Management and Determination of Expected Credit Losses of Banking Agency of Republika Srpska.

(000) BAM

31.12.2022	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	358	230	279	461
PI Other	15.582	11.926	13.398	18.414
Financial Institutions Model	40	11	29	54
Countries	191	59	130	273
Municipalities	6	5	5	6
Corporate Model	6.679	4.942	5.648	8.017
SCPI	279	151	198	382
Total (Stage 1 and 2)	**23.135**	**17.324**	**19.687**	**27.607**

(000) BAM

31.12.2021	Probability weighted	Optimistic case	Base case	Pessimistic case
Pi Secured	353	273	333	407
PI Other	11.571	10.513	11.316	12.274
Financial Institutions Model	172	48	122	286
Countries	18	8	15	26
Municipalities	649	442	594	795
Corporate Model	9.383	6.806	8.687	11.214
SCPI	56	49	55	61
Total (Stage 1 and 2)	**22.202**	**18.139**	**21.122**	**25.063**

58.2. Development of risk provisions

Main drivers of risk cost development in 2022 were: update of internal PD and LGD models, introduction of internal model for CCF, posting of Post model adjustment (PMA), application of regulatory defined LGD rates and application of the provisions of the new regulatory decision - Decision on temporary mitigation measures the risk of rising interest rates. In addition to the above, a significant impact on the amount of expected credit losses was also a more favorable trend in the part of non-performing exposures (smaller inflow of NPLs and higher recovery), and a significant reduction in exposures classified in Stage 2..

58.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates of internal models are performed regularly to make sure that the latest available information is considered. In 2022 PD and LGD models were updated for all segments. Updating the PD model included extending the time series with the latest available data used to calculate the PD, as well as using the latest available macroeconomic data provided by the Vienna Institute for International Economic Studies (wiiw). With the LGD model, the time series were also extended, and for the first time an internal LGD model was developed for the corporate segment. In 2022, an internal model for the CCF factor was developed and implemented for the first time, which refers to unused funds for credit lines, financial monitoring frameworks, and loans and credit cards. In addition to the above, the so-called "staging criteria" (criteria for determining the level of credit risk), so instead of the absolute and relative growth of PD in relation to the initial placement approval, only relative growth was left, which achieved additional conservatism in this part.
The mentioned changes, the preventive updating of the PD model resulted in a significant reduction in the level of expected credit losses amounting to 6.3 million BAM, of which the effect is the release in the amount of 3.3 million. BAM in the month of application of the new models, and an additional release of 3 million BAM after the expiration of three months of recovery in accordance with the regulatory provisions for the transfer from Stage 2 to Stage 1. The reason for obtaining the stated result is a consequence of the nature of the macroeconomic environment during 2020, 2021 and the beginning of 2022 , with 2021 and early 2022 reflecting a recovery in economic activity. The years 2021 and the first part of 2022 were not extremely good years for economic activity, but compared to the significant deterioration of macroeconomic indicators in 2020, it can be seen as an extremely good period

The resulting models were developed using all methodological caution, following internal guidelines, and were validated and showed adequate results.
However, considering the current macroeconomic events (Ukrainian crisis, rising inflation, announcement of recession, etc.), a significant release of provisions was not considered appropriate, and the Bank decided to calculate Post model adjustment (PMA) in the amount of 1.6 million BAM. The stated amount was obtained as the difference between the amount of expected credit losses obtained using the TTC matrices and the amount obtained using the PIT matrices. The stated amount of PMA is added every month to the calculated amount of expected credit losses according to the internal model.
When calculating the expected credit losses for 31 Decembar 2022, the Bank applied the regulatory prescribed LGD rates (0.45 for exposures secured by acceptable collateral or 0.75 for exposures not secured by acceptable collateral) which led to an increase in expected credit losses in the estimated amount of 5 million BAM.
When calculating expected credit losses for 31 Decembar 2022, the Bank applied the provisions of the new regulatory decision - Decision on temporary measures to mitigate the risk of interest rate growth and on that basis booked an additional amount of expected credit losses of BAM 1.32 million.

58.4. Development of the coverage ratio

The coverage ratio slightly increased compared to the YE21.

The following tables show the NPE and coverage ratios at YE22 and YE21:

(000) BAM

31.12.2022	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (On-balance loans)	Coverage Ratio 1	Coverage Ratio 3
Consumer	428.383	24.497	22.328	958	5,7%	6,0%	91,1%	95,1%
SME	285.349	1.883	1.666	300	0,7%	1,0%	88,5%	104,4%
Non Focus	138.139	5.475	4.883	4.587	4,0%	1,3%	89,2%	173,0%
o/w Large Corporate	53.162	694	694	98	1,3%	2,0%	100,0%	114,1%
o/w Mortgage	26.638	4.781	4.189	4.489	17,9%	18,0%	87,6%	181,5%
o/w Public Finance	58.339	0	0	0	0,0%	0,0%	0,0%	0,0%
Corporate Center	245.083	0	0	0	0,0%	0,0%	0,0%	0,0%
Total	**1.096.954**	**31.855**	**28.877**	**5.845**	**2,9%**	**2,4%**	**90,7%**	**109,0%**
o/w Credit Risk Bearing	**809.848**	**31.855**	**28.877**	**5.845**	**3,9%**	**4,7%**	**90,7%**	**109,0%**

(000) BAM

31.12.2021	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (On-balance loans)	Coverage Ratio 1	Coverage Ratio 3
Consumer	360.580	25.481	21.517	1607	7,1%	7,4%	84,4%	90,7%
SME	263.056	2.138	1.825	509	0,8%	1,2%	85,4%	109,2%
Non-Focus	194.451	14.862	14.256	12.689	7,6%	9,2%	95,9%	181,3%
o/w Large Corporate	85.589	0	0	0	0,0%	0,0%	0,0%	0,0%
o/w Mortgage	43.187	14.784	14.188	12.689	34,2%	34,2%	96,0%	181,8%
o/w Public Finance	65.675	78	68	0	0,1%	0,1%	87,2%	87,2%
Corporate Center	253.729	0	0	0	0,0%	0,0%	0,0%	0,0%
Total	**1.071.816**	**42.481**	**37.598**	**14.805**	**4,0%**	**4,6%**	**88,5%**	**123,4%**
o/w Credit Risk Bearing	**769.369**	**42.481**	**37.598**	**14.805**	**5,5%**	**6,8%**	**88,5%**	**123,4%**

(59) Measurement of real estate collateral and other collateral

Pursuant to the Bank Collateral Management Policy and also the Bank Real Estate Valuation Policy, all real estate is regularly monitored and its value regularly re-assessed, annually for all commercial real-estate, and at least once in three years for residential real estate and real estates which are collateral for NPE.
The valuation of all commercial and residential real estate is performed on an individual level if the market value is above BAM 1,956 thousand for CRE, above BAM 1,369 thousand for RRE located in Banjaluka and above BAM 782 thousand for other RRE. The market value of the ones with smaller value is re-assessed using certain statistical methods and tools.

The internal collateral values (ICV) are shown in the following table for 31 December 2022 as well as 31 December 2021:

(000) BAM

Collateral Distribution	31.12.2022	31.12.2021
Exposure	1.096.954	1.071.816
Internal Collateral Value (ICV)	388.583	552.355
thereof CRE	282.355	408.504
thereof RRE	84.592	121.411
thereof financial collateral	3.969	9.275
thereof guarantees	0	0
thereof other	17.667	13.165
ICV coverage rate	**35,4%**	**51,5%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estates given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail. Collateral coverage also decreased compared to previous year.

Dependent on the value of collateral, some stage 3 exposures may not have individual ECLs assigned, if the expected discounted cash flows from realisation of collateral is greater that the outstanding amount, even if the expected discounted cash flows from realisation of collateral is forecasted using multiple economic scenarios.

However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

(000) BAM

2022	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	31.855	**0**	**0**	**720**	**0**	**0**	**0**	**0**	**31.135**	**-28.877**
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	2.507	0	0	88	0	0	0	0	2.419	-2.291
Households	29.348	0	0	632	0	0	0	0	28.716	-26.586
Commitments and financial guarantees	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0
Loan commitments given	0	0	0	0	0	0	0	0	0	0

(000) BAM

2021	Gross Carrying amount	Fair value of collateral held under the base case scenario: Securi-ties	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	42.482	0	0	786	0	0	0	0	41.696	-37.598
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	2.082	0	0	161	0	0	0	0	1.921	-1.764
Households	40.400	0	0	625	0	0	0	0	39.775	-35.834
Commitments and financial guarantees	1	0	0	0	0	0	0	0	1	0
Loan commitments given	1	0	0	0	0	0	0	0	1	0

(60) Market risk

60.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Bank structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Bank places a special emphasis on identifying, measuring, analysing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

60.2. Risk measurement

The Bank daily calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99.0% VaR number used by the bank reflects the 99% probability that the daily loss should not exceed the reported VaR. The VaR methodology employed to estimate daily risk numbers is a Monte Carlo simulation with 10,000 runs, or a simulation under Variance-Covariance method. While the latter method is used to estimate interest rate risk for non-trading activities, the Monte Carlo approach is then used to estimate potential losses of other market risk types. The bank uses VaR to capture potential losses arising from changes in the risk free rates, security issuers' credit margins, foreign exchange rates, equity prices and commodity prices. All VaR methods in place rest on assumption of exponentially weighted moving averages and correlations in the market risk factors collected for the historical series of 250 days.

60.3. Overview – market price risk

INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31 December 2022 is BAM 973 thousand (comparable VaR figure as at 31 December 2021: BAM 175 thousand).
The interest rate gap profile for the Bank contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures, as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20% of Tier 1 capital.

The change in present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2022 amounts to BAM 50 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2021 was BAM 52 thousand.

FOREIGN EXCHANGE RISK

The database for determining the value at risk for foreign exchange risks is based on the figures in the regulatory report as well as positions arising from participations, and contains operational business activities. Foreign exchange risk thereby covers the entire FX risk of the Bank. The main foreign exchange risk drivers are the CHF and USD currencies. The total volume of open currency positions as at 31 December 2022 is roughly BAM 812 thousand (volume per 31 December 2021 of approx. BAM 11.747 thousand), with the majority attributed to the EUR currency. The value at risk for foreign exchange risk was approximately BAM 2 thousand per day as at 31 December 2022 (value at risk as at 31 December 2021: BAM 21 thousand), at a confidence interval of 99%. The limit of BAM 31.293 thousand was adhered to as at 31 December 2022.

Sensitivity analysis
The following table indicates the currencies to which the Bank had significant exposure at 31 December 2022 and 31 December 2021, considering that the Bank represents the main segment of the consolidated financial statement. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

Currency	FX Open position 31 December 2022	10% increase	10% decrease	FX Open position 31 December 2021	10% increase	10% decrease
USD	170	17.0	17.0	-155	15.5	15.5
CHF	18	1.8	1.8	-6	0.6	0.6

FX open position represents net exposure in foreign currency. The analysis calculates the effect of a reasonably possible movement of the currencies against the BAM and their influence on gain or loss, with all other variables held constant. Negative values in the table reflect a potential net reduction in income, while a positive amount reflects a net potential increase.

EQUITY RISK

Bank held only insignificant amounts of stock in its portfolio during 2022, equity risks from an investment point of view (investments). The value at risk for the equity risk at the Bank amounted to BAM 0 thousand as at 31 December 2022 (value at risk as at 31 December 2021: BAM 0 thousand) with a one-day holding period and a confidence level of 99%.

CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 131 thousand at 31 December 2022 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2021: BAM 73 thousand). The limit of BAM 469 thousand was adhered to as at 31 December 2022. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

The following table shows the estimated values of market risks, which Bank uses for internal risk management:

(000) BAM

	31.12.2022	31.12.2021
Interest Rate Risk (Banking and Trading Book)	18.174	3.262
Credit Spread Risk	2.450	1.358
Foreign Exchange Risk	37	55

The decline in overall market risk exposure can be seen in general as an effect of increased instability and volatility in financial markets in the first half of 2022, compared to 2021. Year 2022 is characterized by unbalanced financial markets as a consequence of the Russian-Ukrainian war, as well as a consequence of the crisis caused by the Covid-19 pandemic-The increase in interest rate risk is a consequence of increased instability in financial markets. Increased credit spread risk arose as a result of the increase in the securities portfolio in 2022 and instability in the markets, while foreign exchange rate risk is lower due to lower open currency position.

(61) Liquidity risk

61.1. Definition

The Bank defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

61.2. General requirements

At the Bank, liquidity management at Bank level are the responsibility of Balance Sheet Management & Treasury and controlling under Risk controlling.

The Bank has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

61.3. Risk control

The liquidity reserve ensures the Bank's solvency at all times, even during crisis situations. These liquidity reserve is subject to different stress scenarios in order to maintain an overview of available liquidity resources even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

In 2022, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 247% in March 2022 and its peak of 484% in November 2022

The counterbalancing capacity at the Bank was structured as follows:

(000) BAM

Counterbalancing Capacity	31.12.2022	31.12.2021
Coins and bank notes	31.238	36.821
Withdrawable central bank reserves	81.189	91.692
Level 1 tradable assets	52.848	55.667
Total Counterbalancing Capacity	**165.275**	**184.180**

Liquidity Controlling for the Bank is carried out at a local level on the one hand as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

Any occurring gaps in pre-defined time buckets are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for the proper liquidity management. The liquidity reserves are subjected to a regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured that general regulatory requirements are adhered as well.

61.4. Overview – liquidity situation

The liquidity situation of the Bank in 2021 was stable, any capital market activities were therefore not necessary.

During the financial year, the Bank recorded a stable level of deposits around BAM 171.991 thousand. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2023.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding is BAM and EUR. Both, products and currencies are tracked through different time buckets and time frames.
In addition, the Bank is monitoring the impact of customers with high volume business: the biggest ten counterparties which are compared with the volume of total financial liabilities.

Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Bank.

(000)BAM

31.12.2022	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	800.082	803.150	511.020	67.987	109.321	111.570	3.252
Deposits of customers	752.896	755.193	503.698	48.881	103.936	98.600	78
Deposits of credit institutions	15.969	15.969	204	15.765	0	0	0
Borrowings	22.519	23.290	291	3.185	4.919	11.721	3.174
Other financial liabilities	8.698	8.698	6.827	156	466	1.249	0
Derivatives	0	0	0	0	0	0	0
Loan commitments	85.398	85.398	85.398	0	0	0	0
Financial guarantees	8.778	8.778	8.778	0	0	0	0
Other commitments	43.727	43.727	43.727	0	0	0	0
Total	**937.985**	**941.053**	**648.923**	**67.987**	**109.321**	**111.570**	**3.252**

(000)BAM

31.12.2021	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	780.629	784.472	494.922	47.810	84.480	150.876	6.384
Deposits of customers	729.119	731.697	479.580	44.323	75.786	130.881	1.127
Deposits of credit institutions	313	313	313	0	0	0	0
Borrowings	35.370	36.635	326	3.328	8.503	19.221	5.257
Other financial liabilities	15.827	15.827	14.703	159	191	774	0
Derivatives	13	13	13	0	0	0	0
Loan commitments	89.645	89.645	89.645	0	0	0	0
Financial guarantees	11.362	11.362	11.362	0	0	0	0
Other commitments	39.672	39.672	39.672	0	0	0	0
Total	**921.321**	**925.164**	**635.614**	**47.810**	**84.480**	**150.876**	**6.384**

(62) Operational risk

62.1. Definition

The Bank defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

62.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture.

A robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk provides a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored for risk mitigation actions.

Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

62.3. Risk monitoring

Operational Risk Management reports regulary to relevant committies (on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Supervisory Board, Audit Committee, Risk Committee and OpRisk Committee) in order to provide an overview of the operational risk situation to the management to enable the adequate risk steering and to integrate the operational risk management into the bank processes.

62.4. Exposure & capital overview

Operational risk, in its cyclical process, shows changes in loss realisation thus impacting operational risk management which is visible through the loss collection and risk and control self-assessment processes, the two most important tools in operational risk management.

The operational risk with regard to the Pillar 1 capital requirement is calculated using the Basic Indicator Approach, the so-called BIA, in accordance with Decision on the calculation of the capital of banks (using relevant indicator). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes legal risk and other sub-types which the Bank considers material under Pillar 2.

(63) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk
- Macro-economic risks/ Systemic risks
- Business risk/Strategic risk
- Profitability risk
- Compliance/regulatory risk

For material “Other risks”, economic capital is considered in the risk bearing capacity calculation.

Environmental, Social and Governance (ESG) Risks
ESG risks include all risks arising from potential negative impacts, direct or indirect, on the environment, people and communities and more generally all stakeholders, in addition to those arising from corporate governance. ESG risk could affect profitability, reputation and credit quality and could lead to legal consequences.

The Bank primarily focuses on environmental risk management. Due to the granularity and diversification of the loan portfolio, there is no immediate material threat to the quality of the Assets, while the potential impact on the macroeconomics means that the Bank will be mainly affected through macroeconomic transmission channels.
Acute and chronic climate and environmental risks already affect macroeconomic indicators, and the severity of this impact in the medium and long term largely depends on the measures taken to combat climate change.
Although no immediate danger has been identified for the Bank, the uncertainty of ESG risks requires continuous monitoring.

The Bank has already identified industries that are and could be affected by climate and environmental risks in the future, but at the end of 2022 the loan portfolio does not show any concentration in those industries, and measures are being introduced to monitor and limit such exposures.
As part of the operational loan approval process, the Bank has defined measures to recognize the potential impact of climate and environmental risk on the quality of clients' assets in the affected industries. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.
After aspects above being analysed and in case that transaction is being supported adequate mitigating and monitoring system is implemented/established which will ensure the control over the transaction.

(64) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 5.040 active legal disputes with a total value of BAM 79.091 thousand led by Retail Risk Management Department.

64.1. Passive legal disputes

As at 31 December 2022, there were 75 open court proceedings against the Bank, with total nominal value of BAM 24.253 thousand, excluding contingent penalty interest. This amount includes 3 claims with nominal value of BAM 36 thousand according to which the claims have been already paid in previous periods, hence they do not represent an additional risk of losses but are in the state of open court proceedings based on legal remedy. In addition, this amount includes 10 claims with nominal value of BAM 1.818 thousand, which are, in accordance with contracts on ced-ing receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk trans-ferred to transferee) are not recorded in accounting records.
The overall number and value of passive legal disputes significantly decreased in 2022.
In 2022, the Bank did not have significant unplanned costs related to passive litigation.
The Bank estimates the amount of provisions for court costs. The estimate is based on the estimated probability of future cash flows arising from past legal or other resulting liabilities. As at 31 December 2022, the Bank set aside funds in the amount of BAM 332 thousand for court proceedings and receivables, which the Management Board considers sufficient for risk of loose legal disputes.
During 2022, the Bank continued to intensify its litigation and related legal risk management activities. The Bank's strategies in court proceedings are regularly established, and adequate legal representation and coordination of the Bank's defense is established, as well as the out-of-court dispute resolution procedure, recording and reporting on litigation and claims. This resulted in these and other court decisions in favor of the Bank, and the termination of certain proceedings.

The following is overview of court proceedings as of 31.12.2022

(000) BAM

Type of case	Number of cases	Value of cases	Provisions
Brush - responsibility of third parties	10	1.818	0
Compensation for damadges	10	18.779	0
Unfair enrichment	2	76	6
Labor dispute	8	63	219
Old foreign currency savings	3	215	65
Determination	30	3.115	13
Currency clause / margin	12	187	29
Total	**75**	**24.253**	**332**

64.2. Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles. Accordingly, no legal provision is required to be set up if the Bank is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk.

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on new legal. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Bank is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Supplementary information required to be disclosed

(65) Analysis of remaining maturities

(000) BAM

Analysis of remaining maturity as at 31.12.2022	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	156.481	78.780	0	0	0	235.261	0	235.261
Financial assets held for trading	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	82.317	0	0	0	0	82.317	0	82.317
Financial assets at amortised cost	20.762	45.973	126.439	287.720	136.251	193.174	423.971	617.145
Tangible assets	22.632	0	0	0	0	22.632	0	22.632
Intangible assets	4.487	0	0	0	0	4.487	0	4.487
Tax assets	1.889	0	0	0	0	1.889	0	1.889
Current tax assets	0	0	0	0	0	0	0	0
Deferred tax assets	1.889	0	0	0	0	1.889	0	1.889
Other assets	3.718	0	0	93	0	3.718	93	3.811
Non-current assets and disposal groups classified as held for sale, financial instruments	0	0	0	0	0	0	0	0
Total	**292.286**	**124.753**	**126.439**	**287.813**	**136.251**	**543.478**	**424.064**	**967.542**
Financial liabilities held for trading	0	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	511.020	67.222	108.564	110.094	3.182	686.806	113.276	800.082
Provisions	1.760	133	348	1.060	200	2.241	1.260	3.501
Tax liabilities	456	0	0	0	0	456	0	456
Current tax liabilities	456	0	0	0	0	456	0	456
Deferred tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2.878	0	0	76	0	2.878	76	2.954
Total	**516.114**	**67.355**	**108.912**	**111.230**	**3.382**	**692.381**	**114.612**	**806.993**

(000) BAM

Analysis of remaining maturity as at 31.12.2021	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	173.790	76.300	0	0	0	250.090	0	250.090
Financial assets held for trading	31	0	0	0	0	31	0	31
Financial assets at fair value through other comprehensive income	88.086	0	0	267	0	88.086	267	88.353
Financial assets at amortised cost	11.587	48.506	116.576	259.694	131.315	176.669	391.009	567.678
Tangible assets	26.430	0	0	0	0	26.430	0	26.430
Intangible assets	5.740	0	0	0	0	5.740	0	5.740
Tax assets	1.971	0	0	0	0	1.971	0	1.971
Current tax assets	439	0	0	0	0	439	0	439
Deferred tax assets	1.532	0	0	0	0	1.532	0	1.532
Other assets	4.228	0	0	0	0	4.228	0	4.228
Non-current assets and disposal groups classified as held for sale, financial instruments	0	0	399	0	0	399	0	399
Total	**311.863**	**124.806**	**116.975**	**259.961**	**131.315**	**553.644**	**391.276**	**944.920**
Financial liabilities held for trading	13	0	0	0	0	13	0	13
Financial liabilities measured at amortised cost	489.719	51.965	83.468	149.225	6.252	625.152	155.477	780.629
Provisions	1.178	95	1.377	995	272	2.650	1.267	3.917
Tax liabilities	0	0	0	0	0	0	0	0
Current tax liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2.287	0	0	54	0	2.287	54	2.341
Total	**493.197**	**52.060**	**84.845**	**150.274**	**6.524**	**630.102**	**156.798**	**786.900**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. An analysis regarding recovery or settlement up to 1 year after the reporting date and over 1 year after the reporting date, as requested in IAS 1, is presented. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(66) Leases from the view of the Bank as lessee

The Bank leases the majority of its offices and branches under various rental agreements. The Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods. Extension and termination options are included in a number of property and equipment leases. Several lease contracts have indefinite lease term and several contracts contain insignificant residual value guarantees. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate. For further details regarding lease contracts please refer to note (7) Leases and to note (5) Use of estimates and assumptions/material uncertainties in relation to estimates.

The lease agreements do not include any clauses that impose any restrictions on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The Bank had total cash outflows for leases of BAM 1.351 thousand in (2021: BAM 1.048 thousand).

(000) BAM

	31.12.2022	31.12.2021
Payments for principal portion of lease liability	-688	-467
Payments for interest portion of lease liability	-56	-18
Payments for short-term, low value assets and variable lease payments not included in the measurement of the lease liability	-607	-563
Total	**-1.351**	**-1.048**

As at 31 December 2022 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2022
up to 1 year	667
from 1 year to 5 years	1.275
more than 5 years	0
Total undiscounted lease liabilities	**1.942**

As at 31 December 2022 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2022
Short-term leases	109
Leases of low value assets	498
Total	**607**

As at 31 December 2021 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2021
up to 1 year	407
from 1 year to 5 years	800
more than 5 years	0
Total undiscounted lease liabilities	**1.207**

As at 31 December 2021 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2021
Short-term leases	91
Leases of low value assets	472
Total	**563**

(67) Leases from the view of the Bank as lessor

As at 31 December 2022 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2022
up to 1 year	84
from 1 year to 5 years	0
more than 5 years	0
Total	**84**

As at 31 December 2021 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2021
up to 1 year	322
from 1 year to 5 years	107
more than 5 years	0
Total	**429**

Lease income in business year 2022 for the Bank amounts to BAM 353 thousand (2021: BAM 345 thousand).

(68) Assets/liabilities denominated in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

(000) BAM

	31.12.2022	31.12.2021
Assets	**967.542**	**944.920**
of which: EUR	340.406	414.645
of which: USD	12.043	14.388
of which: CHF	8.863	8.305
of which: BAM	603.807	501.839
of which: RSD	135	44
of which: HRK	0	816
of which: other currencies	2.288	4.883
Liabilities	**806.993**	**786.900**
of which: EUR	314.440	318.644
of which: USD	11.867	8.761
of which: CHF	8.837	8.291
of which: BAM	469.729	448.581
of which: RSD	0	0
of which: HRK	0	153
of which: other currencies	2.120	2.470

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency. The majority of the differences between the respective sums is hedged through foreign exchange swaps (FX swaps) and forward exchange transactions.

(69) Contingent liabilities and other liabilities not included in the statement of financial position

The following gross commitments not included in the statement of financial position existed at the reporting date:

(000) BAM

	31.12.2022	31.12.2021
Loan commitments, given	85.398	89.645
Financial guarantees, given	8.778	11.362
Other commitments, given	43.727	39.672
Total	**137.903**	**140.679**

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

Bank faces a number of passive legal cases, where customers filed claims against Bank seeking compensation for damages, mainly related to FX and unilateral interest change clauses. No further disclosures according to IAS 37.92 are made in order to protect the Bank's position in these legal disputes.

(70) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Bank uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of the Bank. This hierarchy gives the highest priority to observable inputs when available and the lowest priority to unobservable inputs. Bank considers relevant and observable inputs in its valuations, where possible.

The fair value hierarchy comprises the following levels:

- **Level 1 -** Quoted prices in active markets: The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- **Level 2 -** Value determined using observable parameters: If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.

- **Level 3 -** Value determined using non-observable parameters: This category includes financial instruments for which there are no observable market rates or prices.

The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

Valuation models are regularly reviewed, validated and calibrated. All valuations are performed independently of the trading departments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement model; they are reported under level II or level III depending on the input factors used.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques whereby expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

70.1. Fair value of assets carried at fair value

The table below shows the allocation of assets carried at fair value to their level in the fair value hierarchy.

(000) BAM

31.12.2022	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	0	0	0
Derivatives	0	0	0	0
Investment securities at FVTOCI	82.040	72	205	82.317
Equity instruments	0	72	205	277
Debt securities	82.040	0	0	82.040
Total	**82.040**	**72**	**205**	**82.317**
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	**0**	**0**	**0**	**0**

(000) BAM

31.12.2021	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	31	0	31
Derivatives	0	31	0	31
Investment securities at FVTOCI	88.088	60	205	88.353
Equity instruments	0	60	205	265
Debt securities	88.088	0	0	88.088
Total	**88.088**	**91**	**205**	**88.384**
Liabilities				
Financial liabilities held for trading	13	0	0	13
Derivatives	13	0	0	13
Total	**13**	**0**	**0**	**13**

Transfers between level I and level II

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the financial instrument does no longer meet the criteria described above for the categorisation in the respective level.
In the current and the previous reporting period no transfer of debt securities at FVTOCI took place..

The reconciliation of the assets reported under level III as at 31 December 2022 was as follows:

(000) BAM

2022	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	205	0	0	0	0	0	205
Equity instruments	205	0	0	0	0	0	205
Total	**205**	**0**	**0**	**0**	**0**	**0**	**205**

The reconciliation of the assets reported under level III as at 31 December 2021 was as follows:

(000) BAM

2021	01.01	Gains/ losses recognized in OCI	Gains/ losses recognized in PnL	Additions (+)	Disposals (-)	Transfer in/out from level	31.12.
Assets							
Investment securities at FVTOCI	205	0	0	0	0	0	205
Equity instruments	205	0	0	0	0	0	205
Total	**205**	**0**	**0**	**0**	**0**	**0**	**205**

Measurement methods used to determine the fair value of level II and level III items

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

The following measurement techniques are applied to items that are measured internally based on models:

- Present value of the future cash flows (discounted cash flow method) -Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.
- Option measurement models -The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items:

- Volatilities and correlations -Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.
- Risk premiums - Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.
- Loss given default - The loss given default is a parameter that is never directly observable before an entity defaults.
- Probability of default - Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments

Credit value adjustment (CVA) and debt value adjustment (DVA)

Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves available; and are composed of country-specific curves and an internal rating.

OIS discounting

The Bank measures derivatives taking into account base spread influences by applying various interest curves to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

70.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognised financial instruments not carried at fair value are compared to the respective fair values below:

(000) BAM

31.12.2022	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	235.261	235.214	-47	0	0	235.214
Financial assets at amortised cost	617.145	649.264	32.119	0	0	649.264
Loans and receivables	617.145	649.264	32.119	0	0	649.264
Total	**852.406**	**884.478**	**32.072**	**0**	**0**	**884.478**
Liabilities						
Financial liabilities measured at amortised cost	800.082	793.741	-6.341	0	0	793.741
Deposits	768.865	763.156	-5.709	0	0	763.156
Borrowings	22.519	21.887	-632	0	0	21.887
Other financial liabilities	8.698	8.698	0	0	0	8.698
Total	**800.082**	**793.741**	**-6.341**	**0**	**0**	**793.741**

(000) BAM

31.12.2021	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	250.090	250.105	15	0	0	250.105
Financial assets at amortised cost	567.678	609.891	42.213	0	0	609.891
Loans and receivables	567.678	609.891	42.213	0	0	609.891
Total	**817.768**	**859.996**	**42.228**	**0**	**0**	**859.996**
Liabilities						
Financial liabilities measured at amortised cost	780.629	785.308	4.679	0	0	785.308
Deposits	729.432	733.337	3.905	0	0	733.337
Borrowings	35.370	36.144	774	0	0	36.144
Other financial liabilities	15.827	15.827	0	0	0	15.827
Total	**780.629**	**785.308**	**4.679**	**0**	**0**	**785.308**

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no debt issues of the Bank are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in CSEE whose markets and estimated credit standing is as similar to that of the Bank as possible. For the covered liabilities, the curve of the weighted credit spread of the available bonds covered by the reference value from the peer group was used. Due to the existing uncertainties, a broad range exists for the fair values to be determined.

The management assessed that the fair value of cash positions approximately correspond to their carrying amounts largely due to the short term maturities of these instruments.

(71) Derivative financial instruments

71.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

(000) BAM

	Nominal amount	
	31.12.2022	31.12.2021
Foreign exchange and gold		
OTC other	44.984	125.173

(000) BAM

	31.12.2022			31.12.2021		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**0**	**0**	**0**	**0**	**0**	**0**
OTC options	0	0	0	0	0	0
OTC other	0	0	0	0	0	0
b) Foreign exchange and gold						
OTC-products	**44.984**	**0**	**0**	**125.173**	**31**	**13**
OTC other	44.984	0	0	125.173	31	13
c) Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Credit default swap	0	0	0	0	0	0

Trading book volume can be shown as follows:

(000) BAM

	31.12.2022	31.12.2021
Derivatives in trading book (nominal)	44.984	125.173
Debt securities (carrying amount)	0	0
Trading book volume	**44.984**	**125.173**

(72) Related party disclosures

In accordance with the International Accounting Standard ("IAS") 24: "Related Party Disclosures", related parties are parties or entities that represent:

a) enterprises that directly, or indirectly through one or more intermediaries, control the reporting company or are under its control, i.e. which the reporting entity controls together with other entities (including holding companies, subsidiaries and fellow subsidiaries);
b) associated persons - companies in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
c) individuals who directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or be influenced by the relating individual in their dealings with the Bank;
d) executives in key positions, i.e. individuals having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and members of their immediate families; and
e) companies in which any person described in (c) or (d) has a substantial interest in the voting rights or which is directly or indirectly owned by the mentioned individuals, or where the same may have a significant impact. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in both their company and in a same or similar positions at the Bank.

In considering each possible related party transaction, attention is directed to the essence of the relationship, not merely the legal form.

Business relations with related parties are as follows at the respective reporting date:

(000) BAM

31.12.2022	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Financial assets							
Loan and advances	11.685	0	0	0	0	671	242
Placements	12.332	601	1.928	293	0	2.245	0
Derivatives	0	0	0	0	0	0	0
Other assets	45	0	0	0	0	0	0
Financial liabilities							
Derivatives	0	0	0	0	0	0	0
Deposits	11.861	0	2	12	24	0	1.882
Other financial liabilities	105	0	73	215	0	102	0
Other liabilities	0	0	0	0	0	0	0
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**61**
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(000) BAM

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Financial assets							
Loan and advances	0	0	0	0	0	1.585	189
Placements	18.462	69	386	165	0	795	0
Derivatives	31	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0
Financial liabilities							
Derivatives	13	0	0	0	0	0	0
Deposits	97	0	0	17	79	0	851
Other financial liabilities	75	0	473	129	0	1.460	0
Other liabilities	0	0	0	0	0	0	0
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**44**
Commitments and guarantees given	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(000) BAM

31.12.2022	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Interest and similar income	73	0	10	0	0	0	11
Interest expenses	-185	0	0	0	0	0	-10
Fee and commission income	0	0	0	0	0	0	10
Fee and commission expenses	-10	-1	-50	-2	0	0	0
Other administrative expenses	-233	0	-368	-215	0	-1	0
Gains on derecognition of financial assets FVOCI	0	0	0	0	0	0	0
Other operating income	0	0	0	0	0	5	0
Other operating expense	0	0	0	0	0	-3	0
Credit loss expenses on financial assets	-29	-3	-8	-1	0	-71	-1
Total	**-384**	**-4**	**-416**	**-218**	**0**	**-70**	**10**

(000) BAM

31.12.2021	ABH	ABS	ABC	ABSE	ABM	ABSA	Key personnel
Interest and similar income	0	0	0	0	0	0	8
Interest expenses	-63	0	-8	0	0	-44	-3
Fee and commission income	0	0	1	0	0	0	8
Fee and commission expenses	-5	0	-36	-2	0	0	0
Other administrative expenses	-234	0	-428	-129	0	-4	0
Gains on derecognition of financial assets FVOCI	450	0	0	0	0	0	0
Other operating income	0	0	0	0	0	16	0
Other operating expense	0	0	0	0	0	-0	0
Credit loss expenses on financial assets	387	20	69	2	0	-36	-1
Total	**535**	**20**	**-402**	**-129**	**0**	**-68**	**12**

The following table shows the total remuneration of the members of the Management and Supervisory Board according to IAS 24.17. Expenses according to IAS 24 are recognized on an accrual basis in accordance with the relevant rules of the basic standards IAS 19 and IFRS 2. The disclosed amounts correspond to the estimated payment on the reporting date and may deviate from those that will be finally paid::

(000) BAM

	31.12.2022	31.12.2021
Short term employee benefits	981	1.160
Other long term benefits	0	0
Termination benefits	0	316
Total	**981**	**1.476**

(73) Share-based payments

In 2021 the Bank established, in addition to the annual bonus, a Performance Acceleration Incentive Framework (PAIF) based on which the Bank granted to management board variable remuneration components based on value of shares. The program is intended to closely align the interests of the participants with those of the shareholders. The amount is dependent on the average share price of Addiko Bank AG (Volume Weighted Total Return) during the month of November and December of the year for which it is awarded on the Vienna Stock Exchange. In addition, the program is activated only if regulatory requirements in respect of own funds are met and no breaches of specific risk indicators took place within a pre-defined timeframe.

PAIF is accounted in accordance with IFRS 2.

Share-based payments: Under the Bank’s PAIF scheme, Management Board members receive an additional variable remuneration which amount is based on the average price of shares (Volume Weighted Total Return) of Addiko Bank AG during the month of November and December 2022. In case the overall amount of the normal bonus and the remuneration granted under the PAIF program exceeds pre-defined limits, the payments are deferred over a period of six years in tranches, according to internally defined documents.

For the total carrying amount of liabilities arising from cash-settled share based payments, see the Note (49) and for expense see the Note (32). During 2022 The Bank made settlements for results achived in 2021.

All share-based payments (cash-settled, equity-settled) can only be paid out if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a pre-defined timeframe.

(74) Capital management

74.1. Own funds and capital management

In accordance with the Law on Banks (Official Gazette of RS no. 04/17, 19/18, 54/19) the minimum amount of a bank’s paid-in capital and the lowest level of the capital a bank has to maintain, cannot be lower than BAM 15,000 thousand. The Bank’s subscribed capital amounted to BAM 153,094 thousand is in line with these provisions.
Regulatory capital represents the sum of core and supplementary capital, after regulatory adjustments.
The Bank's core capital is comprised of the sum of regulatory capital after regulatory adjustments and supplementary capital after regulatory adjustments.

Items of ordinary core capital of the Bank consist of equity instruments, premiums on shares, retained earnings, accumulated other comprehensive income and other reserves. The Bank deducts profit of current financial year from ordinary capital items, intangible assets, insufficient regulatory reserves, deferred tax assets etc. The additional core capital of the Bank consists of items of additional capital after regulatory adjustments. The items of additional capital are equity instruments and instrument-related premium accounts.
The Bank's supplementary capital consists of the Bank's supplementary capital items after deductions for regulatory adjustments. Supplementary capital cannot be more than one third of the core capital.

With regard to capital risk management, the Bank aims to:
- provide compliance with the Banking Agency requirements,
- provide compliance with Addiko Group standards,
- provide possibilities of long-term business operation while providing profit for shareholders.

In terms of the calculation of risk weighted assets (RWA) for regulatory reporting, the following approaches are applied:

- Standardised Approach for credit risk and
- Simplified Approach for operational risk.

The capital management is fully integrated into the Bank's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

In addition to the minimum capital ratios required by the regulators, the Bank defines early warning and recovery levels in the Bank's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures.

Additionally, the Bank tracks all new regulatory changes, e.g. new regulatory decisions about capital management. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

74.2. Implementation of new regulatory decision

In June 2019, the Banking Agency published the final version of new regulatory Decision about credit risk management and determining expected credit losses, which is mandatory for reporting periods beginning on 1 January 2020. The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum tresholds are prescribed. The effects of implementation of new regulatory decision are recognized in initial equity as at 1 January 2020 on position Other reserves in the amount of BAM 4.511 thousand.

74.3. Own funds and capital requirements

Own funds according to the Banking Agency decisions consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2022 and 31 December 2021 amount to:

			31.12.2022			31.12.2021
	CET1	T1	TCR	CET1	T1	TCR
Minimum capital requirement	6,75%	9,00%	12,00%	6,75%	9,00%	12,00%
Capital Buffer	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%
SREP requirement	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%
Overall Capital Requirement (OCR)	**11,25%**	**13,50%**	**16,50%**	**11,25%**	**13,50%**	**16,50%**

The Bank is under obligation to maintain capital adequacy at the minimum of 14%, i.e. to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on calculation of bank capital and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Repulica Srspka.

The Bank's Management monitors adequacy ratios and other business indicators on a regular basis. Reports on indicators are submitted to the Banking Agency quarterly in the prescribed form.

	31.12.2022	31.12.2021
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	153.094	153.094
Retained earnings	0	-6.494
Statutory reserves	377	0
Accumulated other comprehensive income (and other reserves)	-5.771	1.040
CET1 capital before regulatory adjustments	**147.700**	**147.640**
CET1 capital: regulatory adjustments		
Intangible assets	-4.487	-5.739
Other deductions from common equity	-1.904	-1.674
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-6.391**	**-7.413**
Common Equity Tier 1 (CET1) capital	**141.309**	**140.227**
Tier 2 (T2) capital: instruments and provisions		
General credit risk allowances	0	0
Deductions from supplementary capital	0	0
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**141.309**	**140.227**
Amount of exposure weighted for credit risk / Total risk-weighted assets	606.000	582.623
Total amount of exposure for position, currency and merchandise risk	4.432	13.800
Weighted operating risk	53.206	48.071
Total risk weighted assets	**663.638**	**644.494**
Capital ratios and buffers %		
CET1 ratio	21,29%	21,76%
TC ratio	21,29%	21,76%

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with BARS regulations.

Total capital is higher for BAM 1.082 thousand comparing to last year..

The capital requirements in force during the year, including a sufficient buffer, were met at all times.

Capital requirements (risk-weighted assets)

Credit risk, operational risk, and market risk are in the scope of regulatory risks for RWA calculation. RWAs increased by BAM 19.144 thousand during the reporting period.
The increase of RWAs for credit risk by 23.377 thousand BAM. RWAs for market risk decreased by -9.368 thousand BAM and RWA for operating risks increased by 5.135 thousand BAM owing to changes of regulatory requests.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the BARS Decision on Minimum Standards for Bank Capital Management, was 13,9% at 31 December 2022, down from 14,1% at 31 December 2021. The fall was driven by increase in the total leverage exposure.

(000) BAM

	31.12.2022	31.12.2021
Tier 1 capital	141.255	140.227
Total leverage ratio exposure	1.017.455	994.489
Leverage ratio %	**13,9%**	14,1%

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with BARS regulations.

(75) Assets pledged as collateral

As of 31. December 2022, the Bank had pledge in favor to funds of Republic of Srpska Investment-Development Bank, ie a pledge is established on the Bank's loan portfolio with the RS Housing Fund, the RS Development Fund and the RS Development and Employment Fund with which the Bank concluded individual loan agreements, with the balance of prinicpal on the aforementioned credit lines as of 31. December 2022 in amount of BAM 15.954 thousand (YE21: BAM 20.823 thousand)
Pledged assets as of 31. December 2022 of the Bank consists of loans given to customers.
The pledged assets is registered in the BiH Pledge Register kept by the Ministry of Justice of Bosnia and Herzegovina.

(76) Events after the reporting date

Until the date of issuance of these financial statements, there were no events after the balance sheet date that would significantly affect the Bank's financial statements, and that would require additional disclosures or corrections.

(77) Boards and Officers of the Company

1 January to 31 December 2022

Supervisory Board

Chairman of the Supervisory Board:
Tadej Krašovec (from 26.11.2021 - today)

Deputy Chairman of the Supervisory Board:
Petra Hildegard Zirhan-Wagner (from 26.11.2021 - today)

Members of the Supervisory Board:
Mark Potočnik (from 23.12.2020 - today)
Stevo Pucar (from 23.12.2020 - today)
Radomir Savić (from 23.12.2020 - today)

Management Board

Srđan Kondić, Chairman (from 01.10.2020 - today)
Slađan Stanić, Member (from 18.12.2020 - today)
Mile Todorović, Member (from 26.08.2021 - today)

Audit Committee

Đorđe Lazović, Chairman (from 16.05.2019 - today)
Jelena Mažuranić, Member (from 16.05.2019 -25.05.2022)
Siniša Radonjić, Member (from 16.05.2019 - today)
Ines Krnić (from 25.05.2022 - today)

Banja Luka, 28 February 2023
Addiko Bank a.d.

MANAGEMENT BOARD

Srđan Kondić
Chairman

Slađan Stanić
Memeber of the Management Board

ADDIKO BANK A.D.
BANJA LUKA

Mile Todorović
Memeber of the Management Board

Statement of all legal representatives

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently, making judgements and estimates that are reasonable and prudent, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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

Banja Luka, 28 February 2023
Addiko Bank a.d.

MANAGEMENT BOARD

Srđan Kondić
Chairman

ADDIKO BANK A.D.
1
BANJA LUKA

Slađan Stanić
Memeber of the Management Board

Mile Todorović
Memeber of the Management Board

Independent Auditors' report
To the shareholders of Addiko Bank a.d. Banja Luka

Opinion

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

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

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 Republic of Srpska, 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.

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

Independent Auditors’ report
To the shareholders of Addiko Bank a.d. Banja Luka *(continued)*

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 advances to customers

As at 31 December 2022, gross loans and advances to customers: BAM 660 million, related impairment allowance: BAM 55 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 2.6 million (31 December 2021: gross loans and advances to customers: BAM 620 million, related impairment allowance: BAM 61 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 0.6 million).

Refer to Accounting policies, Note 5 Use of estimates and assumptions/material uncertainties in relation to estimates, Note 40 Loans and advances, and Note 57 Credit risk.

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 advances to 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 Republic of Srpska (“ABRS”), which combines the requirements of IFRS 9 “Financial Instruments” with the ABRS-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 BAM 50 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 (together, “collective impairment allowance”).	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 credit risk management, finance 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.

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Key Audit Matters (continued)

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above BAM 50 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. Incorporated into both the collective and individual assessment are also specific rules of the ABRS regarding various minimum provisioning rates. While the credit environment in 2022 reflected a recovery from the COVID-19 pandemic, it also reflected unfavourable changes in the economic outlook, disruptions to energy and other commodity markets and slowing economic growth as well as elevated inflationary pressures and increase in interest rates. In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit. Accordingly, we considered this area to be our key audit matter.	• 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, realized losses on those defaults, and loan amortization; — 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 sources; — Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of the industry and our understanding of the current 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 various minimum provisioning requirements prescribed by the ABRS; — 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.

Independent Auditors' report
To the shareholders of Addiko Bank a.d. *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Key data, Letter from the CEO and Management report but does not include the financial statements and our auditors' report thereon. The other information is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 Republic of Srpska, 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 skepticism 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.

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Independent Auditors’ report
To the shareholders of Addiko Bank a.d. *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements (continued)

- 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 auditor’s report is Vedran Vukotić.

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

Registered Auditors
Svetozara Markovića 5/11
78000 Banja Luka
Bosnia and Herzegovina

KPMG B-H 1

28 February 2023

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

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits defined within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures
CRB	Credit Risk Bearing
Credit institutions	Any institution undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions

General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)

Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss

Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund, presented in % of the total risk according to Decision about capital management
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2).
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans
DWH	Data warehouse
CRE	Commercial Real Estate Collaterals
RRE	Residential Real Estate Collaterals
TTC	Through-the-cycle
PIT	Point-in-time

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