ProCredit Bank

Annual report 2023

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This version of the annual report is a translation from the original, which was prepared in Bosnian 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 the report and the original language version of the annual report take precedence over this translation.

Key financial figures

ProCredit Bank d.d. Sarajevo (,000 BAM)	December 31 2023.	December 31 2022.	Change
BALANCE SHEET			
Cash, Central bank and other financial institutions balances	281,419	267,323	5%
Loans and advances to customers	565,606	541,481	4%
Other assets	72,755	62,845	16%
Liabilities to customers	725,282	665,517	9%
Liabilities to banks and financial institutions (inc. Subdebt)	101,635	128,005	-21%
Other liabilities	8,034	4,006	101%
Equity	84,827	74,121	14%
Total balance sheet – financial position	**919,779**	**871,649**	**5.5%**
STATEMENT OF PROFIT AND LOSS			
Net Interest Income	28,504	20,966	36%
Loss allowances	-2,829	-2,203	28%
Net fee and commission income	8,962	4,602	95%
Operating income	35,564	28,431	25%
Operating expenses	-20,894	-18,361	14%
Profit for the period	10,699	7,088	51%
KEY INDICATORS			
Return On Average Equity (RoAE)	13.2%	10.0%	
Cost to Income Ratio	61.4%	64.6%	-3.2 pp
Deposit to loans	124.0%	119.0%	5 pp
CAPITAL RATIOS			
RWA - Risk Weighted Assets	461,557	417,.772	10.5%
Capital Adequacy Ratio	17.7%	17.8%	-0.1 pp
OPERATIONS			
Employees	206	170	21%
Business units	7	6	

OUR MISSION

Be the leading bank for SME

Financial year in brief

STRENGHTENED MARKET POSITION

- “Housebank” concept as catalyst to support SMEs in a challenging market environment
- Strong portfolio growth of 4.5%
- Share of “green loans” in total loan portfolio 21% (according to internal definition)
- Deposit growth of 9.1%
- NPL share of 1.8%
- Improved internal environmental footprint

GUIDANCE FOR 2024

- Planned further growth in the number of clients
- Above-average growth in loans and deposits
- Further increase in the share of "green loans" (according to internal definition) in the total loan portfolio and positioning the bank as a green bank
- Capacity increase, new branches and presence of the bank
- Operation income growth
- Capital adequacy ratio, above regulatory limits

BASIC INFORMATION ABOUT PROCREDIT BANK

Strategy

ProCredit Bank is focused on providing banking services to small and medium enterprises as well as direct banking services to individuals. The Bank operates within the ProCredit Group, which operates in Southeast Europe, Eastern Europe, South America and Germany. The owner of the bank is ProCredit Holding based in Frankfurt am Main, Germany.

Through business activities, we strive to achieve a stable return on invested capital of shareholders while contributing to economic, social and environmental development in the areas of business. The business strategy of the Bank is based on a long-term relationship with our clients and employees as well as a conservative appetite for risks. The Bank does not perform speculative business activities.

Self-sustainability is one of the key components of the Bank's business strategy with the desire that business activities have a positive and self-sustainable contribution to the environment and society. Each bank within the group coordinates its own activities using a comprehensive environmental management system. The impact on the environment, both our own activities and the activities of our clients, is being analyzed. Within this process, we encourage clean or green investment projects, especially in energy efficiency and renewable energy projects.

The Bank aims to fulfill the role of "Housebank" of our clients. As such, the goal is to be their first contact for banking lending, deposit and payment services. Our clients, small and medium enterprises, generally require financing ranging from EUR 50,000 to 3 million. Specializing in financing small and medium enterprises, the bank recognizes special customer requirements for banking services, offering a range of financing services, deposit and transaction operations. Our client group consists of innovative companies that show dynamic growth and development as well as a stable and formalized structure. Through our activities we want to contribute to the creation of new jobs, increase of innovative capacities and investment in environmentally friendly projects. Special attention is paid to "green" financing and local production, especially in agriculture. Our approach is based on the careful selection of clients, who operate stably, transparently and socially responsibly. We believe that our clients contribute significantly to the formal sector, social and economic development. At the same time, the bank has clear requirements for clients in terms of ethics of business practices as well as environmental responsibilities.

In addition to serving small and medium enterprises, the bank strives to promote direct banking for individuals. The comprehensiveness of "online" services enables the development of long-term cooperation with clients. In general, the bank does not offer counter and cash transactions, and the bank's clients can use the services through our digital channels, which during the pandemic showed extremely useful for all parties.

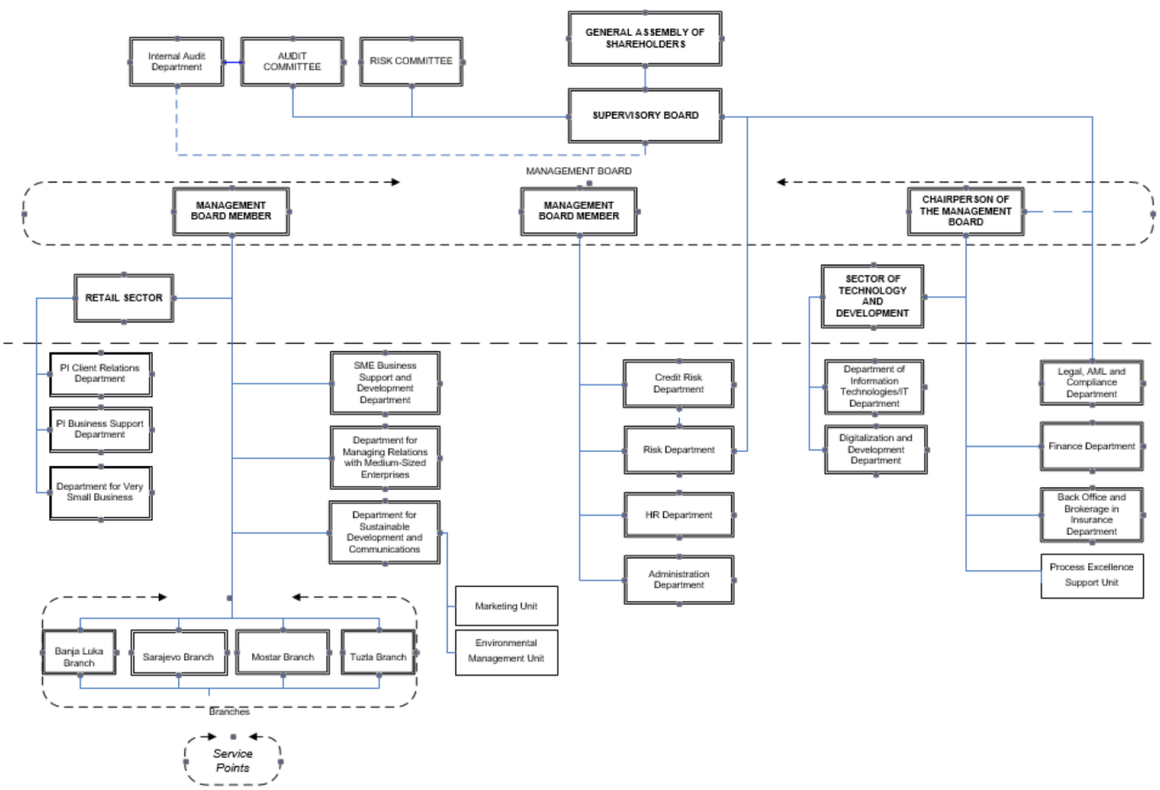
The Bank's risk strategy reflects a clearly defined business model, a high degree of diversification and careful selection and continuous training of employees. The quality and motivation of employees is one of the key factors in achieving business goals. The selection of employees is done with special care, offering the possibility of a long-term career. In order to ensure the continuity of education, the group has developed a program of various trainings that are held within its own training centers. In addition, a Code of Conduct was implemented and it defines corporate values, adherence to common values of mutual respect and responsible behavior in everyday activities.

Bank owner

ProCredit Bank is 100% owned by ProCredit Holding, which is registered as a limited partnership. The most significant shareholders of the Holding are: Zeitinger Invest GmbH 18.3%, KfW 13.2%, DOEN Participaties B.V. 12.5%, EBRD 8.7%, TIAA 8.6% and the remaining part is on a free quotation.

The largest single shareholder is Zeitinger Invest GmbH, Frankfurt am Main, who is also the key initiator of the formation of the ProCredit Group. KfW is one of the most important development banks with the aim of promoting economic, social and environmental life around the planet on behalf of the Federal Republic of Germany. Other shareholders are development-oriented institutions that have activities around the world. The development institutions are crucial in forming the business model of the ProCredit Group and the bank.

Organizational chart of the bank and the rules od corporate governance



Part of ProCredit Group's overall mission is to set standards in the financial sector in which it operates in order to make a visible impact, not only in the quality of financial services it provides, but also in business ethics and environmental issues that are fully integrated into the business model. Corporate values play a key role in this regard.

Five basic principles have been established on which the Bank's and the Group's operations are based:

a) Transparency,
b) Open communication,
c) Social responsibility and tolerance,
d) High professional standards, and
e) Personal integrity and commitment.

These principles are the basis of corporate culture and are actively applied in everyday business.

Legal and regulatory framework of corporate governance

Implementing the corporate governance system, the Bank moves within the regulatory framework established by the Law on Banks of the Federation of Bosnia and Herzegovina (hereinafter: the Law), the Law on Companies, decisions of the Banking Agency of the Federation of BiH and Republika Srpska (hereinafter: the Agency), as well as the applicable regulations governing the securities market.

At the same time, good corporate governance practice is based and upgraded through the implementation of experiences from the corporate governance practice of the group to which the Bank belongs. ProCredit Holding AG, as the holder of the Group, applies corporate governance in accordance with the international best banking practice and regulatory standards of Germany, taking into account the local legislation of the countries where the members of the ProCredit Group operate.

The Bank has also adopted the Corporate Governance Policy, the current version of which is from 28 December 2023.

Shareholders and the Assembly

The Bank has one shareholder, ProCredit Holding AG, Germany, and the powers of the Assembly are exercised by the shareholder.

In 2023, the Assembly convened three sessions, four of which were extraordinary, for the purposes of adopting the Capital Management Program, Capital Management Strategy and Plan, Business Plan, and other acts within the competence of the Assembly, as well as for the dismissal and appointment of new members of the Bank's Supervisory Board.

Supervisory Board

The Supervisory Board consists of five members appointed and dismissed by the Bank's Assembly, of which at least two are independent in accordance with the definition of the Law on Banks and the Decision on the Internal Management System in the FBiH Banking Agency. Four members of the Bank's Supervisory Board actively know one of the languages in official use in BiH, and one of the members resides in the territory of BiH.

Members of the Supervisory Board are appointed simultaneously for a period of four years with the possibility of re-election. The current mandate of the members expires on 31 May 2027.

The Supervisory Board appoints the Audit Committee and directly performs the tasks of the Remuneration Committee, the Nomination Committee and the Risk Committee.

The Audit Committee has three members and provides professional assistance to the Supervisory Board in supervising the bank's operations and the work of the Bank's Management Board, and is directly responsible for its work to the Supervisory Board, and the members are appointed by the Supervisory Board for a period of four years, with the possibility of appointment for two consecutive terms.

Management

The Bank's Management Board consists of the President and two members of the Management Board, who organize, conduct business and represent the Bank. Members of the Bank's Management Board represent the Bank in legal transactions in such a way that all legally binding documents are signed by at least two members of the Bank's Management Board, so no member of the Management Board can be authorized to represent the Bank individually in the entire scope of its activities.

The Supervisory Board appoints and dismisses the Bank's Management Board and supervises its work. The mandate of the management expires on 8 November 2027. During 2023, the Management Board held a total of 33 sessions at which it discussed topics from its area of responsibility.

Control functions

The Bank has control functions established by the Supervisory Board in a way that is independent, ie functionally separate from business processes and activities in which risk arises, ie from business processes and activities which are monitored, controlled and evaluated by these control functions: risk management function, monitoring function compliance and internal audit function.

Banking secret

Persons who have access to data considered banking secrecy in the performance of their duties are obliged to keep such data and may not use it for their personal benefit or communicate it to third parties.

These persons are obliged to keep banking secrecy even after the termination of employment with the Bank, termination of their engagement with the Bank, or termination of the status on the basis of which they gained access to such data.

Publishing data

Once a year, the Bank publishes quantitative and qualitative data, which are important for informing the public about the financial situation and operations, and they are published and available on the Bank's website.

Financial reports

The Bank prepares annual financial statements, which faithfully and objectively reflect its financial result and financial position in accordance with the statutory accounting requirements applicable to banks in the Federation of Bosnia and Herzegovina.

The Bank publishes the audit company's report in abbreviated form, within 15 days of its receipt, on its website and in one or more daily newspapers available throughout BiH, as well as audited annual financial statements together with its annual report within six months from the end of the business year to which they relate.

Detailed information about bank's corporate structure can be found in Note 1 of the financial statements.

REPORT ON THE ECONOMIC POSITION OF THE BANK

Course of business operations

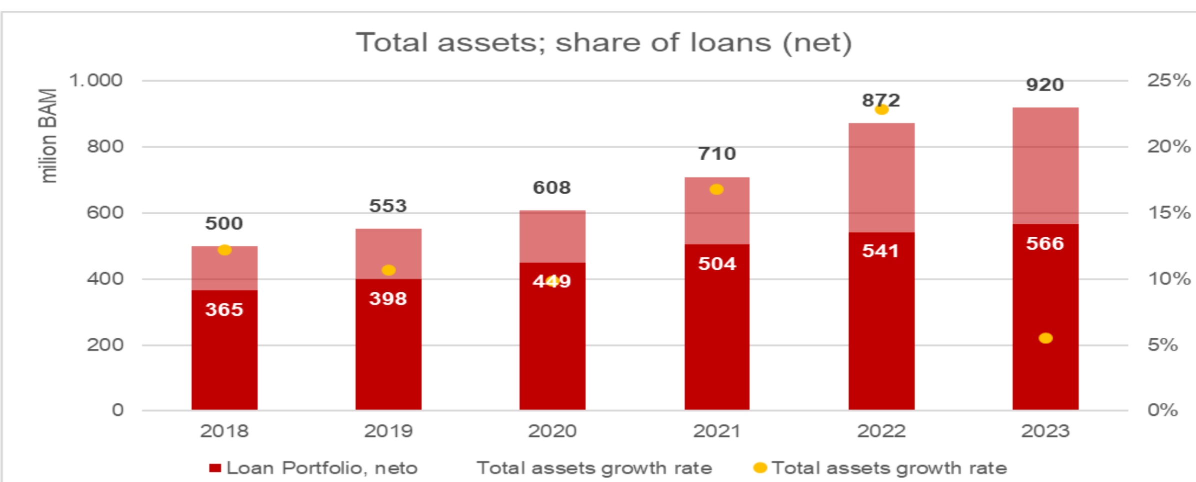
As a result of all the work done in 2023 and the years before, the bank achieved a positive financial result in prior year. Although the past year was marked by macroeconomic challenges, from rising prices and measures taken by the central banks of the EU and the FED in order to suppress inflation, as well as the war events in Ukraine and the Middle East. The entire environment had an impact on the reduction of economic and industrial activity. In its planning, the bank assumed a decrease in economic activity, which was reflected in less lending activity. However, positive results were achieved, the growth of total business assets, investments in interest-bearing instruments, and the bank achieved the expected profitability.

The entire gross loan portfolio increased by 4.5% from 2022 to 2023. Particularly, client deposits had positive growth and development, increasing by more than 9%. The bank had a positive financial result of BAM 10.7 million, compared to a result of BAM 7.1 million the year before. During 2023, the bank expanded its branch network by opening a new branch in Tešanj, as a residential center for a significant number of small and medium-sized companies. In addition, the plan for 2024, as well as the years after, is to further expand the network of branches, increase the level of cooperation with private individuals through an expanded network of branches. These activities are aimed at further stabilization of deposits as well as non-interest income through new transactional clients. In addition, the Bank continues to promote energy and environmentally friendly projects, and the part of the loan portfolio consisting of "green" or "green" loans (according to internal definition) will grow in the coming period.

In accordance with the mission and strategy, the Bank focuses on the provision of services to small and medium enterprises, which is reflected in the structure of assets, especially the loan portfolio. The largest part of the loan portfolio is loans granted to legal entities, which is the reason why the bank does not report loan and deposit development as separate business segments according to the type of client. The operational data presented will include loans and deposits from legal entities and individuals.

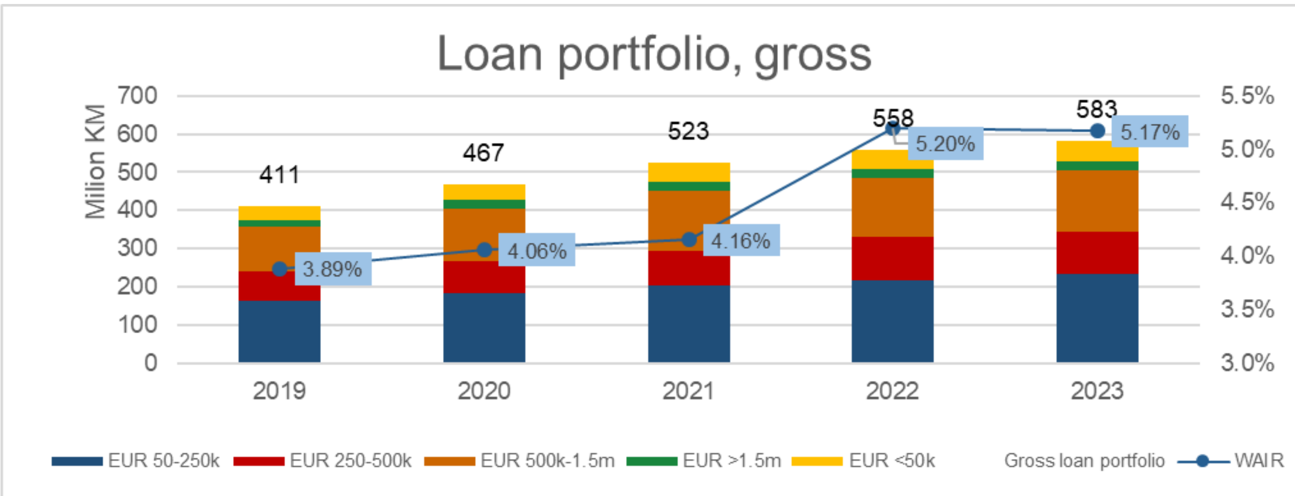
Assets

The Bank's total assets inceased by 5.5%, with the most significant of which is the growth of money, cash equivalents and investments in financial instruments. In addition, there was an increase in loans given to clients, 4.5%. Compared to the previous period, in 2023, in addition to investing in treasury bills, the Bank also invested in foreign bonds in a smaller amount, with the aim of optimizing assets and liquidity needs and positions, as well as more efficient cost management. Among other assets, the bank owns its own real estate where there were no significant new investments.



Total bank asset and net loan portfolio

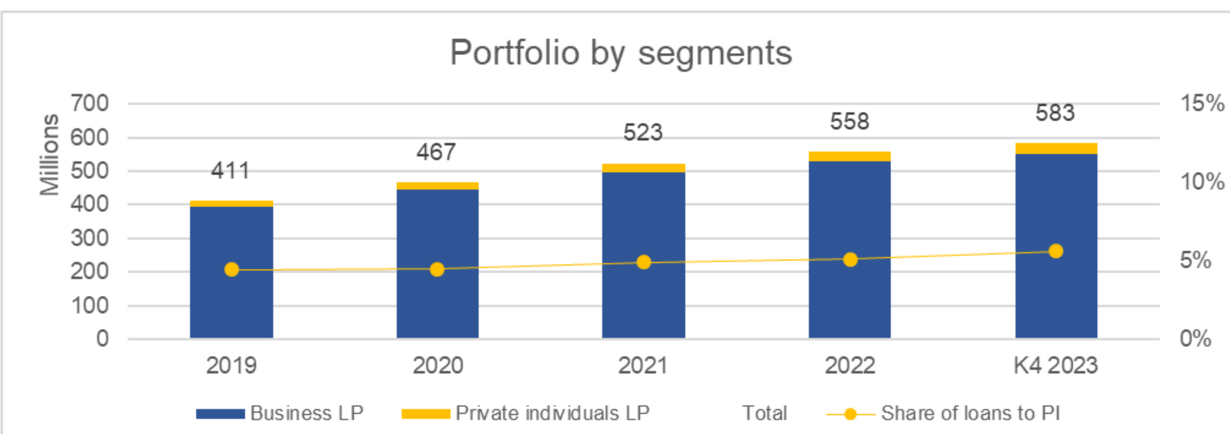
The portfolio of loans given to clients increased by BAM 24.8 million or 4.5%. The total growth of loans provided to customers is marginally less than anticipated. The total growth of loans given to clients is slightly below the planned, which is expected taking into account the slower economic activity. During the whole year, excluding seasonality, the Bank had an average growth of about 2 million BAM. Clients are slowing down investment activities in the face of rising prices and interest rates. Since during 2023, interest rates on loans had a trend of stagnation and a certain decline, credit activities at the end of the year, with expectations of a further drop in loan prices, recorded a recovery. The bank expects an increase in investment activities and the growth of loans given in the first half of 2024 as well. With these expectations, the Bank has increased its growth expectations in the new planning cycle, and with the internal reorganization of the opening of new branches, loan assets. In terms of credit risk management, the Bank has a conservative appetite for risk, and all approved loans undergo a process of detailed credit analysis and assessment.



Loan portfolio, by the amount of approved loan

The basic parameter for classifying credit clients is the credit exposure in the bank. This parameter is also used when displaying the bank's total loan portfolio, as showed in the graph above.

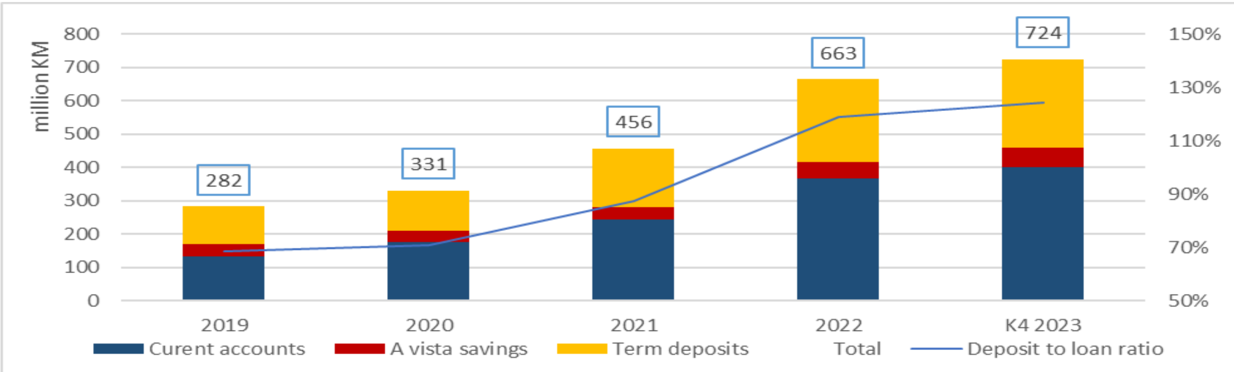
The overview below gives a breakdown of the loan portfolio by customer type. The main motive of credit activity is business with legal entities or business clients (Business).The most significant part of the loan portfolio are loans granted to legal entities with a share higher than 95%.



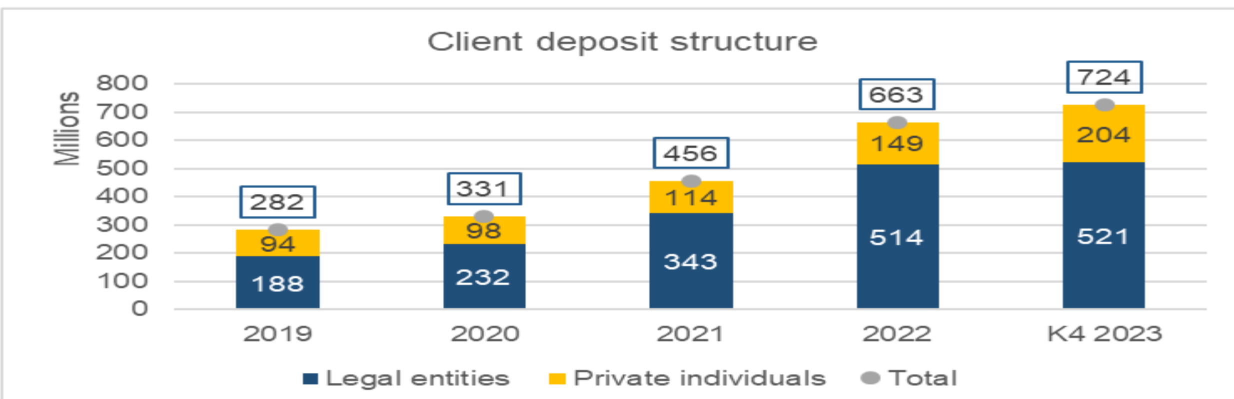
Loan portfolio, by customer type

Liabilities and equity

The bank's liabilities mainly consist of customer deposits and liabilities for loans received from financial institutions. Client deposits are the most important position of funding sources and by the end of 2023 they accounted for 88% (2022: 80%). The growth of deposits compared to last year was BAM 60 million or over 9%. At the same time, the share of deposits compared to other sources has improved. The growth of deposits was realized on current and term accounts. The deposit-to-loan ratio improved in 2023 to 124% (2022: 119%).



Customer deposits



Customer deposits by segments

Other sources of financing, loans taken from financial institutions have decreased compared to 2022 by 21% and the total share of these liabilities in sources decreased compared to the previous year. The loans taken in the earlier period had the role of supporting the structure and maturity of the source, while during the last two years they are used more as a form of support for SME companies because they offer significant benefits to loan users, as well as promoting the "green" agenda.During 2023 the bank had loans from primary financial institutions from EU (EBRD and CEB). At the end of 2022 the bank obtained subordinated debt from GGF (Green for Growth Fund) with aim to maintain the regulatory capital requirements and to prepare buffer for the future growth.

At the end of 2021, the bank underwent recapitalization. An additional capital payment of BAM 12.7 million (6.5 million EUR) was made by the bank's owner. The BAM 8.8 million (4.5 million EUR) in subordinated debt was converted into capital at the same time. The investments made are intended to improve the Bank's position in the market and support asset growth. Additionally, the position of subordinated debt may be used as contribution capital with the regulator's approval, which increases the position of the Bank's regulatory capital and the satisfaction of all capital requirements set forth by the regulator.

Operational result

Profit for 2023 amounts to BAM 10.7 million (2022: BAM 7.1 million), resulting in an improved return on capital by 13.2% (2022: 10%). Net interest income increased by 7,5 million BAM or 36% compared to the previous year. By adjusting the variable interest rates for 6M EURIBOR from 30.9.2022 by +1.81%, for 55% of the portfolio, the bank enabled the growth of interest income, while the increase in interest expenses, i.e. the increase in interest rates on deposits will be more significant during 2024. The difference in the dynamics of interest rate adjustments lies in the fact that interest rates on deposits are mostly fixed, and changes are reflected later in relation to interest rates on loans taken from financial institutions and on loans given to clients. The bank did not adjust interest rates to EURIBOR values during 2023 and kept rates below reference values in order to maintain market stability.

Along with increasing income from fees and other banking incentives, the bank achieved growth in non-interest income, especially in the part of income from FX transactions, letters of credit and guarantees, where the bank increased its efforts in order to increase off-balance sheet assets. Growth in transaction banking revenues was also achieved, due to an increased volume of transactions and a larger number of bank clients. The increase in income from payment transactions was 15%. For the year 2024, the bank planned an increase of 9% and for the following years at the same percentage. Non-interest income according to the structure of income participation is: Income from domestic and international payment transactions with a share of 49%, account maintenance 25%, documentary business 13%, business with debit cards 6% and other income 7%. The basis of planning is the expected increase in net new clients (new acquisitions minus clients who have left the bank). The bank increased the number of new active clients by over 15% in 2023, and an additional increase of around 30% is planned for the next period.

In terms of operating expenses, the largest share refers to the costs of gross wages of employees, IT costs, depreciation, costs of consulting services, audits and legal costs, marketing, education. In earlier years, the bank reduced the network of physical branches, which optimized part of the costs, continuously invested in a higher degree of digitization, which had the effect of increasing IT costs associated with the direct and digital concept of banking (communication, education, etc.). During 2023 the focus of acquiring private individuals and a larger number of non-credit clients of legal entities increased, the bank opened a new branch office in Tešanj as a base for a significant number of small and medium-sized export-oriented companies. This trend should continue during 2024, with the opening of two new branches. Part of the planned increase in general and administrative costs is due to expected inflationary trends. A 33% increase in employee expenses was recorded, and the reason for this is the increase in the number of employees and the increase in salaries during the year. On the side of administrative costs, the total amount increased by 23%, however, the biggest change in the structure is in the costs of new IT projects, marketing in order to increase the visibility of the Bank as well as the promotion of the digital concept. In addition, the Bank promoted various projects aimed at preserving the environment, either through direct actions or through lending to environmentally friendly projects.

The bank realized an increase in provisioning costs for potential credit losses. The level of created value corrections was sufficient to cover the credit risks that the bank had during 2023, the largest part of the cost relates to the aging of collateral and less to new cases of default. Taking into account all of the above, the bank planned the level of provisions that reflect the assumption of the movement of new placements and certain projections of loans entering a higher level of credit risk.

The financial position of the Bank as well as the result in 2023 show the stability of business activities, together with the capital increase gives a sound basis for stable growth and sustainable business model. The Bank complied with all obligations and regulatory requirements throughout the period.

REPORT ON EXPECTED DEVELOPMENTS

Macroeconomic environment and competitive situation

During 2023, macroeconomic indicators underwent several changes in forecasts and realized values. The most significant effects on the economy were the result of changes in reference interest rates (EURIBOR), which caused clients to slow down their borrowing activities, and spending of their own funds, which was reflected in the state of deposits of legal entities. In addition to the environment of increased interest rates, additional effects of the slowdown in business activity are certainly the disruptions of the EU economy, war actions in Ukraine and still unrecovered distribution flows. Since BiH's economy in the export sector is based on the EU market, and especially on Germany, part of the industrial and export activities recorded a certain slowdown. However, growing macroeconomic assumptions, stabilization of prices and partial recovery of the world economy and EU countries are projected by the International Monetary Fund. Also, the expectation of international financial institutions is that the prices of capital and money will not increase further due to achieving price stabilization.

The GDP growth rate in 2023 has slowed to 1.4% in the first half of the year compared to 4% at the end of 2022, with an expected development at the end of the year at 1.8%. The result of the decline compared to the previous year is the product of the energy crisis, rising prices, and a generally worse business environment in the EU, which directly affected the industrial sector in BiH. At the same time, high prices have slowed down some consumption, which is slowly recovering during the second part of the year due to wage increases in response to high inflation. Although slower international trade is expected, primarily due to the negative market trend in Germany, the positive movement of GDP in the 2024 will be supported by domestic consumption. Growth assumptions are 3.0% for the period 2024-2028, which provides a basis for planning the growth of the bank's operations, namely the growth in the loan portfolio.

The banking industry operations in 2023 showed a certain recovery. The growth of the deposit portfolio continued with rates (Q4 2023 6.4%), which are at the level before the COVID-19 pandemic, especially in the third quarter of 2023, which is a signal of increasing investment activities. On the credit assets side, an increase of 6.7% was also recorded, which is above the trend of the previous two years. The movements of reference interest rates at the end of 2022 and at the beginning of 2023 were stopped in the second half of the year with positive announcements of stabilization, which led to the start of growth in investment activities. On the other hand, and the dynamics of deposit collection, banks will also adjust the deposit prices, which will lead to a change in the cost structure and an increase in interest expenses in the coming period. The banking sector recorded increased profitability mostly due to the growth of interest income, adjustment of interest rates for EURIBOR, while the growth of interest expenses is expected in the coming period due to the time gap of adjustment of active and passive interest rates.

Expected development of the Bank

Total assets at the end of Q4 2023 amounted to 920 million KM, which is 5% more than in 2022. For the year 2024, a growth of 7.7% in total assets, i.e. 11.9% of the loan portfolio, is planned. The increase in the planned values compared to last year's plan is the result of changes in the bank, primarily the growth of deposits and the loan/deposit ratio of over 120%, and the increase in the number of employees who are directly responsible for working with clients and whose task is to bring in new clients and new payments in loans. In the previous year, the bank achieved loan growth of around 5%, mostly due to smaller investment activities of existing clients, and in addition, the bank did not necessarily pay out new placements at prices that would significantly reduce the existing interest margin. In addition, the bank's focus was on the restructuring of deposits, due to the already explained motive of self-sustainability. For the next year, as well as for the medium term (2024-2026), the Bank predicts continued growth of the loan portfolio in accordance with trends that would be in the range of 12 to 10%.

Also, the Bank invests efforts in lending to environmentally acceptable and sustainable projects. At the end of 2023, about 20.8% of the total portfolio was allocated to "green loans". For 2024, the bank is also planning an increase of 0.5 to 1% of the portfolio of eco loans.

In addition to loans as the most important asset/property, the bank also plans the growth of liquid assets: cash, funds on bank accounts and other short-term financial interest-bearing assets. During 2023, the bank maintained investments in treasury bills of the governments of the FBiH and Republika Srpska in order to manage liquidity as well as generate income on investments due to attractive interest rates. Additionally, at the end of the year, the bank also invested in short-term bonds, the governments of Germany and the Netherlands. The plan for holding short-term and liquid assets depends on the liquidity position and the needs for current operations. The long-term plan for maintaining liquid assets foresees a stable position during the planned period. The liquidity coverage ratio (LCR) was continuously above 150% in 2023.

Total liabilities at the end of 2023 amounted to 835 million KM, which is an increase of 4.6% compared to 2022. The bank planned for 2024 an increase in total liabilities by 7.3%. As the most significant position of liabilities, client deposits were in the bank's special focus in the past two years, when significant growth rates were recorded. In parallel with the development of the loan portfolio, the bank is planning a significant mobilization of local deposits in order to achieve a greater degree of self-sustainability. The strategy of doing business with natural persons underwent a significant change during 2023, which resulted in an increase in deposits from natural persons. The total growth of client deposits was 9.1% compared to the end of 2022 (2022 – growth of 45%). Deposit growth of 12.2% is planned for 2024 with an average growth of 11% in the following years. The lower expected growth compared to previously achieved values is due to the achieved goal of a ratio of deposits and loans of over 100%. The bank will maintain the ratio of deposits and loans in the ratio between 115-125%, which enables the bank to have adequate liquidity management.

In order to achieve a higher degree of self-sustainability, i.e. financing from local sources (primarily deposits on the local market), the bank made significant repayments of the loans taken. Liabilities to banks/international financial institutions (IFI's) were reduced by 20.2% at the end of 2023 compared to 2022, and the bank planned further reduction, especially loans from related parties. Obligations towards international financial institutions will continue to be active, mostly due to specific credit lines that have a development or environmental character. The bank will be a promoter of green investments and will be a partner of the EBRD and other institutions that can influence the creation of additional value and positive effects on the development of self-sustainability in BiH. Additionally, the bank will monitor market developments as necessary, and in order to protect source prices and the need for a specific maturity, enter into loan arrangements with related parties as well as international financial institutions.

At the end of 2023, the bank achieved a growth in interest income of 32% and net interest income of 36%, with an increase in interest expense by 15%. The effect of adjustment for EURIBOR in October 2022was fully achieved during 2023. By harmonizing variable interest rates for 6M EURIBOR from 30.9.2022 by +1.81% to 55% of the portfolio, the bank enabled the growth of interest income, while the harmonizing of interest expenses, and the subsequent increase in interest rates on deposits, will be visible during 2024. The difference in the dynamics of interest rate adjustments lies in the fact that interest rates on deposits are fixed, and changes are reflected later in comparison to loans.

In addition to interest income and expenses as the most significant positions, in the earlier period the Bank achieved growth in non-interest income, especially in the part of income from FX transactions, letters of credit and guarantees, where the bank increased its efforts in order to increase off-balance sheet assets. Growth in transaction banking revenues was also achieved, due to an increased volume of transactions and a larger number of bank clients. The increase in income from payment transactions was 15%. For the year 2024, the bank planned an increase of 9% and for the following years at the same percentage. Non-interest income according to the structure of income participation is: income from domestic and international payment transactions with a share of 49%, account maintenance 25%, documentary business 13%, business with debit cards 6% and other income 7%. The basis of planning is the expected increase in net new clients (new acquisitions minus clients who have left the bank). The bank increased the number of new active clients by over 15% in 2023, and an additional increase of around 30% is planned for the next period. New clients will be acquired through an increase in the number of employees, as well as new branches that are planned. The growth and acquisition of new clients is the main motive for this type of income plan, although the plan for new clients is significantly larger than the plan for the movement of income, we leave room for adaptation of new clients until they acquire the full capacity of users of all the bank's services. At the same time, an increase in directly related expenses of transaction banking is planned, partly due to inflationary expectations and partly due to the expected increase in the volume of transactions.

The above expectations create assumptions for a positive development of the cost/income ratio.

The projection of the movement of loan provisions for expected loan losses is planned in accordance with the expectation of new payments and the aging of the existing loan portfolio, i.e. aging of collateral exposures that have certain indicators of increased credit risk. Earlier expectations of increased risk due to rising interest rates did not materialize due to falling interest rates on the market, banks gradually reduced interest rates, and the new payments are at lower rates compared to the period a year ago. The level of created value corrections was sufficient to cover the credit risks that the bank had during 2023, the largest part of the cost relates to the aging of collateral and less to new cases of default. Taking into account all of the above, the bank planned the level of provisions that reflect the assumption of the movement of new placements and certain projections of loans entering a higher level of credit risk. The bank has established a credit risk recognition system so that clients are quickly transferred to higher risk categories and thus the cost of reserves is recognized as they arise. With such clients, further financing is stopped and an exit strategy is adopted. Due to its business model, the bank has a significantly lower appetite for risk, which can be seen from the percentage of loans in level 3 compared to the total portfolio of 2.0%, while the market average is 4.1%.

DISCLOSURES REQUIRED BY THE LAW ON ACCOUNTING AND AUDITING SECTION C

The previous chapters provide an overview of the development of operations in the previous year as well as planned expectations of the bank in the next period of operations. As stated, the bank operates mostly with legal entities, small and medium enterprises, which is the main business segment of the bank. In addition to providing classic financial services, the bank is actively working on the promotion and provision of direct and digital banking services. Most of the services provided to the client are done via direct and digital access where possible. The approach of developing specific products for its clients, which are in line with the business model and the digital banking model, is also active. In addition to services used through digital platforms and applications, the bank does not do special research and development.

Also, in accordance with the need to respond to the requirements of Article 42 of the Law on Accounting and Auditing, the bank did not and does not plan to repurchase its own shares. The movement and plan of capital is explained in the previous paragraphs.

In its operations, the Bank has significant exposure to credit risk, as well as liquidity risks, counterparty risk, operational, market and other risks. The bank's risk apetite and risks management is presented in detail in this report.

The Bank did not have any significant events after the balance date that could have an impact on the financial statements as of 31 December 2023. The Bank has regular business transactions that are in line with the Bank's business model and do not deviate from the regular business operations.

This report should be read together with the financial report and notes to the financial statements, in order to understand the risk profile of the Bank as well as the appetites for taking and managing risks.

Amir Salkanović, President of the Management Board

Amina Đurmo Trlin, Member of the Management Board

ProCredit Bank

Financial statements 2023

Responsibilities of the Management and Supervisory Board for the preparation and approval of the financial statements

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 its 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 judgments 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 financial statements, following which the Supervisory Board approves the financial statements for submission to the General Assembly for adoption.

The financial statements set out on pages 23 to 114 were authorised by the Management Board on the Management Board meeting held on 28 March 2024 for issue to the Supervisory Board, and are signed bellow to signify this, on behalf of the Bank, by:

For and on the behalf of Management Board

President of the Management Board
Amir Salkanović

ProCredit Bank d.d. Sarajevo

Member of Management Board
Amina Durmo Trlin

ProCredit Bank d.d. Sarajevo
Franca Lehara
71000 Sarajevo
Bosna i Hercegovina
28 March 2024

Independent Auditors’ report

To the shareholders of ProCredit Bank d.d. Sarajevo

Opinion

We have audited the financial statements of ProCredit Bank d.d. Sarajevo (“the Bank”), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with the statutory accounting requirements applicable to banks in the Federation of Bosnia and Herzegovina.

Basis for Opinion

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

This version of the Auditors’ report is a translation from the original, which was prepared in Bosnian 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 ProCredit Bank d.d. Sarajevo (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 receivables to customers

As at 31 December 2023, gross loans and receivables to customers: BAM 583 million, related impairment allowance: BAM 17 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 2.8 million (31 December 2022: gross loans and receivables to customers: BAM 558 million, related impairment allowance: BAM 16 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 2.2 million).

Refer to Note 3 Material accounting policies, Note 4 Critical accounting judgements and key sources of estimation uncertainty, Note 5.1 Credit risk and Note 20 Loans and receivables to customers.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management Board’s best estimate of the expected credit losses (“ECLs”) within loans and receivables 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 Federal Banking Agency of the Federation of Bosnia and Herzegovina (“FBA”), which combine the requirements of IFRS 9 “Financial Instruments” with the FBA-prescribed minimum requirements for provisioning. The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework’s hierarchy) and non-performing (Stage 3) exposures not exceeding BAM 100 thousand, individually, are determined by modelling techniques relying on key parameters such as the probability of default (PD), loss given default (LGD) and exposure at default (EAD), 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) audit specialists included, among others: • Inspecting the Bank’s ECL methods and models, and assessing their compliance with the relevant requirements of the regulatory and financial reporting framework. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology’s sophistication is appropriate based on an assessment of the entity-level factors; • Making relevant inquiries of the Bank’s risk management and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. As part of the procedure, we also tested the Bank’s IT control environment for data security and access; • Testing the design and implementation of selected controls over the loan approval, recording and monitoring, 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 and their segmentation into homogenous groups, calculation of days past due and collateral valuations.

Independent Auditors' report

To the shareholders of ProCredit Bank d.d. Sarajevo (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter *(continued)*
Expected credit losses for individually significant Stage 3 (non-performing) exposures (above BAM 100 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 probable sale proceeds from the related collateral and the minimum period for collateral disposal. Incorporated into both the collective and individual assessment are also specific rules of the FBA regarding various minimum provisioning rates. While the credit environment in 2023 reflected tightening conditions, with rising interest rates to combat inflation and economies experiencing slower economic growth putting pressure on borrowers, the outlook for 2024 remains uncertain. 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: — Evaluating the overall ECL modelling approach, including challenging the key risk parameters (PD, LGD and EAD) used by the Bank, by reference to historical realized losses on defaults, FBA-prescribed levels (where applicable) and also considering any required adjustments to reflect expected changes in circumstances; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; • For impairment allowances calculated individually, for a risk-based sample of loans: — Taking into account debtor's business, market conditions and payment history, 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 expected credit losses against the various minimum provisioning requirements prescribed by the FBA; — Critically assessing the overall reasonableness of the impairment allowances, including the loan provision coverage development, and share of the gross performing and non-performing exposures in total gross exposure; — Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Independent Auditors' report

To the shareholders of ProCredit Bank d.d. Sarajevo (continued)

Other Information

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

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

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

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

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

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

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

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

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

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

Independent Auditors' report

To the shareholders of ProCredit Bank d.d. Sarajevo (continued)

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.
- 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.

Independent Auditors' report

To the shareholders of ProCredit Bank d.d. Sarajevo (continued)

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

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 *28 March 2024*

Registered Auditors
Zmaja od Bosne 7-7a

71000 Sarajevo
Bosna i Hercegovina

D.O.O. ZA REVIZIJU KPMG B-H SARAJEVO

This version of the Auditors' report is a translation from the original, which was prepared in Bosnian 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.

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

	Notes	**2023**	**2022**
Interest income calculated using the effective interest method	*7*	33,240	25,075
Other interest income		144	122
Interest expense	*8*	(4,880)	(4,231)
Net interest income		**28,504**	**20,966**
Fee and commission income	*9*	9,500	8,289
Fee and commission expense	*10*	(3,957)	(3,667)
Net fee and commission income		**5,543**	**4,622**
Net income from foreign currency trading	*11*	3,389	2,230
Other operating income	*12*	588	610
Net operating income		**38,024**	**28,428**
Administrative expenses	*13*	(11,716)	(9,536)
Personnel expenses	*14*	(7,990)	(5,874)
Depreciation and amortisation	*21, 22, 23*	(1,348)	(1,504)
Other operating expenses	*15*	(2,300)	(1,444)
Operating expenses		**(23,354)**	**(18,360)**
Profit before impairment losses and income tax		**14,670**	**10,070**
Impairment losses, net	*16*	(2,829)	(2,203)
PROFIT BEFORE TAX		**11,841**	**7,867**
Income tax expense	*17*	(1,142)	(780)
NET PROFIT FOR THE PERIOD		**10,699**	**7,087**
Earnings per share (BAM)	*32*	**1.30**	**0.86**

In '000 BAM	2023	2022
Net profit	**10,699**	**7,088**
Other comprehensive income		
Items that are or might be reclassified to profit or loss		
Net gains and losses from changes in fair value of debt securities at fair value through other comprehensive income		
Change in fair value, net	-	-
Net amount transferred to the statement of profit or loss	-	-
Items that will not be reclassified to profit or loss		
Net gains and losses from changes in fair value of equity securities at fair value through other comprehensive income		
Change in fair value, net	**8**	**10**
Total other comprehensive income fo the year	**8**	**10**
Total comprehensive income for the year	**10,707**	**7,098**

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

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

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash in hand	*18*	9,896	9,380
Funds held at the Central Bank of BiH	*18*	174,847	200,819
Loans and receivables to banks	*18*	96,676	54,681
Loans and receivables to customers, net	*20*	565,606	541,481
Investment securities			
at fair value through other comprehensive income	*19*	3,073	49,255
at amortized costs	*19*	51,285	-
Investment property	*21*	-	1,300
Property and equipment	*22*	14,196	10,880
Intangible assets	*23*	224	344
Other assets and receivables	*24*	3,976	3,509
TOTAL ASSETS		**919,779**	**871,649**
LIABILITIES			
Liabilities to banks	*25*	-	13,793
Liabilities to financial institutions	*26*	93,602	106,293
Liabilities to customers	*27*	725,282	664,976
Subordinated debt	*28*	8,033	7,918
Provisions	*29*	1,760	1,379
Current tax liability		427	351
Other liabilities	*30*	5,847	2,818
TOTAL LIABILITIES		**834,951**	**797,528**
EQUITY AND RESERVES			
Share capital	*31*	91,663	91,663
Share premium		293	293
Statutory reserves		228	228
Accumulated losses		(7,401)	(18,100)
Fair value reserves		45	37
TOTAL EQUITY AND RESERVES		**84,828**	**74,121**
TOTAL LIABILITIES, EQUITY AND RESERVES		**919,779**	**871,649**

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

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

	Issued share capital	Share premium	Fair value reserves	Accumulated losses	Fair value reserve	Total
Balance as at 1 January 2022	**91,663**	**293**	**228**	**(25,188)**	**27**	**67,023**
Net profit for the year	-	-	-	7,088	-	7,088
Other comprehensive income						
Net gains and losses from changes in fair value of equity securities at fair value through OCI	-	-	-	-	10	10
Total comprehensive income for the year	-	-	-	**7,088**	**10**	**7,098**
Balance as at 31 December 2022	**91,663**	**293**	**228**	**(18,100)**	**37**	**74,121**
Balance as at 1 January 2023	**91,663**	**293**	**228**	**(18,100)**	**37**	**74,121**
Net profit for the year	-	-	-	10,699	-	10,699
Other comprehensive income						
Net gains and losses from change in fair value of equity securities at fair value through OCI	-	-	-	-	8	8
Total comprehensive income for the year	-	-	-	**10,699**	**8**	**10,707**
Balance as at 31 December 2023	**91,663**	**293**	**228**	**(7,401)**	**45**	**84,828**

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

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

	Notes	**31 December 2023**	**31 December 2022**
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxr		11,841	7,868
Adjustments for:			
Depreciation and amortisation		1,348	1,504
Impairment losses, net		2,829	2,203
Net loss from writte off of property and equipment		-	-
Net change in provisions for liabilities and charges		(381)	83
Net gain from sale of repossessed assets		(54)	(110)
Impairement allowance for repossessed assets		-	39
Net interest income		(28,504)	(20,966)
		(12,921)	**(9,379)**
Changes in operating assets and liabilities:			
Net change in obligatory reserves with CBBH		(6,274)	(14,291)
Net change in deposits held in other banks		(2,649)	(2,444)
Net change in loans and receivables to customers, before impairment		(26,967)	(39,287)
Net change in other assests and receivables, before impairment		467	(124)
Net change in liabilities to banks		(13,793)	(15,424)
Net change in liabilities to customers		59,765	207,861
Payments of provisions for liabilities and charges		(118)	(216)
Net change in other liabilities		3,570	36
Paid income tax		(780)	(332)
Received interest		33,594	24,894
Paid interest		(3,818)	(3,384)
NET CASH FLOW USED IN OPERATING ACTIVITIES		**30,076**	**147,910**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of securities at amortized cost		(50,992)	-
Maturity of securities at amortized cost		85,411	5,018
Purchase of securities at fair value through other comprehensive income		(38,747)	(49,175)
Purchase of property and equipment		(2,106)	(456)
Purchase of intangible assets		(82)	-
NET CASH FLOW USED IN FINANCING ACTIVITIES		**(6,516)**	**(44,613)**
FINANCING ACTIVITIES			
Proceeds from liabilities to banks and other financial institutions		6,537	25,189
Repayments of liabilities to banks and other financial institutions		(19,395)	(62,659)
Lease liabilities paid		(438)	(401)
NET CASH FLOW USED IN FINANCING ACTIVITIES		**(13,296)**	**(37,871)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**10,264**	**65,426**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	*18*	**190,584**	**125,158**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*18*	**200,848**	**190,584**

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

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

1. GENERAL INFORMATION

ProCredit Bank d.d. Sarajevo (the "Bank") is incorporated as a joint stock company domiciled in Bosnia and Herzegovina.

The Bank is part of a global network of financial institutions, managed and fully owned by ProCredit Holding AG, who is also a 100% owner.

The Bank is incorporated to perform all banking activities in accordance with the Law on banks in the Federation of Bosnia and Herzegovina and the main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. The Bank is a development-oriented commercial bank which offers customer services to small and medium enterprises and to private individuals.
The Bank's registered address is in Sarajevo, Franca Lehara bb, Bosnia and Herzegovina. As at 31 December 2023 the Bank had 206 employees (31 December 2022: 170 employees).

The Bank operated with branches, Contact Centre and 24/7 (self-service) Zones, in order to provide customers with comprehensive and more accessible services.

Branch offices	***Service Points***
Sarajevo, Franca Lehara bb	Sarajevo, Ilidža, Ibrahima Ljubovića 20
Mostar, Biskupa Čule bb	Bijeljina, Majevička 102
Banja Luka, Prvog krajiškog korpusa 54	Tuzla, Aleje Alije Izetbegovića 2
	Tešanj, Titova 20

The Supervisory Board, Management Board and Audit Committee

During 2023 and on the date of this report, the members of the Supervisory Board were:

Supervisory Board

Eriola Bibolli	Chairman from 31 May 2023
Gian Marco Felice	Chairman to 31 May 2023
Christian Edgardo Dagrosa	Member from 31 May 2023
Antje M. Gerhold	Member from 21 September 2023
Nicholas Tesseyman	Member from 25 December 2023
Damir Sokolović	Member from 25 December 2023
Wolfgang Bertelsmeier	Member to 31 May 2023
Aida Soko	Member to 25 December 2023
Emilija Spirovska	Member to 25 December 2023

During 2023 and on the date of this report, the members of the Audit Committee were:

Audit Committee

Emanuela Caushi Azemi	Chairman
Stevče Kuzmanovski	Member
Maja Mihajlova	Member

During 2023 and on the date of this report, the members of Management Boand were:

Management Board

Amir Salkanović	Chairman
Amina Durmo - Trlin	Member
Srđan Ožegović	Member

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

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

- The FBiH Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
- The Law on Banks of the FBiH prescribes the preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing of the FBiH, this law, and bylaws adopted on the basis of both laws.
- The Agency adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (the "Decision"), applicable from 1 January 2020 and which resulted in certain differences resulting from the calculation of impairment for credit losses due to the application of minimum rates prescribed by the Decision, which are not required by IFRS 9: "Financial Instruments" ("IFRS 9"). The Decision also has an impact on the valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRS).

In accordance with the provisions of the Decision as at 31 December 2023 the Bank calculated an impairment for credit losses that is higher by BAM 436 thousand (2022: BAM 4,126 thousand) than the amount obtained by calculating the result of the Bank's internal model for calculating expected credit losses, compliant with the requirements of IFRS 9, with details as follows:

- Application of Article 23 of the Decision prescribing the application of minimum impairment rates for all exposures allocated to stage 1 - calculated difference in the amount of BAM -272 thousand (2022: BAM 876 thousand),
- Application of Article 24 of the Decision prescribing the application of minimum impairment rates for all credit exposures in stage 2 - calculated difference in the amount of BAM -4 thousand (2022: BAM 926 thousand),
- Application of minimum impairment rates prescribed in Article 25 of the Decision for exposures in stage 3 (non-performing assets) - calculated difference in the amount of BAM 701 thousand (2022: BAM 2,316 thousand), of which the amount of BAM 211 thousand (2022: BAM 490 thousand) relates to exposures not secured by acceptable collateral, and the amount of BAM 490 thousand (2022: BAM 1,826 thousand) to exposures secured by acceptable collateral,
- application of the minimum impairment rates prescribed in Article 26 of the Decision for trade receivables, receivables based on factoring and financial leasing and other receivables - the difference in the amount of BAM 11 thousand (2022: BAM 8 thousand).

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

	31 December 2023	**31 December 2022**
Assets	(497)	(4,034)
Liabilities	61	92
Equity	(436)	(4,126)

Note: positive amounts represent increases and negative ones represent decreases.

2. BASIS OF PREPARATION (continued)

2.1. Statement of compliance (continued)

These financial statements were authorizes by the Management Board on the Management Board meeting held on 28 March 2024 for submission to the Supervisory Board.

2.2. Changes in the presentation of financial statements

In order to better present the compliance with the applicable accounting standards, in 2023 the Bank reclassified the amounts as follows in relation to the published reports for 2022:

- the amount of BAM 2,442 thousand (net), which refers to funds that serve as collateral, was reclassified from Loans and receivables from banks to Other assets and receivables;

- the amount of BAM 541 thousand which relates to account blockages by court order and overpaid loan instalments was reclassified from Liabilities to custmers to Other liabilities;

- the amount of BAM 19 thousand relating to calculation of management expences was reclassified from Fees and commissions exepenses on Other operating income;

- the amount of BAM 3 thousand relating to broker fees was reclassified on Fees and commissions exepenses from Other operating expenses.

2.3. Basis for measurement

These financial statements have been prepared on the historical or amortised cost basis, except for financial assets at fair value through profit or loss and financial assets at fair value.

2.4. Functional and presentation currency

These financial statements are presented in Bosnian Marks (“BAM”), which is the Bank’s functional and presentation currency, rounded to the nearest thousand. Bosnian Mark is pegged to Euro (1 EUR = 1.95583 BAM). The tables reported can contain differences that occurred during rounding.

2.5. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Although these judgements and estimates are based on management’s best knowledge of current events and conditions, actual results may differ from those estimates.

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

Information on areas with significant uncertainty in the estimates and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are disclosed in Note 4.

2.6. Going concern

Based on the above, these financial statements have been prepared under a going concern assumption, which means that the Bank will be able to realize its receivables and settle liabilities in the ordinary course of business. The Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern.

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

3. MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the accounting policies further described below to all periods disclosed in these financial statements.

3.1 Foreign currency transactions

Transactions in currencies other than Bosnian Marks ("BAM") are initially recorded at the exchange rates prevailing on the dates of transactions. Monetary assets and liabilities are translated at rates prevailing on the reporting date. Non-monetary items carried at fair value denominated in foreign currencies are translated at prevailing rates on the date when 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 at the middle rate of the Central Bank of Bosnia and Herzegovina valid at the reporting date. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

	31 December 2023	**31 December 2022**
USD	1.76998	1.83371
EUR	1.95583	1.95583

3.2. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest rate method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- gross carrying amount of the financial asset; or
- the amortized costs of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but not expected credit loss ("ECL"). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate. Transaction costs include all incremental costs incurred directly in connection with the issuance or acquisition of financial assets or financial liabilities.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.2. Interest income and expense *(continued)*

Amortised cost and gross carrying value

The amortised cost of a financial asset or a financial liability is the amount at which the financial assets or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance (or impairment).

"Gross carrying amount of financial assets" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

Effective interest rate on a financial asset or financial liability is calculated on initial recognition of a financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect the movements in market rates of interest.

However, for financial assets that have been credit-impaired subsequently to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of financial assets. If the asset is no longer credit-impaired, the calculation of interest income returns to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate on the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method in the statement of profit or loss includes:

- interest on financial assets and liabilities measured at amortized cost

- interest on debt securities measured at fair value through other comprehensive income.

Other income includes default and penalty interest.

Interest expense presented in the statement of profit or loss includes interest expense on financial liabilities measured at amortized cost, and negative interest on financial assets measured at amortized cost.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.3. Fee and commission income and expenses

Fee and commission income and expenses that are integral part of the effective interest rate on a financial asset or liability are included in the effective interest rate, and are recognised in interest income and expense.

Fee and commission income and expenses, reported as such, comprise mainly fees related to credit card transactions, the issuance of guarantees and letters of credit, domestic and foreign payment transactions and other services and are recognised in the profit and loss statement upon performance of the relevant service.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers controls over a service to a customer.

The table below shows the nature and timing of the satisfaction of performance obligation, including significant payment terms and related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Private and business clients banking service	The Bank provides banking services to private and business customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for private and business banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

3.4. Net income from foreign currency trading

Gains less losses from foreign exchange trading include unrealized and realized gains and losses from foreign exchange spot transactions.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.5. Leases

At inception of a contract, the Bank assesses whether a contact is, or contains, a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definiton of a lease in accordance with IFRS 16 „*Leases*".

This policy is applied to the contracts entered into (or modified) on or after 1 January 2019.

i) As a lessee

The Bank recognizes right-of-use asset and a lease liabiliy from the lease commencement date. 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 at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to business premises. The lessee incurs a liability for these costs at commencement date of the lease or as a result of the use of the relevant property over a specified period.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, or over the period for which the lease is expected to be active. In addition, right-of-use asset is periodicaly reduced by impairment losses, if any and adjusted for any remeasruement of lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate of 1.13-1.61% for renting other equipment and 0.89%-3.65% for business premises as the discount rate. The Bank determines the incremental borrowing rate as an interest rate paid to borrow funds of similar value as the right of use, in a similar economic environment, under similar terms and conditions.

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;
— variable payments that depend on a particular index or rate and that are initially measured against that index or rate on the first day of the lease;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.5. Leases *(continued)*

When the lease liability is remeasured in this way, the carrying amount of the asset is properly adjusted for use or the difference is recorded in the income statement if the carrying amount of the asset is reduced to zero.

The Bank presents right-of-use assets in '*Property and equipment*' and lease liabilities in '*Other liabilities*' in the statement of financial position.

Short-term leases and leases of law value

The Bank has elected not to recognise right-of-use assets and lease liabilities to leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) As a lessor

The Bank recognises lease payments received under operating leases as income on a straightline basis over the lease term.

3.6. Income tax

Tax expense, on income tax base, is the sum of current tax and deferred taxes.

Current income tax

Net income differs from taxable income of the period reported in income statement and statement of comprehensive income, as it includes items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable or are deductible. The Bank's current tax liabilities are calculated by applying tax rates that are in effect or in the process of being adopted at the reporting date.

Deferred income tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus any transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities at fair value through profit and loss.

3.7.1 Financial assets

(i) Classification and subsequent measurement

The Bank classifies its financial assets based on their underlying business model (ie. the purpose of managing financial assets) and the contractual cash flows characteristic ("Solely Payments of Principle and Interest", further "SPPI test" or "SPPI") in the following measurement categories:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets at fair value through profit and loss (FVPL)

The classification requirements for debt and equity instruments are described below.

Business model assessment

Differentiation is made between the following business models:

- "hold to collect": The financial assets are held with the aim of collecting the contractual cash flows .
- "hold to collect and sell": The financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets, and
- "other": This business model is used for financial assets that are neither allocated to the 'hold to collect' business model nor to the 'hold to collect and sell' business model.

The Bank makes an assessment of the objective of a business model in which the asset is held at the portfolio level (ie. on the basis of a group of financial assets) because this best reflects the way the business is managed and information is provided to the management. The following criteria, among others are taken into account:

- The business and risk strategy of the Bank.
- The way in which the development of the business model is evaluated and reported to the Management and Supervisory Board of the Bank, and
- If there were sales in previous period, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the 'hold to collect' business model are: "Central bank balance", "Current accounts with other banks", "Loans and advances to customers" and "Other assets". "Investment securities" are allocated to the "hold to collect" or to the "hold to collect and sell" business model.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1 Financial assets *(continued)*

(i) Classification and subsequent measurement (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

Test of features of contractual cash flows from the point of view of solely payment of principal and interest is one of the criteria for the classification of financial assets in an individual category of measurement. SPPI test is implemented for the purpose of establishing whether the interest rate on unsettled principle reflects the fee for time value of money, credit risk and other basic risks of borrowing, lending costs and profit margin.

SPPI test is performed:

- for each financial asset, allocated to a business model whose purpose is to hold financial assets for the payment of contractual cash flows and a business model for the purpose of collecting contractual cash flows and selling financial asset on the date of its initial recognition,
- for each financial asset in cases where the original asset has been significantly modified and therefore re-recognised as new assets,
- when introducing new models and/or loan programs to determine in advance the eligibility of the considered loan term and conditions in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. The Bank designates its equity instuments at fair value through other comprehensive income.

- **Financial assets at amortised cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at fair value through profit and loss, are measured at amortized cost.

After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss (ECL) allowance recognised and measured as described in Note 5.1.1.

Interest income is calculated using the effective interest rate and it is included in the line „Interest income calculated using the effective interest rate method".

Financial assets at amortised cost at the balance sheet date include: cash and cash equivalents, obligatory reserves at the Central Bank of BiH, loans and receivables to customers, and other assets.

- **Financial assets through other comprehensive income**

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit and loss, are measured at fair value through other comprehensive income.

Measurements in fair value of a financial asset measured through other comprehensive income are recognised through other comprehensive income except for recognition of gains or losses on impairment, interest income and foreign exchange differences that are recognised in profit or loss, except in case of equity investments where unrealised gains/losses are never reclassified to profit or loss.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1. Financial assets *(continued)*

When the financial asset through other comprehensive income is derecognised, the cumulative gain or loss previously recognised through other comprehensive income is reclassified from equity to income statement, except for equity investments for which gains and losses are not recycled to profit or loss statement but directly transferred to retained earnings. Interest income is calculated using the effective interest rate method.

Investment securities include debt and equity investments that are classified as financial assets through other comprehensive income at the balance sheet date.

Financial assets at fair value through profit and loss

Financial assets are subsequently measured at fair value through profit or loss unless subsequently measured at amortised cost or at fair value through other comprehensive income. Gains and losses arising from changes in the fair value of a financial asset at fair value through profit or loss are recognised in the income statement.

In addition, the Bank has the option to designate, on initial recognition, financial assets that otherwise meet the requirements to be measured at amortised cost or at FVOCI at fair value through profit and loss, if doing so significantly reduces the accounting mismatch that would otherwise arise.

At the balance sheet date, the Bank did not hold any financial assets at fair value through profit and loss.

(ii) Derecognition of financial assets

The Bank derecognizes financial assets (in whole or in part) when the contractual rights to receive the cash flows from the financial instrument expire or when it loses control over contractual rights over that financial asset. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when rights have been realized, transferred or expired.

When the financial assets is derecognised, the difference between the carrying amount (or the carrying amount allocated to the portion of the assets that is derecognised) and the amount received (including any new assets less any new liabilities) and any cumulative gain or loss previously recognized through comprehensive income is recognised in the income statement.

Any cumulative gain or loss recognised through other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities, but are directly recognised in retained earnings.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1. Financial assets *(continued)*

(iii) Modification of financial assets

Modification of financial assets is a process where the terms of the original contract are modified as a result of:

1) caused by current borrowers' needs (for example a reduction in the effective interest rate, prolongation of contract period, collateral substitution) and not caused by financial difficulties of the borrower,

2) caused by the current financial difficulties of the borrower or the difficulties that will arise soon, or by deteriorating the borrowers creditworthiness.

Modification of financial assets occurs when changes to some or all of the contract's provisions have been made.

In the case of a financial asset that represents a debt instrument (securities and loans and receivables), the Bank determines whether the modification is significant or whether the difference between the present value of the remaining modified cash flows discounted using the original effective interest rate and the current value of the modified cash flows discounted using the original effective interest rate is more than 10%.

If the modification is significant, the Bank ceases to recognize the original financial asset and begins to recognize new financial assets at fair value plus transaction costs and recalculates the new effective interest rate for the asset. The modification date is consequently considered to be the date of initial recognition for the purpose of calculating the impairment, including the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the modification was driven by the debtor being unable to meet the originally agreed payments. The differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the modification of the financial asset is not significant and the modification did not result in derecognition of the financial asset, then the Bank recalculates the gross carrying amount of the asset based on the revised cash flows of the financial asset and recognizes the modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting modified cash flows at the original effective interest rate (or using an effective interest rate adjusted for credit risk in the case of POCI assets). If the modification is not significant, any resulting modification gain or loss is recorded together with the impairment losses.

(iv) Impairment

IFRS 9 outlines a "three-stage" model for impairment of financial assets based on changes in credit quality since initial recognition of financial assets.

Impairment of financial assets is recognized on the basis of, starting from 01 January 2020 based on, the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments). As of January 1, 2020, the Bank applies a new Decision on Credit Risk Management and Determination of Expected Credit Losses according to which the Bank recognizes expected credit losses either at the minimum rates, as required by the Decision, or amounts calculated according to the internal ECL model of the Banks depending on what is higher.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1. Financial liabilities (continued)

(iv) Impairment (continued)

Calculation and measurement of ECLs, based on the Bank's internal model, is an area of significant judgement, and implies methodology, models and data inputs. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, significant increase in credit risk, PD (probability of default), LGD (loss given default) and EAD (exposure at default). The Bank regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

See Note 5.1.1. which explains more details regarding internal impairment model.

Policy applicable from 1 January 2020 – Decision on credit risk management and determination of expected credit losses.

As disclosed in Notes 2.1, as of 1 January 2020, the Bank measures expected credit losses in accordance with the requirements of the Decision on Credit Risk Management and Determination of Expected Credit Losses. The requirements of the new Decision regarding impairment are based on the model of expected credit losses of IFRS 9, with certain specifics (for example, the prescribed minimum rates of expected credit losses for stages), as described below.

1 Stage 1:

The Bank shall determine and recognize expected credit losses for exposures allocated to stage 1 at least in the following amounts:

a) for low risk exposures - 0.1% of exposure,
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 3 and 4 in accordance with Article 69 of the Decision on calculation of bank's capital - 0.1 % of exposure,
c) for exposures to banks and other entities of the financial sector for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level 1, 2 or 3 in accordance with Article 69 of the Decision on calculation of bank's capital - 0.1 % of exposure,
d) for other exposures - 0.5% of exposures.

If the Bank, in accordance with its internal methodology, determines the amount of expected credit losses higher than those arising from the above provisions of the Decision, the Bank shall apply the higher amount.

2 Stage 2:

For exposures allocated to stage 2, the Bank determines and recognizes the expected credit losses in the amount higher of the following:

a) 5% of exposure,
b) the amount determined in accordance with the Bank's internal methodology.

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

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1. Financial liabilities (continued)

(iv) Impairment (continued)

Policy applicable from 1 January 2020 – Decision on credit risk management and determination of expected credit losses (continued)

3 Stage 3:

The minimum rates of expected credit losses allocated to stage 3 depend on whether the exposure is secured by eligible collateral or not, and accordingly, the minimum rates are as follows:

a) exposures secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
from 181 to 270 days	25%
from 271 to 365 days	40%
from 366 to 730 days	60%
from 731 to 1460 days	80%
over 1460 days	100%

a) exposures secured by eligible collateral:

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

Exceptionally, if the Bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure. In doing so, the estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable. In the event that the Bank does not collect receivables in the specified period of three years, it is obliged to record the expected credit losses in the amount of 100% of the exposure.

In the case of restructured exposures, the Bank will maintain the expected credit losses at the level of coverage formed on the date of approval of the restructuring, which cannot be lower than 15% of the exposure, for all 12 months of the recovery period. For the third and each subsequent restructuring of a previously restructured exposure that was allocated to stage 3 or POCI assets at the time of restructuring, the Bank determines and recognizes the expected credit losses in the amount of 100% of the exposure.

For exposures related to cases when the debtor has not fulfilled its obligation to the bank no later than 60 days from the day when the protest was performed on the basis of a previously issued guarantee, the Bank determines and recognizes the expected credit loss in the amount of 100% of the exposure.

If the Bank, in accordance with its internal methodology, determines the amount of expected credit losses higher than the amounts arising from the provisions of the Decision, the Bank determines and recognizes these amounts in the books.

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

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.1. Financial assets (continued)

(iv) Impairment (continued)

Policy applicable from 1 January 2020 – Decision on credit risk management and determination of expected credit losses (continued)

The minimum rates of expected credit losses for trade receivables, factoring and financial leasing receivables and other receivables are applied according to the table bellow:

Days past due	Minimum expected credit loss
there is no material past due amount	0.5%
up to 30 days	2%
from 31 to 60 days	5%
from 61 to 90 days	10%
from 91 to 120 days	15%
from 121 to 180 days	50%
from 181 to 365 days	75%
over 365 days	100%

3.7.2. Financial liabilities

(i) Classification

The Bank classifies financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. The classification depends on the intention for which the financial instruments have been acquired. The Management determines the classification of financial instruments at initial recognition and reviews that classification at each reporting date.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition. The Bank has no financial liabilities classified at fair value through profit or loss.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not at fair value through profit and loss and include liabilities to customers, liabilities to banks and other financial institutions and subordinated debt.

(ii) Initial and subsequent measurement

Financial liabilities at fair value through profit or loss are initially recognised at fair value, while transaction costs are immediately expensed. Subsequent measurement is also at fair value.

Gains and losses arising from a change in the fair value of financial liabilities at fair value through profit or loss are recognised in the income statement.

Other financial liabilities are initially measured at fair value including transaction costs. Subsequent to initial recognition the Bank measures other financial liabilities at amortised cost using the effective interest rate.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.2. Financial liabilities (continued)

(iii) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

(iv) Modification of financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.7.3 Offsetting of financial assets and liabilities

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.7.4. Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank, current accounts with other banks and higly liquid financial assets with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Loans and receivables

Loans to customers are presented at amortised cost net of impairment allowances to reflect the estimated revocable amounts.

"Loans and receivables" captions in the statement of financial position include:

— loans and receivables measured at amortised cost (see Note 3.7.1), thet are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.7. Financial assets and liabilities *(continued)*

3.7.4. Specific financial instruments (continued)

Investment securities

The investment securities caption in the statement of financial position includes equity and debt investment securities designated as at fair value through other comprehensive income.

Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are classified as other financial liabilities and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the profit or loss statement over the period of the borrowings using the effective interest rate method.

Current accounts and deposits from banks and customers

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

3.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognised in the income statement as incurred. Land is not depreciated.

Depreciation is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method.

Useful lives of tangible assets are as follows:

	Useful life 2023	**Useful life 2022**
Buildings	40 years	40 years
Computers	3 – 7 years	3 – 7 years
Furniture and equipment	5 – 10 years	5 – 10 years
ATMs	5 – 8 years	5 – 8 years
Motor vehicles	3 – 5 years	3 – 5 years
Other assets	2 – 7 years	2 – 7 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss in the period they occur.

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

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.9. Intangible assets

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

Useful life of intangible assets is as follows:

	Useful life 2023	Useful life 2022
Intangible assets	5-10 years	5-10 years

3.10. Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

	Useful life 2023	Useful life 2022
Buildings	40 years	40 years

Rental income from investment property are classified within 'Other operating income' in the Statement of profit and loss.

3.11 Assets repossessed from disbursement of loans

The Bank may recover assets that were originally received as collateral for the loan after exercising contractual rights or undertaking specific legal actions. When both of the following conditions are satisfied, the relevant assets shall be included in the Bank's balance sheet:

- The recovery activity has been completed
- The Bank has become owner of the asset

The Bank classifies repossessed assets under IFRS 5 and subsequenty measures tham at lower of between book value and fair value less costs to sell.

According to the requirements of the new Decision from 1 January 2020, if the Bank does not sell assets repossessed from disbursement of loans, it is obliged to reduce the value of the same to BAM 1 within three years from the date of initial recognition, while for assets recognised before 1 January 2019, its value must be reduced to BAM 1 within two years from the date of initial application of the new Decision.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.12 Impairment of non-financial assets

At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13 Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. Management determines the sufficiency of provisions on the basis of insight into specific items; current economic circumstances risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.14. Employee benefits

i. Liabilities for a contribution plan

The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, food allowances, holyday allowances and travel expenses according to the legislation. The Bank makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments.

The Bank pays contributions to public pension insurance funds on a mandatory basis. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in staff costs. The cost of these payments is charged to profit or loss in the same period as the related salary cost.

ii. Short-term employee benefits

Short-term employee benefit obligations are measured on undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iii. Long-term employee benefits

According to local legal requirements, employees of the Bank are entitled to receive one-time benefit on retirement, dependent on factors such as age, years of service and the salary they had with the Bank.

Such payments are treated as post-employment benefits and the liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets (if any), together with adjustments for unrecognised actuarial gains or losses and past service costs.

This obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by applying a discount rate which is similar to the rate of return on corporate bonds in the Federation of Bosnia and Herzegovina and the average interest rate of time deposit accounts held with commercial banks in the Federation of Bosnia and Herzegovina.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit and loss as well as all past service costs.

3.15. Equity and reserves

Share capital

Shere capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in BAM. Dividens are recognized as liability in the period in which they are declared.

Share premium

Share premium represents the excess of contribution received over the nominal value of shares issued.

3. MATERIAL ACCOUNTING POLICIES *(continued)*

3.15. Equity and reserves *(continued)*

Statutory reserves

Statutory reserve is created in accordance with the Company Law of the Federation of Bosnia and Herzegovina, which requires 10% of the profit for the year to be appropriated to this reserve until reaching 25% of issued share capital. If the statutory reserve does not reach 25% of issued share capital within five business years, a joint stock company is required to increase its appropriations to this reserve to 20% of its profit for the year at the end of the fifth and any following business years until reaching 25% of the issued share capital. This reserve can be used for covering current and prior year losses.

Retained earnings/accumulated loss

Profit or loss for the period after appropriations to owners is transferred to retained earnings/accumulated losses.

3.16. Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The Bank does not have preference shares.

3.17 New standards and interpretations

Several new standards and accompanying additions are in place for the accounting period starting on 1 January 2023.

- IFRS 17 Insurance contracts (including amendments to IFRS 17)
- Amendments to IAS 1 Presentation of financial statements
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 Income tax (including amendments to IAS 12).

The Bank believes that the new standards and amendments to the standards will not have a significant impact on the financial statements in the period of first application.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be reasonably assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 3.7.1: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 5.1.1: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2023 and 31 December 2022 is included in the following notes.

- Note 5.1.1.: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 5.1.1.: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

Regulatory requirements

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (*continued)*

Litigation and claims

The total amount of legal proceedings is BAM 713 thousand (2022: BAM 1,030 thousand). The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

As stated in Note 29, the Bank provided BAM 576 thousand (2022: BAM 463 thousand), which management estimates as sufficient.

5. FINANCIAL RISK MANAGEMENT

The Bank is exposed to risks in the course of its business activities. An informed approach to risk management is a central component of our business model. This is also reflected in our risk culture and our risk appetite. By following a consistent approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the Bank continues to be appropriate at all times, as well as to achieve steady results. The overall risk profile of the Bank is appropriate and stable. This is based on an overall assessment of the individual risks, as presented in this risk report.

While the business strategy lists the objectives of the Bank for all material business activities and regions of operation and presents the measures to be taken to achieve them, the bank risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the Bank. The strategies are updated annually and are approved by the Management of the Bank following discussions with the Supervisory Board.

The implemented risk management principles and strategies did not have significant changes compared to the previous year. The bank recognized the risk of rising interest rates on loans and the economy of Bosnia and Herzegovina and adapted its business activities to the situation. The change in interest rates on loans to clients was made in the last quarter of 2022, and was not changed during 2023. The influence of the rise in interest rates on the credit risk of credit clients was monitored, and there was no increase in credit risks associated with the rise in interest rates. As in previous periods, the Bank's key focus was on managing and maintaining the quality of the loan portfolio.

During 2023, the Bank had no problems with liquidity, nor was there a need to use additional sources of liquidity.

The challenges caused by the war events in Ukraine, price growth and the activities of central banks on anti-inflationary movements recorded economic activities during 2023, especially in the first half. This environment caused lower investment activity, which resulted in lower growth of disbursed loans. In the second half of the year, with the stabilization of the monetary policy of the central banks, there was an increase in economic activities and an increase in the demand for loans. With more positive expectations of macroeconomic parameters and the strengthening of the bank's internal capacities, in the form of new employees to work with clients, the Bank planned an increase in loans and other activities in values of over 10%. In the coming period, the bank will continue to monitor the situation in the country and on the global money markets, in order to assess the potential impact on changes in credit, operational and liquidity risk and to take adequate measures.

The principles of our business strategy, explained below, represent the basis on which the risk management system is built. Consistent application of these principles reduces the risks to which the Bank is exposed.

Focus on core business

The Bank focus on the provision of financial services to small and medium businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the Banks' other operations are performed mainly in support of the core business. The Bank assume mainly credit risk, interest rate risk and liquidity risk in the course of their day-to-day operations. At the same time, the Bank avoids or very strictly limits all other risks involved in banking operations.

5. FINANCIAL RISK MANAGEMENT (*continued)*

High degree of transparency, simplicity and diversification

The Bank's focus on small and medium-sized enterprises entails a high level of diversification in the area of loans and deposits. In terms of client groups, diversification extends to economic sectors, client segments (SMEs and individuals) and income groups. Diversification of the loan portfolio is the central pillar of the credit risk management policy. An additional feature of our approach is that we strive to provide clients with simple and easy-to-understand products. The above leads to a high level of transparency, not only in terms of a specific client, but also in terms of risk management. A high level of diversification and simple and transparent products, as well as processes, result in a significant reduction of the Bank's risk profile.

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the Bank takes account of the "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of Bank's knowledge of the markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development.

The key elements of risk management in the Bank are presented below.

- The Bank applies a single common risk management framework, which defines minimum standards. The risk management policies and standards are approved by the Management of the Bank and are updated at least annually. These specify the responsibilities at Bank level, and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the Bank,
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes,
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks,
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks,
- Regular stress tests are performed for all material risks and for each individual risk category,
- Regular and ad-hoc reporting is carried out on the risk profile
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- Processes and procedures for an effective internal control system are in place. These ae based on principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level,
- New or significantly changed products undergo a thorough analysis before being used for the first time in order to ensure detailed new risk assessment.

Organisation of risk management position and risk reporting

The Management of the Bank bears responsibility for risk management within the Bank. The Bank has risk management department, a risk management committee and an ALCO, as well as specialised committees that address individual risks. These committees monitor and manage the risk profile of the Bank.

At the Bank level, risk positions are analysed regularly, discussed intensively and documented in standardised reports. The risk department of the Bank reports regularly to the different risk functions within the Bank and the Supervisory Board is informed on at least a quarterly basis about all risk-relevant developments.

The management of key risks in the Bank is described in greater detail in the following section. This includes: credit risk, foreign currency risk, interest rate risk and liquidity and funding risk..

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

Management of individual risks

5.1 Credit risk

The Bank defines credit risk as the risk of loss that will be realized if the other party in the credit transaction will not be able to fulfill its contractually defined obligations to the Bank or will be able to fulfill them only partially. Within overall credit risk we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing the Bank, and customer credit exposures account for the largest share of that risk.

Maximum exposure to credit risk:

	31.12.2023	31.12.2022
Central bank balances	174,847	200,819
Loans and receivables to banks	96,676	54,682
Investment securities	54,358	49,255
Loans and receivables to customers	565,606	541,481
Other assets	189	132
Contingent liabilities and commitments	104,242	94,369
Total	**995,918**	**943,738**

5.1.1. Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions.

The Bank serves a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. For our lending operations, we apply the following principles, among others:

- Analysis of the debt and payment capacity of borrowers, including an analysis of future capital flows,
- Documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties,
- Strictly avoiding over indebtedness among credit clients,
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure within the regular monitoring reports,
- Strictly monitoring the repayment of credit exposures,
- Applying closely customer-oriented, intensified loan management in the event of arrears,
- Collecting collateral in the event of insolvency.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

The Bank’s framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the Bank, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the Bank’s lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The Bank divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for risk-relevant operations.

The experience of the Bank has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions of the Bank are therefore based predominantly on an analysis of the client’s financial situation and creditworthiness. Regular on-site visits are performed for all clients to ensure an adequate consideration of their specific features and needs.

All credit decisions in the Bank are made by the credit committee. Its members have approval restrictions that reflect their expertise and experience. All decisions on medium credit exposures are made by credit committees at the Bank's headquarters. If the exposures are particularly significant for the Bank due to their size, the decision is made by the Bank's Supervisory Board.

The most important basis for decision-making within the credit committee is the proposal for financing and the structure of collateral that is tailored to the needs of the client and depends on his risk profile.

The Bank’s credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with solid collateral, mostly through mortgages.

The valuation of immovable collateral is based on assessments conducted by external, independent experts, included in the list of the Bank’s certified assessors. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialised Bank’s staff.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk.

Type of collateral	% of total	31 December 2023	% of total	31 December 2022
Property	59.8%	266,922	60.0%	268,473
Movable property	13.5%	60,136	10.0%	44,816
Financial guarantees	24.5%	109,239	26.6%	119,221
Cash deposits	2.3%	10,330	3.4%	15,129
Total		**446,626**		**447,638**

The value of collateral is based on the most recent appriaisals taking into account internally defined haircuts depending on the type of collateral. For each loan, the value of disclosed collateral in the table above is capped at the carring amount of the loan that it is held against. The early detection of increases in credit risk at the borrower level is incorporated into all lending-related processes, resulting in prompt identification and timely assessment of the financial difficulties faced by clients.

Moreover, the Bank has developed indicators for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the performing portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch managers, the Bank’s head office and in aggregated form to ProCredit Holding.

Events that could affect a significant part of the credit portfolio (common risk factors) are analyzed and considered. This may lead to the imposition of limits on risk exposure to certain groups of clients, eg in certain sectors of the economy or geographic regions.

Development and growth of reference interest rates and thus price changes on approved loans with variable rates imposes the need to analyze the impact of the effects on the creditworthiness of the bank's credit clients. The bank performs monitoring interest rate movements and possible disruptions to the repayment capacity of clients will be analyzed individually and reflect on the calculation of reserves for potential credit losses.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

The bank regularly performed credit risk analysis, and based on information provided by clients and data on exposures, determined the likelihood that the client would not be able to properly fulfill its obligations. As a result, the Bank properly classified the level of risk and performed impairment of the values.

- Based on asset quality indicators, the Bank divides the loan portfolio into three levels of credit risk. categories: performing, underperforming and default. Exposures are attributed to these categories of credit risk levels based on risk classification and other risk characteristics of the obligor. Of particular importance is the classification of risks, overdue contractual payments (especially those overdue for more than 90 days), initiating bankruptcy proceedings or similar lawsuits, restructuring or liquidation of collateral by other banks, and other factors that significantly worsen the client's economic condition. Indicators provide a clear overview of the quality of the Bank's portfolio and are one of the most important tools for the credit risk management process. Stage 1 shows no signs of potential increase in risk. Although some exposures show signs of early warning, they do not necessarily result in increased risk.
- Stage 2 includes exposures that show increased credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or other factors. However, the Bank still estimates that full repayment of the exposure is possible, eg. after restructuring.
- Stage 3 includes all exposures, most of which have shown long-term payment difficulties (over 90 days) or other negative factors, such as litigation. More details are described below.

When a higher risk of default is detected for a credit exposure, it is placed under increased supervision. Supervision is based on close communication with the client, identification of sources of greater risk and careful monitoring of business activities. Decisions on measures to reduce credit risk are taken by authorized decision-making bodies. Next to In addition, specialized recovery officers may be called upon to support more intensive credit management exposure. One of the first steps in managing such loans is determining the economic and financial situation client, as it is the most important basis for decisions on whether the exposure can be restructured or not. The goal is to they make such decisions at an early stage while the chances of stabilization are high and before the exposure enters advanced stage late payment phase. When credit exposure is classified as stage 3 it is transferred to officers responsible for the collection of disputed claims in the Legal Department, KUPIT and Compliance Department. The collateral sold through liquidation to a third party at the highest possible price, usually through a public auction. Most sold collateral consists of tangible assets such as land or a buildings.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Assets obtained by taking possession of collateral (repossessed property)

Details of non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year-end are shown below.

	31 December 2023	31 December 2022
Real estate	2	2
Land	-	-
Repossessed property	**2**	**2**

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

Loss allowances

Loss allowances are established in line with the defined Bank standards, which are based on IFRS 9 impairment model. The forward-looking expected credit loss (ECL) model is the central element of the approach to quantifying credit loss allowances for on- and off-balance sheet financial instruments. The model calculates loss allowances considering the credit losses expected over various default scenarios in the future. The calculated loss allowances represent the sum of probability-weighted outcomes; ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Three-stage approach

At each reporting date, all credit exposures to customers are allocated among the three stages listed below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairement. During the lifetime of an exposure, movement is possible between the stages.

- *Stage 1* comprises exposures for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date and for which thus there is no indication of a trigger for allocation to Stage 2 or Stage 3. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as purchased or originated credit impaired (POCI) assets. For Stage 1 exposures, the expected credit losses arising from possible default events within the period of up to 12 months following the reporting date are recognised in expenses. For exposures with a remaining maturity of less than 12 months, the shorter contractual maturity is applied.

- *Stage 2* comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

- Exposures in default status (except from POCI) are included in stage 3, meaning that as of the reporting date, there is a considerable increase in credit risk as well as clear signs of impairment.
  On the basis of predicted credit losses and with a 100% chance of default status, the losses are calculated appropriately.

- POCI (Purchased or Originated Credit Impaired) exposures refer to defaulted exposures; however, they are recorded separately and are differentiated from other exposures in Stage 3 in the recognition of loss allowances.

<u>*Calculation of expected credit loss (ECL)*</u>

The following parameters are used in the calculation of expected credit loss:

- Exposure at default (EAD):

EAD stands for the estimated amount of exposure at the time the loan enters default status. based on outstanding customer debt at the time and potential future adjustments allowed by the relevant contract clause. As a result, EAD comprises of the gross book value at the moment of the obligation's default status. The Bank used minimal regulation rates of credit conversion factors (CCF) for exposures that were off-balance sheet.

- Probability of default (PD):

the likelihood that the loan will default within a specific time frame based on previous default incidents. The data comprises information on the clients' risk characteristics as determined by the internal risk classification system, as well as the date, kind, and amount of arrears at the time the status was created.
The parameters differentiate exposure risk levels in accordance with client categories identified at the level of the Bank and take into consideration country-specific characteristics. In order to examine gathered data and anticipate expected PD based on the scenario for the evolution of economic conditions, the bank employs statistical models. PDs throughout the remainder of one's lifetime of exposure.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

- Loss given default (LGD):

The Bank implemented the minimum regulation LGD values at the end of 2023.

The multi-year data history for all borrowers in the Bank served as the basis for the input data used to calculate the probability of default status. Regression analysis is used to evaluate the impact of customer risk factors and macroeconomic conditions on the parameters under consideration. Based on their statistical relevance and economic credibilty, relevant macroeconomics factors (GDP growth, inflation rate, unemployment rate) are chosen. The weighted average value for PD is determined using several macroeconomic scenario calculations for the projection year. The Bank employs three macroeconomic scenarios in accordance with IFRS 9: the basic, optimistic, and pessimistic scenarios, respectively, in the proportions of 50%, 10%, and 40%. IMF macroeconomic predictions serve as the foundation for macroeconomic projections.

The fundamental macroeconomic variables that were utilized to establish the parameters of the ECL model should be appropriately adjusted in the long term in expectation of the war in Ukraine continuing to generate uncertainty. This particular adjustment is based on macroeconomic projections from the most recent IMF World Economic Database views, taking the long-term prognosis into account. The three scenarios (baseline, pessimistic, and optimistic) are weighted in order to determine the parameters. The macroeconomic variables used to calculate the ECL parameters on the reporting date for the forecast period are displayed in the following table:

GDP growth in %

	2023.	**2024.**
Baseline scenario	2.00	3.00
Pessimistic scenario	-0.08	0.92
Optimistic scenario	3.45	4.45

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

As time goes on, adjustments to the aforementioned hypotheses could result in adjustments to the calculated impairment amounts. The Bank recognises that the setting of loss allowances for both collectively and individually assessed exposures may be significantly impacted by the management's discretionary judgments and assessments. Similar to this, the discretionary right is based on the definition of default that is actually used, the method for calculating the significant increase in credit risk (SICR), and a few macroeconomic variables.

The following protective layers of the model are introduced to cover the consequences of crises that cannot be modeled and are reflected by empirically determined credit models risks:

1. Internal model upscaling of default likelihood

    • Expert hypotheses drawn from crisis years noticed in the data history are used to formulate the protective layer. The fifteen-year history of defaults includes the Covid and the global financial crisis.

2. Modifying the scenario weighting so that the pessimistic scenario is given more weight:

    • Negative scenario: 40% (up from 25%).

    • Upbeat scenario: 10% (down from 25%).

    • 50% of the medium scenario (unchanged).

According to an internal evaluation procedure for current credit repayment capability exposure, risk categories are given based on both quantitative and qualitative considerations.

	12-months PD range	December 31 2023		December 31 2022	
Grade 1-5: Performing	0% - 1%	44.09%	256,881	46.09%	257,094
	1% - 3%	23.72%	138,221	29.10%	162,342
	3%- 5%	17.40%	101,406	13.03%	72,712
	5% - 10%	0.00%	-	0.00%	-
Grade 6-7: Underperforming	10% < 100%	2.32%	13,499	2.22%	12,404
Grade 8: Defaulted	100%	1.37%	7,980	1.87%	10,414
Not graded*	-	11.10%	64,652	7.69%	42,898
Total gross exposure		**100%**	**582,638**	**100%**	**557,864**

** Unrated category includes all private individuals and legal entities with an exposure of less than BAM 100,000.*

Expected credit loss for all performing exposures (Stage 1 and 2) and individually insignifficant non performing exposures classified as Stage 3 (below BAM 100,000) are determined using the collective assessment of credit risk. Expected credit loss for individually significant Stage 3 exposures (above BAM 100,000) are determined on an individual basis (described in details below under *Definition of default*).

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Significant increase in credit risk (SICR)

A considerable increase in credit risk is identified using both quantitative and qualitative data.
Comparing the expected PD over the remaining life at the reporting date and the expected PD over the remaining time frame at initial recognition is a quantitative test for SICR. When the difference between these two PDs is 200% or more above the predetermined level, credit risk is deemed to have significantly increased. The Supervisory Board of the Bank has given its approval to the Management's proposal, which was supported by professional advice. The associated financial instrument is transfered from stage 1 to stage 2 in this instance.

When establishing whether there has been a material increase in credit risk, qualitative factors are also used.

When one of the aforementioned requirements is met, the exposure is transferred from stage 1 to stage 2:

- Contractual payments that are past due by more than 30 days but no more than 90;
- The client's status as being "restructured" (forbearance) in accordance with corporate policies (change of the terms of the original contract due to financial issues);
- The client's account has been continually blocked for more than 30 days.
- The client was included in the list under surveillance due to indications of a significant increase in credit risk;
- The client is assigned to risk classification 6 or 7.

When there have been no missed payments for more than 30 days in the previous three months and no other Level 2 requirements have been completed, a return from stage 2 to stage 1 is feasible. Additional two-year trial term during which no past-due payment may be unpaid for longer than 30 days applies to restructuring. The period starts when the contract is restructured or, if applicable, following the end of any grace or moratorium periods that were outlined in the repayment plan.

Impaired credit exposures

A credit exposure is considered as credit impaired and transferred to Stage 3 if one of the following criteria is applies at the reporting date:

- Contractual payments are more than 90 days past due,
- Loan repayment is not possible without the realisation of collateral,
- The client is assigned to risk classification 8,
- Cases of reprogramming with impaired value;
- Initiation of bankruptcy proceedings for the customer,
- Legal proceedings against the client that endanger the existence of the business or repayment capacity,
- Allegations of fraud against the customer,
- Client’s account has been blocked continuously for more than 60 days,
- Client did not settle his obligations under the guarantee for a period longer than 60 days in the case of protest of the guarantee
- POCI asset
- Other signs of impairment indicating that the client will not be able to repay in full.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Definition of default

The Bank has adjusted the definition of impairment according to IFRS 9 to the regulatory definition of default. This is also the definition used for internal risk management and is applied to all exposures which are part of the Bank's customer loan portfolio. The Bank considers an exposure to be impaired, and transferred to Stage 3, if at least one of the above criteria is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When determining provisions in Stage 3, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is BAM 100,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk. Returning an exposure from Stage 3 to lower stage is possible if the customer is able to settle outstanding debts in full without recourse to collateral realisation. No migration between stages is possible for POCI exposures.

Purchased or Originated Credit Impaired (POCI) exposures

The Bank has separate rules for POCI (Purchased or Originated Credit Impaired) exposures. Within our business model, the acquisition of impaired exposures is not permitted. POCI exposures can only arise in a course of a new negotiation through significant modification of the contractually agreed cash. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, any changes to the estimated lifetime ECL are recognised as an expense in the profit and loss and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)

Changes to the originally agreed contractual conditions of an exposures are possible, in particular with the aim of improving the prospect of repayment and, if possible, avoiding default, foreclosure or the realization of collateral. The Bank uses quantitative and qualitative factors to determine the existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed condition of an exposure (The Net Present Value Test). In the event of a substantial modification, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. In the case of non-substantial change, the gain or loss from modification is recognized in profit or loss.

Write off

When a loan is uncollectable, it is written off against the corresponding loss allowance which has been set aside, provided there is no justified expectation of repayment.

In accordance with the Decision on Credit Risk Management and Determination of Expected Credit Losses, effective from 1 January 2020, the Bank writes off the balance sheet exposure two years after the Bank has recognized expected credit losses in the amount of 100% of the gross book value of that exposure. and declared it fully due.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Credit quality analysis and credit risk concentration

The following table provides an overview of the respective gross and net customer loan portfolio, as well as respective loss allowances:

	Stage 1 Stage 12-month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Total
31 December 2023				
Business loans				
Gross outstanding amount	508,048	32,582	9,438	550,068
Loss allowances	(4,675)	(2,304)	(8,108)	(15,086)
Carrying amount	**503,373**	**30,279**	**1,330**	**534,982**
Private loans				
Gross outstanding amount	30,511	1,160	900	32,570
Loss allowances	(1,180)	(75)	(692)	(1,947)
Carrying amount	**29,331**	**1,085**	**207**	**30,623**

	Stage 1 Stage 12-month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Total
31 December 2022				
Business loans				
Gross outstanding amount	481,560	36,858	11,091	**529,509**
Loss allowances	(3,948)	(2,494)	(8,379)	**(14,821)**
Carrying amount	**477,612**	**34,364**	**2,712**	**514,688**
Private loans				
Gross outstanding amount	25,800	1,904	651	**28,355**
Loss allowances	(922)	(126)	(514)	**(1,562)**
Carrying amount	**24,878**	**1,778**	**137**	**26,793**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Information regarding the creditworthiness of loans and receivables is provided in the following table. For guarantees of credit and monetary obligations. The figures in the tables correspond to approved or ensured sums.

31 December 2023	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Grade 1-5	494,191	18,556	-	**512,747**
Grade 6-7	-	13,883	-	**13,883**
Grade 8	-	-	10,147	**10,147**
Not graded	44,368	1,303	191	**45,861**
Total	**538,559**	**33,742**	**10,338**	**582,638**
Less: imapirment	(5,855)	(2,378)	(8,800)	(17,033)
Total	**532,704**	**31,364**	**1,537**	**565,605**

31 December 2023	Stage 1	Stage 2	Stage 3	Total
Guarantees				
Grade 1-5	27,711	2,155	-	**29,866**
Grade 6-7	-	184	-	**184**
Grade 8	-	-	-	**-**
Not graded	1,783	18	-	**1,801**
Total	**29,493**	**2,357**	**-**	**31,850**
Less: imapirment	(67)	(24)	-	(91)
Total	**29,426**	**2,333**	**-**	**31,759**

31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Loan commitments				
Grade 1-5	48,932	3,505	-	**52,436**
Grade 6-7	-	791	-	**791**
Grade 8	-	-	-	**-**
Not graded	3,038	-	-	**3,038**
Total	**51,970**	**4,295**	**-**	**56,266**
Less: imapirment	(112)	(79)	-	**(192)**
Total	**51,858**	**4,216**	**-**	**56,074**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Grade 1-5	471,924	20,224	-	**492,148**
Grade 6-7	1,826	10,578	-	**12,404**
Grade 8	-	-	10,414	**10,414**
Not graded	33,610	7,960	1,328	**42,898**
Total	**507,360**	**38,762**	**11,742**	**557,864**
Less: imapirment	(4,870)	(2,620)	(8,893)	**(16,383)**
Total	**502,490**	**36,142**	**2,849**	**541,481**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Guarantees				
Grade 1-5	44,559	5,311	-	**49,870**
Grade 6-7	-	131	-	**131**
Grade 8	-	-	-	**-**
Not graded	2,252	356	-	**2,608**
Total	**46,811**	**5,798**	**-**	**52,609**
Less: imapirment	(100)	(86)	-	**(186)**
Total	**46,711**	**5,712**	**-**	**52,423**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Loan commitments				
Grade 1-5	19,235	3,130	-	**22,365**
Grade 6-7	-	52	-	**52**
Grade 8	-	-	-	**-**
Not graded	3,483	433	2	**3,918**
Total	**22,718**	**3,615**	**2**	**26,335**
Less: imapirment	(60)	(39)	(0)	**(99)**
Total	**22,658**	**3,576**	**2**	**26,236**

The credit risk of loans and receivables and credit lines and guarantees is presented through the internal credit risk classification. Not graded category relates to all private clients and business clients with exposure below BAM 100,000.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

31 December 2023

	Stage 1	Stage 2	Stage 3	**Total**
Loans and advances to customers – gross carrying amount				
Current	466,154	22,434	103	**488,690**
Overdue < 30 days	72,405	8,451	279	**81,135**
Overdue > 30 days < 90 days	-	2,857	324	**3,181**
Overdue > 90 days	-	-	9,632	**9,632**
Total:	**538,559**	**33,742**	**10,338**	**582,638**

31 December 2022

	Stage 1	Stage 2	Stage 3	**Total**
Loans and advances to customers – gross carrying amount				
Current	501,131	36,557	389	**538,079**
Overdue < 30 days	6,211	1,639	297	**8,146**
Overdue > 30 days < 90 days	17	559	709	**1,285**
Overdue > 90 days	1	7	10,347	**10,354**
Total:	**507,360**	**38,762**	**11,742**	**557,864**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

The following table presents gross and net exposures, broken down according to economic sector and by stage.

31 December 2023	Business loans					Private loans			
In BAM '000	Production	Wholesale and retail trade	Transporation and storage	Agriculture, forestry and fishing	Other economic activities	Housing	Investment loans and OVDs	Others	**Total**
Stage 1									
Gross outstanding amount	182,729	117,525	44,103	19,382	144,310	11,185	18,011	1,313	**538,558**
Loss allowances for loans to customers	(1,618)	(1,042)	(447)	(172)	(1,396)	(270)	(886)	(24)	**(5,855)**
Net outstanding amount	181,111	116,483	43,656	19,210	142,914	10,915	17,125	1,291	**532,705**
Stage 2									
Gross outstanding amount	6,562	11,472	2,692	2,606	9,250	204	956	-	**33,742**
Loss allowances for loans to customers	(380)	(798)	(156)	(143)	(827)	(18)	(57)	-	**(2,378)**
Net outstanding amount	6,182	10,675	2,536	2,463	8,423	186	899	-	**31,364**
Stage 3								-	
Gross outstanding amount	2,202	5,681	47	907	601	209	690	-	**10,338**
Loss allowances for loans to customers	(1,626)	(5,323)	(47)	(642)	(470)	(119)	(573)	-	**(8,800)**
Net outstanding amount	575	358	0	266	131	90	117	-	**1,537**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

31 December 2022			Business loans				Private loans		
In BAM '000	Production	Wholesale and retail trade	Transporation and storage	Agriculture, forestry and fishing	Other economic activities	Housing	Investment loans and OVDs	Others	**Total**
Stage 1									
Gross outstanding amount	181,338	128,602	37,139	18,919	115,562	11,287	13,193	1,320	**507,360**
Loss allowances for loans to customers	(1,363)	(1,030)	(286)	(155)	(1,114)	(272)	(631)	(19)	**(4,870)**
Net outstanding amount	179,975	127,572	36,853	18,764	114,448	11,015	12,562	1,301	**502,490**
Stage 2									
Gross outstanding amount	7,228	11,310	2,520	1,122	14,679	1,522	378	4	**38,762**
Loss allowances for loans to customers	(528)	(727)	(192)	(63)	(984)	(100)	(25)	(1)	**(2,620)**
Net outstanding amount	6,700	10,583	2,328	1,059	13,695	1,422	353	3	**36,143**
Stage 3									
Gross outstanding amount	2,130	7,434	51	794	682	194	450	7	**11,742**
Loss allowances for loans to customers	(1,081)	(6,294)	(48)	(397)	(560)	(99)	(408)	(7)	**(8,893)**
Net outstanding amount	1,049	1,140	3	398	122	96	41	-	**2,849**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage level and concentration risk.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium-sized businesses in various economic sectors and to private clients, and the distribution of the loan portfolio.

The following table presents gross loans broken down according to business area, economic sector and loan size.

31 December 2023	up to EUR 50,000	EUR 50,000 – 250,000	over 250,000 EUR	**Total**
Business loans				
Production	10,017	74,060	107,415	**191,492**
Trade	11,476	59,365	63,837	**134,678**
Transport and warehousing	5,160	23,584	18,098	**46,842**
Agriculture, forestry	857	8,507	13,532	**22,895**
Other business activities	10,131	56,881	87,149	**154,160**
Total business loans	**37,641**	**222,397**	**290,030**	**550,068**
Private loans				
Housing loans	2,610	7,568	1,420	**11,598**
Investment loans and OVDs	13,337	4,498	1,823	**19,658**
Other	488	826	-	**1,314**
Total private loans	**16,434**	**12,893**	**3,243**	**32,570**
Total customer loan portfolio (gross)	**54,075**	**235,290**	**293,273**	**582,638**

31 December 2022	up to EUR 50,000	EUR 50,000 – 250,000	over 250,000 EUR	**Total**
Business loans				
Production	9,111	71,669	109,916	**190,696**
Trade	10,944	61,329	75,073	**147,346**
Transport and warehousing	4,482	17,341	17,887	**39,710**
Agriculture, forestry	1,111	6,583	13,141	**20,835**
Other business activities	9,307	48,351	73,264	**130,922**
Total business loans	**34,955**	**205,273**	**289,281**	**529,509**
Private loans				
Housing loans	3,735	8,489	779	**13,003**
Investment loans and OVDs	9,462	3,031	1,528	**14,021**
Other	446	885	-	**1,331**
Total private loans	**13,643**	**12,405**	**2,307**	**28,355**
Total customer loan portfolio (gross)	**48,598**	**217,678**	**291,588**	**557,864**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

In addition, the Bank limit the concentration risk of their portfolios by means of the following requirements: Large credit exposures (those exceeding 10% of the regulatory capital of the Bank) require the approval of the Group Risk Management Committee and of the Supervisory Board of the Bank. No large credit exposure may exceed 25% of regulatory capital of a Bank, and the sum of all large credit exposures of a Bank may not exceed 150% of its regulatory capital.

The quality of the loan portfolio in all client categories is monitored by credit control units at the Bank. They assess the quality of the credit analysis as well as compliance with internal procedures and identify signs of fraudulent activity. These teams comprise experienced staff who not only conduct on-site visits to customers in order to monitor the lending process but also systematically screen the portfolio for irregularities.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner.

5.1.2 Counterparty risk, including issuer risk

The Bank defines counterparty risk, including issuer risk, as the risk that the counterparty and the issuer may default or deteriorate in credit quality before the final settlement of the cash flows of the contracted transaction (most often refers to derivatives or other similar financial instruments). The Bank achieves exposures to other contractual parties primarily for the purpose of keeping highly liquid assets in order to reduce the risk of liquidity and to perform payment transactions. In order to minimize the risk of the other contractual party, including the risk of the issuer, the Bank enters into a business relationship only with banks that have a high credit rating , places funds for short terms (up to three months) and uses a limited number of financial instruments (existing investments refer to government treasury bills and bonds of European Union countries with a rating of AA- and higher). The bank does not engage in speculative trading and, if necessary, only highly liquid securities are purchased.

The Bank's exposure to counterparty risk increased compared to the previous year as a result of higher liquidity reserves.

	31 December 2023	in %	31 December 2022	in %
Central bank balances	175,127	53.22%	201,208	65.4%
Loss allowances for central bank balances	(280)		(389)	
Of which obligatory reserve	80,599		74,297	
Of which other balances	94,528		126,911	
Current accounts with other banks (mainly ProCredit group)	96,775	29.44%	54,737	17.8%
Loss allowances for current accounts with other banks institutions	(99)		(56)	
Investment in securities	54,418	16.54%	49,255	16.0%
Impairment	(60)		-	
Other financial assets	2,649	0.8%	2,446	*0.8%*
Loss allowances for current accounts with other banks institutions	(2)		(2)	
Total	**328,528**	**100.00%**	**307,199**	**100.00%**

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Credit risk *(continued)*

5.1.1. Customer credit risk *(continued)*

As with client credit risk, exposures to counterparties and issuers are managed using a limit system. The Bank only completes transactions with other contractual parties after careful analysis and once a limit has been approved. During 2023, the Bank made investments in securities of the Federation of BiH, Republika Srpska and countries of the European Union with a rating of AA- and above.

5.1.2 Country risk

The Bank defines country risk as the risk related to the country of origin of the person to whom the bank is exposed, i.e. the risk of the possibility of negative effects on the bank's financial result or capital due to the inability of the bank to collect its claims from this person for reasons that are the result of political, economic or social circumstances in the person's country of origin. as a risk that the Bank cannot exercise rights over certain assets in the country or that the other contracting party in that country is unable to perform the obligation due to the restriction or transfer or expropriation of its cross-border obligations. Country risk thus arises solely from cross-border transactions.

The Bank is only exposed to country risk to a very limited extent through nostro accounts maintained with other banks (mainly ProCredit Bank member banks).

5.2. Market risks

Market risk is defined as the risk of potential losses, the risk of losses on balance and off-balance sheet positions due to changes in market prices due to changes in market prices, such as foreign exchange rates or other parameters that affect prices. Relevant market risks for the Bank are foreign currency risk and interest rate risk. The Bank manages demand risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the strategy of the ProCredit Group, foreign currency risk and interest rate risk cannot be used for speculative purposes. Currency risk and interest rate risk are exclusively used for hedging or liquidity purposes.

5.2.1. Foreign currency risk

Currency risk is defined as the risk of loss resulting from a change in the currency exchange rate and/or a change in the price of gold. Currency risk can have negative effects on revenues and can lead to a reduction in regulatory capital rates.

Results are impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at the Bank level and also take into account limits prescribed by the regulator.

The following table shows the open credit positions of the Bank in EUR and in USD. The position “other currencies” mainly includes CHF and other currencies with relatively small transaction volume. The banks keeps their significant amount of assets and liabilities in EUR and due to the fixed EUR/BAM rate the Bank assumes that this risk is very limited.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2. Market risks (continued)

5.2.1. Foreign currency risk (continued)

31 December 2023	BAM	EUR*	USD	Other currencies	Total
Financial assets					
Cash and cash equivalents	8,479	1,365	50	1	9,896
Obligatory reserves at the Central bank of BiH	174,674	173	-	-	174,847
Loans and advances to banks	447	85,411	10,629	189	96,676
Loans to customers	219,940	345,666	-	-	565,606
*of which indexed to EUR**	-	*345,666*	-	-	*345,666*
Investment in securities	38,735	15,623	-	-	54,358
Other assets	98	726	2,012	-	2,836
	442,373	**448,964**	**12,691**	**190**	**904,219**
Financial liabilities					
Liabilities to banks	-	-	-	-	-
Liabilities to financial institutions	214	93,388	-	-	93,602
Liabilities to customers	462,677	250,413	12,114	78	725,282
*of which indexed to EUR**	-	*97,703*	-	-	*97,703*
Subordinated debt	-	8,033	-	-	8,033
Provisions for off balance	217	64	2	-	283
Other liabilities	3,806	1,627	3	-	5,436
	466,915	**353,525**	**12,119**	**78**	**832,636**
Net position	***(24,541)***	***95,440***	***572***	***112***	***71,525***

* The Bank has a number of agreements governed by a foreign currency clause. Due to the fixed relationship between EUR and BAM, the Bank is not exposed to significant currency risk from positions denominated in EUR.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2. Market risks (continued)

5.2.1. Foreign currency risk (continued)

31 December 2022	**BAM**	**EUR***	**USD**	**Other currencies**	**Total**
Financial assets					
Cash and cash equivalents	6,707	2,616	56	1	9,380
Obligatory reserves at the Central bank of BiH	198,806	2,013	-	-	200,819
Loans and advances to banks	249	39,173	15,028	231	54,681
Loans to customers	193,033	348,448	-	-	541,481
*of which indexed to EUR**	-	*348,448*	-		*348,448*
Investment in securities	49,170	85	-	-	49,255
Other assets	121	674	1,781	-	2,576
	448,086	**393,009**	**16,865**	**232**	**858,192**
Financial liabilities					
Liabilities to banks	-	13,793	-	-	13,793
Liabilities to financial institutions	-	106,293	-	-	106,293
Liabilities to customers	445,567	202,590	16,743	76	664,976
*of which indexed to EUR**	-	*59,880*	-	-	*59,880*
Provisions for off balance	208	65	12	-	285
Subordinated debt	-	7,919	-		7,919
Other liabilities	1,916	576	4	-	2,496
	447,691	**331,236**	**16,759**	**76**	**795,762**
Net position	***398***	***61,773***	***106***	***156***	***62,433***

* The Bank has a number of agreements governed by a foreign currency clause. Due to the fixed relationship between EUR and BAM, the Bank is not exposed to significant currency risk from positions denominated in EUR.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2. Market risks (continued)

5.2.2. Interest rate risk in the banking book

Interest rate risk is the risk of possible negative effects on the bank's financial result and capital based on positions from the banking book due to changes in interest rates. Interest rate risk is the risk of losses due to changes in market interest rates and primarily results from differences in the redetermination of prices on the maturity date of assets and liabilities. The goal of interest rate risk management is to maintain the smallest possible differences in all currencies. The above is especially important in the context of limited risk management options using interest rate derivatives (hedges) in the domestic currency.

The measuring, monitoring and limiting of interest rate risk is based on economic value impact and P&L-oriented indicators. The risk is measured on a regular basis, at least quarterly. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Interest-bearing sight deposits and savings accounts are included in the gap analyses.

At the Bank level, we assume a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis. Limits are set in relation to regulatory capital (non-netted in each case) for the economic value impact and for the P&L effect.

For the purpose of reporting to the FBiH Banking Agency on interest rate risk exposure in the banking book, the bank uses a simple calculation to estimate changes in the economic value of the banking book, applying standard interest shock to banking book positions in all major currencies individually and for other currencies in total. The total net weighted position of the banking book is expressed in absolute amount and represents the change in the economic value of the bank's banking book that arose as a result of the application of the standard interest rate shock.

	Economic Value Impact	
Currency	**31 December 2023**	**31 December 2022**
BAM	(2,501)	(3,033)
EUR	(556)	(3,935)
USD	-	-
Other currencies	(161)	(225)
Total (in BAM '000)	**(3,218)**	**(7,193)**

The Bank started with economic value impact calculations and the impact of changes in interest rates in line with the new regulation framework in 2018.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3. Liquidity and funding risk

Liquidity and funding risk addresses the Bank's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

The Bank assesses short-term liquidity risk in the Bank on the basis of a liquidity gap analysis, among other instruments, and the Bank monitors this risk using numerous indicators. These include a 30-day liquidity indicator (sufficient liquidity indicator - "*SLI"*), a survival period and the minimum liquidity ratio stipulated by Capital Requirements Regulations - CRR (Liquidity Coverage Ratio, '*LCR*') as well as a local regulator. The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the banks are able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the Bank. LCR indicates whether the Bank have sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario.

Market-wide, institution-specific, combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the Bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, the Bank has a contingency plan. If unexpected circumstances arise and the Bank proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

The liquidity of the Bank is managed on a daily basis by the respective treasury departments, based on the Group ALCO-approved cash flow projections, and is monitored by risk management and ALCO. The Bank had enough liquidity available at all times in 2022 to meet all financial obligations in a timely manner.

The bank did not see substantial client deposit outflows or liquidity position threats during the COVID-19 epidemic or the crisis brought on by the war in Ukraine, and the solid liquidity position persisted throughout 2023. Deposits at the bank increased significantly in 2022, and positive trend continued in 2023.

The following tables show the undiscounted cash flows of the financial assets and financial liabilities of the Bank according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Liquidity risk management *(continued)*

31 December 2023	Carrying amount	Gross nominal inflow/out flow	up to 1 month	1 - 3 months	4 - 12 months	1 – 5 years	over 5 years
Financial assets							
Cash in hand	**9,896**	**9,896**	9,896	-	-	-	-
Funds held at the Central Bank of BiH	**174,847**	**175,099**	94,528	-	80,571	-	-
Loans and receivables to banks	**96,676**	**96,775**	71,208	25,567	-	-	-
Loans and receivables to customers	**565,606**	**638,222**	24,975	56,628	184,866	288,041	83,712
Investment securities	**54,358**	**54,837**	7,823	15,000	31,923	-	91
Other assets	**2,835**	**2,835**	857	475	901	-	602
Total assets	**904,217**	**977,664**	**209,287**	**97,670**	**298,261**	**288,041**	**84,405**
Financial liabilities							
Liabilities to banks	-	-	-	-	-	-	-
Liabilities to other financial institutions	**93,602**	**93,602**	1,733	22,346	11,269	48,877	9,377
Liabilities to customers	**725,282**	**734,015**	467,059	21,895	145,558	97,087	2,416
Subordinated debt	**8,033**	**8,033**	-	210	-	-	7,823
Other liabilities	**5,847**	**5,435**	3,733	39	584	1,079	-
Total liabilities	**832,764**	**841,085**	**472,525**	**44,490**	**157,411**	**147,044**	**19,616**
Contractual liquidity surplus	**71,453**	**136,579**	**(263,238)**	**53,180**	**140,850**	**140,998**	**64,789**

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Liquidity risk management *(continued)*

31 December 2022	Carrying amount	Gross nominal inflow/out flow	up to 1 month	1 - 3 months	4 - 12 months	1 – 5 years	over 5 years
Financial assets							
Cash in hand	**9,380**	**9,380**	9,380	-	-	-	-
Funds held at the Central Bank of BiH	**200,819**	**201,208**	126,911	-	74,297	-	-
Loans and receivables to banks	**54,681**	**54,740**	54,740	-	-	-	-
Loans and receivables to customers	**541,481**	**615,578**	22,695	55,211	166,782	284,846	86,044
Investment securities	**49,255**	**49,405**	-	20,020	29,300	-	85
Other assets	**2,577**	**2,577**	123	307	849	674	623
Total assets	**858,193**	**932,888**	**213,849**	**75, 538**	**271,228**	**285,520**	**86,752**
Financial liabilities							
Liabilities to banks	**13,793**	**13,793**	5,930	7,823	73	-	-
Liabilities to other financial institutions	**106,293**	**106,293**	97	1,477	17,745	74,268	12,707
Liabilities to customers	**664,976**	**669,540**	430,263	16,417	130,474	90,270	2,116
Subordinated debt	**7,919**	**7,919**	-	95	-	-	7,823
Other liabilities	**2,497**	**2,496**	1,480	58	253	705	-
Total liabilities	**787,601**	**800,074**	**437,770**	**25,870**	**148,546**	**165,243**	**22,646**
Contractual liquidity surplus	**62,715**	**132,814**	**(223,921)**	**49,668**	**122,682**	**120,277**	**64,106**

Short-term liquidity risk is measured primarily by means of LCR. As of 31 December 2023, the LCR was 253% (2022: 215%), and thus comfortably above the local regulatory requirement of minimum 100%. Additionally, the bank reports the net stable financing coefficients (NSFR). As of 31 December 2023, the NSFR was 146%, which is higher than the regulation standard of at least 100%.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Liquidity risk management *(continued)*

Liquidity financing risk is the risk that the bank will not be able to successfully meet expected and unexpected current and future needs for funds, as well as needs for insurance instruments, without affecting the bank's regular daily operations or financial result. This risk is mitigated by the fact that the Bank's credit operations are financed primarily through customer deposits supplemented by long-term credit lines from international financial institutions (IFIs). As of December 31, 2023, the largest source of financing is client deposits in the amount of 725 million KM (2022: 665 million KM). Financial institutions within the group and international financial institutions (IFIs) are the second largest source of financing.

The Bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators, including stress scenario on a vista funding withdrawals. The funding needs of the Bank, identified in the business planning process, are monitored and regularly reviewed at the Bank and at the group level. ProCredit Holding also offers bridge financing in the event of assessed need, and currently the Bank has stand by line approved by ProCredit Holding in the amount of EUR 5 million.

5.4 Capital management

Capital management in the Bank is guided by the principle that the Bank may at any time incur greater risks than they are able to bear. This principle is monitored using different indicators for which early warning indicators and limits have been established.

The indicators for the Bank include, in addition to regulatory standards, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and an internal capital adequacy assessment.

The objective of capital management is to maintain sufficient and adequate capital level which can in any moment meet all of qualitative and quantitative requirements. Thus providing normal activity of the Bank.

The capital management framework of the Bank has the following objectives:

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer

The capital management of the Bank is governed by internal policies and monitored on a monthly basis by the ACLO committee.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management *(continued)*

Internal capital adequacy

ProCredit Bank faces various risks resulting from its business activities. The Bank manages the risks appropriately and in accordance with their significance to the Bank. The risk catalogue is an instrument which should identify materiality of risks to which the Bank is exposed, to present the overall risk profile of the Bank. The risk catalogue is a basis for the Bank's risk management. The risk catalogue consists of the introductory document and a special risk catalogue table. The introductory document provides for an overview of the general risk catalogue framework, responsibilities and steps to be taken to assess individual risk categories. The risk catalogues provides for an overview of all potential risks and assessment of their significance to the Bank.

The risk catalogue is regularly updated, at least once a year, or more often if required, starting the risk identification process and assessing their materiality. In determination of materially significant risks to which the Bank is exposed, and which will be included into internal capital adequacy assessment process, the type, scope and complexity of business operations are taken into account as well as specifics of market where the bank operates. Also, previous experience in risk management of the Bank and ProCredit Group are taken into account, including historical data on negative effects on financial performance and capital of the Bank.

Identification and risk management is performed by Risk Management Department in cooperation with other relevant Departments/Units in accordance with the criteria for material significance for specific risk stated in risk catalogue. Similar risks are managed together with the main risk (e.g. credit risk). The risk catalogue is subject to discussion among all relevant Department/Units including the bank's Management and Supervisory board.

Within the internal capital adequacy assessment process the Bank has defined all requirements in accordance with the principles proscribed by Federal Banking Agency on risk management. Methodology of internal process of the Bank's capital adequacy assessement and asessment of the adequacy of the liquidy position, including assumptions used in the internal methodology, are approved by the Bank's Supervisory board. This act define methodology of stress testing for ICAAP. The stress test has to be performed once per year as minimum. Information on stress testing are as follows:

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management *(continued)*

Internal capital adequacy

Risk	Description	Assumptions
Credit risk	Internal model with ECL rates	Reliability level 99,9%
Concentration risk	Calculation model of sectoral concentration	Level of sectoral concentration and exposure to credit risk
Counterparty risk	Internal model – reiting related to probabily of raiting migration and PDs, two scenarios, financial market stress and fiscal stress	Financial market's stress: Ratings for the banks are decreased by 2 notches Fiscal stress: The ratings of the state are lowered by 2 levels and are applied if the ratings of the banks
Currency risk	VaR analysis of the effect of exchange rate changes	Exchange rate changes with an interval of 12 months and a confidence level of 99.7%
Operating risk	Analysis of the probability of the number of events and the probability of loss per event	Probability of event realization (reliability level 99.7%) and average event effect
Interest rate risk	An internal model of the change in the economic value of the banking book and an internal model of the impact of interest rate risk in the banking book on net interest income.	Interest rate shocks based on historical interest rate changes based on VAR analysis with a 95% confidence level

Regulatory capital adequacy

Methods for the calculation of capital adequacy are based on the local regulation which is in line with Basel II requirement. Compliance with regulatory requirements are monitored on a regularal basis. During the reporting period, all regulatory capital requirements were met at all times.

The capital adequacy ratio of the Bank is above the prescribed limit of 12%. Following table presents the structure of equity and capital requirements of the Bank on 31 December 2023 and 31 December 2022:

In BAM '000	**31 December 2023**	**31 December 2022**
Common equity Tier 1 capital	73,805	66,680
Additional Tier 1 capital	-	-
Additional Tier 2 capital	7,823	7,823
Total capital	**81,628**	**74,503**
Risk weighted assets (unaudited)	**461,557**	**417,772**

	31 December 2023	**31 December 2022**
Common equity Tier 1 capital	16.0%	16.0%
Tier 1 capital ratio	16.0%	16.0%
Total capital ratio	**17.69%**	**17.83%**

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management *(continued)*

The Bank considers credit risk, counterparty risk, foreign exchange risk, operational risk, interest rate risk, liquidity risk with its associated subcategories and other material risks, which include: capital risk, risk of excessive financial leverage, business risk, profitability risk and reputational risk.

Within the internal capital adequacy assessment process, for credit risk, the Bank will calculate the internal capital requirement using an internal model. The Bank will also conduct a stress test for credit risk in order to avoid a possible underestimation of credit risk due to the application of the internal model in crisis conditions. In addition, the Bank will calculate the capital requirement by applying the regulatory approach in accordance with the Decision on the calculation of the bank's capital. The Bank will compare the internal capital requirement for credit risk with the regulatory capital requirement in order to avoid a possible underestimation of credit risk due to the application of the internal model. The Bank will set aside an internal capital requirement for credit risk at least equal to the regulatory capital requirement.

For the purpose of determining internal capital requirements for concentration risk, the Bank uses the calculation of the sector concentration index HHIs and the individual concentration index HHIi. The Bank measures concentration at the industry level using International Standard Industrial Classification (ISIC) group-level codes to differentiate different industry sectors. For individual concentration, the Bank observes the client's exposure. In accordance with the conservative tendency in risk management, the Bank allocates capital to cover concentration risk. The internal capital requirement using the internal model is calculated by multiplying the sector concentration index with the internal capital requirement for credit risk. As part of the internal capital adequacy assessment process for counterparty risk (including the issuer's risk), the Bank calculates the internal capital requirement using an internal model (which includes a stress test). The Bank compares the internal capital requirement with the regulatory capital requirements in order to avoid a possible underestimation of this risk due to the application of the internal model. The Bank sets aside the internal capital requirement for counterparty risk at least in the amount of the regulatory capital requirement.

As part of the internal capital adequacy assessment process, the Bank uses an internal model for calculating the internal capital requirement for currency risk. The bank calculates the internal capital requirement for currency risk coverage based on the historical VaR (Value at Risk) analysis model. The calculation of the internal capital requirement needed to cover the Bank's currency risk is equal to the impact that historical shocks could have on the Bank with regard to the current exposure to currency risk. Exposure to currency risk is represented by the Bank's open foreign exchange position (ODP) in accordance with the methodology for calculating the ODP according to the Decision on the calculation of the bank's capital.

In the event that the internal capital requirement is less than the capital requirement according to the standardized approach in accordance with the provisions of the Decision on calculating the bank's capital, the Bank equates the internal capital requirement with the capital requirement in accordance with the provisions of the aforementioned Decision.

As part of the internal capital adequacy assessment process for operational risk, the bank calculates the internal capital requirement using an internal model (which includes a stress test). The Bank calculates the internal capital requirement for operational risk using two internally established approaches. With the first approach, the Bank calculates the internal capital requirement for the standard scenario based on the realized gross exposure to risk. With another approach, the Bank calculates the internal capital requirement for a stress scenario through sensitivity analysis and simulation of potential risk exposure based on historical experience. Both approaches are based on data from the risk event database, RED, in which all operational risk realization events that had or could potentially have an effect on the Bank's financial result and capital are entered.

For the standard scenario, the risk exposure is calculated based on the realized gross risk exposure in the last 10 years (2013-2022) with a one-point confidence level of 95%.

For the stress scenario, the internal model for assessing the internal capital requirement for operational risks is based on the historical analysis of operational risk realization events. Through the internal model, the Bank covered a period of ten years. Based on historical data, an estimate of the expected number of events and expected gross losses per event is made. Based on the estimated number of events and gross losses, operational risk exposure is calculated.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Capital management *(continued)*

Through both approaches, the Bank includes all types of operational risks and includes them in the calculation of the internal capital requirement.

As an additional version of the stress scenario, the Bank also calculates a macroeconomic stress scenario. This scenario includes the risk of a serious macroeconomic crisis. An increase in the number of fraud events is the presumed impact on operational risk in the event of a severe macroeconomic crisis. Therefore, for modeling a serious macroeconomic crisis, the number of fraud cases increased by 49%, and represents the ratio of all events recorded in the risk event database (RED) in the period from 2013 to 2022, which did not lead to losses. The result shows what would happen if all events that did not result in a loss for the Bank were realized as events that did result in a loss. The scenario reflects an increased incentive to commit fraud during periods of macroeconomic deterioration.

The bank compares the internal capital requirement with the regulatory capital requirements in order to avoid a possible underestimation of this risk due to the application of the internal model. The bank sets aside the internal capital requirement for operational risk at least as much as the regulatory capital requirement.

Exposure to interest rate risk in the banking book in the internal capital adequacy assessment process is calculated in accordance with the internal model. The calculation of risk exposure is done through two approaches: the change in the economic value of the banking book and the impact of the interest rate risk in the banking book on net interest income.The internal model of the change in the economic value of the banking book is based on a standardized approach for calculating the change in the economic value of the banking book. Interest-sensitive positions in the banking book are distributed in 13 time zones according to the agreed maturity for positions with a fixed interest rate, or according to the agreed maturity until the time zone of the next interest rate change for positions with a variable interest rate. For all positions, modified durations are used in accordance with the provisions of the Decision on interest rate risk management in the banking book. Interest shocks are calculated on the basis of historical changes in interest rates for individual positions in the banking book. In a stressful scenario, changes in interest rates are calculated using the VaR (Value at Risk) analysis model with a confidence level of 95%.

The internal model of the impact of interest rate risk in the banking book on net interest income calculates the impact of interest rate risk in the banking book on net interest income in the next 12 months. The bank calculates the impact of interest rate changes on net interest income for positions with maturities or interest rate changes of up to 12 months.

Capital requirements for interest rate risk in the banking book are calculated by adding up the effects of changes in the economic value of the banking book and the impact of interest rate risk in the banking book on net interest income in the scenario of a parallel decline in interest rates on the assets and liabilities side and in the scenario of a parallel rise in interest rates on the assets and liabilities side . The capital requirement is equal to the greater of the negative effects calculated through the two previously mentioned scenarios.

As part of the internal assessment of liquidity adequacy, the bank assesses liquidity risk as materially significant. The internal effect on liquidity is calculated on the basis of internal models for short-term liquidity financing risk and long-term liquidity financing risk.Furthermore, the Bank is obliged to provide and maintain a leverage ratio that is not based on risk (financial leverage ratio). The coefficient is defined as the ratio of core capital and total weighted balance sheet and off-balance sheet exposures. The minimum requirement for the leverage ratio is 6%. At the end of the year, the Bank reported a leverage ratio of 7.5%.

Leverage ratio

	31 December 2023	31 December 2022
Tier 1 capital	73,805	63,889
Assets	983,422	928,764
Leverage ratio	**7.5%**	**7.2%**

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.5 Climat related risk management

The Bank aims to promote sustainable development in all its aspects, and advocates that the economic progress that supports does not harm the environment and does not increase carbon dioxide emissions. The Bank adheres to a comprehensive, three-part approach to environmental management aimed at reducing the bank's direct environmental impact by managing internal resource consumption (Pillar 1), but also reducing the indirect impact that the bank has on the environment (Pillar 2) by financing clients' projects. Special attention is paid to checking whether potential new customers of the Bank are engaged in activities that are on the Bank's exclusion list (Pillars 2 and 3).

In accordance with the Guidelines for managing risks related to climate change and environmental risks issued by the Banking Agency of the FBiH, the Bank has made an assessment of the materiality of risks related to climate change and environmental risks, as part of environmental, social and management (ESG) risks, in order to adequately identify them with the aim of safe and prudent risk management.

Climate-related risks and environmental risks can have a direct impact on the effectiveness of the Bank's existing and future strategies. Risk drivers are events, materialization of which is associated with climate change and environmental risks, and they represent a source of physical or transitional ESG risks. The identification of risk drivers is carried out in order to define the source of ESG risk and the recognition of transmission channels. Risk drivers directly, through the bank's physical branches, and indirectly, through the credit and deposit portfolios of households and companies, influence the Bank's risk profile and can potentially have a significant impact on increasing the likelihood of materialization of credit, operational, market and liquidity risk of the Bank.

Risk drivers are events that are continuously present and the materialization of the effects of the same on the Bank's operations depends on the observed period, i.e. the effect of certain risk drivers on the Bank's operations is different if they are evaluated in the short, medium and long term. The time horizon is particularly relevant, as most of the listed risks are expected to manifest in the medium to long term.

The Bank identified the following risk drivers as relevant:

Risk component	Risk drivers	Mannerof influence on bank	Transmission Channel
Physical risk	Flood	Directly and indirectly	Credit operations with legal entities; Deposit operations with legal entities; Deposit operations with households; Physical assets owned by the Bank
Physical risk	Fire	Directly and indirectly	
Physical risk	Landslides	Directly and indirectly	
Transitional risk	Application of the EU mechanism for carbon adaptation at borders	Indirectly	Credit operations with legal entities; Deposit operations with legal entities; Deposit operations with households;

Taking into account the Bank's business model, and the Bank's assets and liabilities structure, drought risk as a driver of risk was not taken into account in the analysis.

The bank has made an assessment of the impact of physical risks on credit risk, operational risk, liquidity risk and market risk. The impact assessment of physical risks was done taking into account the level of probability of realization of physical risks according to geographic locations and time period.

The effect of materialization of ESG risk for credit and liquidity risk is determined at the client level and the effect on operational risk is assessed at the Bank level.

Taking into account that the level of probability of realization of transitional risk is related to economic activities, the assessment of transitional risks was made at the level of economic activities. Economic activities have been identified on the basis of the EU mechanism for carbon adjustment at borders. The effect of the realization of risk drivers towards economic activities also takes into account the assessment of the level of exposure of the Bank's clients to the effects of the realization of risk drivers.

The assessment of materiality was determined using the Bank's standard methodology for assessing the materiality of risks. The materiality assessment found that the above physical and transitional risks do not have a materially significant impact on credit, operational, market and liquidity risk in the short term.

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2023	Category	Level 1	Level 2	Level 3	Fair value	Carrying amount
Financial assets						
Cash in hand	AC	-	9,896	-	**9,896**	**9,896**
Funds held at the Central Bank of BiH	AC	-	174,847	-	**174,847**	**174,847**
Investment in securities	AC	15,531	35,394	-	**50,925**	**51,285**
Loans and receivables to banks	AC	-	86,907	9,744	**96,651**	**96,676**
Loans and receivables to customers	AC	-	-	585,423	**585,423**	**565,606**
Other assets	AC	-	2,835	-	**2,835**	**2,835**
Total		**15,531**	**309,879**	**595,167**	**920,577**	**901,145**
Financial liabilities						
Liabilities to banks	AC	-	-	-	**-**	**-**
Liabilities to other financial institutions	AC	-	-	83,156	**83,156**	**93,602**
Liabilities to customers	AC	-	458,486	269,449	**727,935**	**725,282**
Subordinated debt	AC	-	-	7,822	**7,822**	**8,033**
Other liabilities	AC	-	-	5,863	**5,863**	**5,847**
Total		**-**	**458,486**	**366,290**	**824,776**	**832,764**

31 December 2022	Category	Level 1	Level 2	Level 3	Fair value	Carrying amount
Financial assets						
Cash in hand	AC	-	9,380	-	**9,380**	**9,380**
Funds held at the Central Bank of BiH	AC	-	200,819	-	**200,819**	**200,819**
Loans and receivables to banks	AC	-	54,681	-	**54,681**	**54,681**
Loans and receivables to customers	AC	-	-	560,756	**560,756**	**541,481**
Other assets	AC	-	2,577	-	**2,577**	**2,577**
Total		**-**	**267,457**	**560,756**	**828,213**	**808,938**
Financial liabilities						
Liabilities to banks	AC	-	-	13,545	**13,545**	**13,793**
Liabilities to other financial institutions	AC	-	-	90,843	**90,843**	**106,293**
Liabilities to customers	AC	-	415,971	248,597	**664,568**	**664,976**
Subordinated debt	AC	-	-	7,730	**7,730**	**7,918**
Other liabilities	AC	-	541	1,863	**2,404**	**2,404**
Total		**-**	**416,512**	**362,578**	**779,090**	**795,384**

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (*continued*)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2023	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Treasury bills issued by resident Ministry of Finance Federation of BiH	-	2,982	-	**2,982**
Equity securities issued by non-resident legal entities	-	91	-	**91**
Total	-	**3,073**	-	**3,073**

31 December 2022	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Treasury bills issued by resident Ministry of Finance Federation of BiH	-	20,037	-	**20,037**
Treasury bills issued by resident Ministry of Finance Republic Srpska	-	29,133	-	**29,133**
Equity securities issued by non-resident legal entities	-	85	-	**85**
Total	-	**49,255**	-	**49,255**

The Bank's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value.

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

The Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels.

(a) Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (*continued*)

(b) Level 2 Inputs

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, the valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters. The Bank applies individual observable interest and exchange rates, made available predominantly by the Central bank of Bosnia and Herzegovina.

(c) Level 3 Inputs

Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. Bank's Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

Loans and advances to customers

The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The carrying value of loans with variable interest rate approximates their fair value.

Deposits from banks, other financial institutions, customers and subordinated debt

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Fair value of term deposits with variable interest rate is approximately same as their carrying value at the reporting date.

Market is considered active if quoted prices are easily and regularly available from trade, dealers, brokers, industry group, cost of services from regulatory agencies, and that those prices represent actual and regular transactions on the market based on the arm's length principles.

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

7. INTEREST INCOME

	2023	2022
Interest revenue calculated using the effective interest rate method		
Loans and receivables		
business clients	27,732	22,800
private clients	2,978	2,129
Banks	2,287	146
Investment securities	243	-
Other interest income	144	122
	33,384	**25,197**

8. INTEREST EXPENSE

	2023	2022
Financial institutions	1,239	1,123
Private and business clients	2,928	2,041
Banks	16	946
Subordinated debt	653	95
Interest expense from lease liabilities (Note 30)	43	26
	4,880	**4,231**

9. FEE AND COMMISION INCOME

	2023	2022
Major service lines		
Payment transactions	4,593	4,050
Account maintenance fee	2,335	2,066
Credit card business	683	456
Other	634	613
	8,245	**7,185**
Letters of credit, guarantees and unused loans	1,255	1,104
	9,500	**8,289**

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

10. FEE AND COMMISION EXPENSE

	2023	2022
Fee and commission expense		
Payment transactions	1,348	1,227
Credit card business	1,347	1,277
Fees for received guarantees	1,133	1,092
Account maintenance fee	20	18
Other	109	53
	3,957	**3,667**

11. NET INCOME FROM FOREIGN CURRENCY TRADING

	2023	2022
Income from foreign currency transactions	3,948	2,674
Net gains and losses from FX revaluation	(559)	(444)
	3,389	**2,230**

12. OTHER OPERATING INCOME

	2023	2022
Rent income from investment properties	23	156
Gain from sale of repossessed assets	54	109
Income from court fees collected	30	81
Income from litigation settlements	92	75
Gain from release of formed provisions	136	70
Income from sale of property and equipment	6	6
Other income	247	113
	588	**610**

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

13. ADMINISTRATIVE EXPENSES

	2023	2022
IT expenses	2,966	2,843
Advisory services	1,566	1,246
Promotion and marketing	1,139	799
VAT, other taxes and contributions	1,014	788
Education and employments	698	586
Security services	377	388
Litigation services	276	322
Energy, sewage, water	318	261
Transportation expenses	388	244
Post and telecommunications	250	221
Withholding tax and other contributions	258	161
Insurance	175	159
Maintenance of fixed assets and equipment	496	155
Lease expenses	141	139
Membership fees	178	132
Audit fees	132	115
Office supplies	110	65
Other administrative expenses	1,236	908
	11,716	**9,536**

14. PERSONNEL EXPENSES

	2023	2022
Net salaries and income taxes	4,421	3,192
Social security expenses	2,594	1,867
Change in provisions for employee benefits (Note 29)	160	107
Redundancy payment	27	14
Social security refund	-	(6)
Other employee expenses	788	700
	7,990	**5,874**

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

15. OTHER OPERATING EXPENSES

	2023	2022
Deposit and loan insurance expenses	1.517	1,129
Impairment of repossessed assets	-	39
Provisions for court cases (Note 29)	323	112
Expenses from litigation settlements	168	-
Expenses for the previous period	4	-
Other expenses	288	164
	2,300	**1,444**

16. IMPAIRMENT LOSSES, NET

The charge to income statement in respect of impairment losses is analysed as follows:

	2023	2022
Impairment of loans and receivables to customers, net (*Note 20)*	2,821	2.158
(Release) of impairement of other assets and receivables, net (*Note 24)*	18	(11)
Impairment of funds held at the Central bank of BiH, net	(109)	80
Impairment / (Release) from current accounts with other banks, net	44	36
Impairment of investment securities	57	-
Increas / (Release) of provisions from off-balance exposures, net (Note 29)	(2)	(61)
	2,829	**2,202**

17. INCOME TAX

Total income tax recognized in the income statement can be shown as follows:

	2023	2022
Current tax*	1,142	780
Deferred tax	-	-
	1,142	**780**

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

17. INCOME TAX *(continued)*

Reconciliation of effective tax rate may be presented as follows:

	2023	2022
Profit before income tax	**11,841**	**7,868**
Income tax at a rate of 10%	1,184	787
Effects of unrecognized revenues		
- tax nondeductible expenses	147	146
- non-taxable income	(32)	(25)
- tax credit	(144)	(42)
Use of transferred deferred tax	-	-
Tax charge in the Republic of Srpska*	658	491
Underestimated amount of tax in the Republika Srpska from previous years *	-	-
Tax charge in Republic of Srpska under corporate income tax provisions of the FBiH	(670)	(483)
Utilized tax losses carried forward	-	(94)
Income tax	**1,142**	**780**

*Income tax charged in RS is calculated separately based on specific cost allocation for expenses and income incurred in RS.

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

18. CASH AND CASH EQUIVALENTS AND OBLIGATORY RESERVES AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2023	31 December 2022
Cash in hand	9,896	9,380
Funds held at the Central Bank of BiH	175,127	201,208
Loss allowances for cash and central bank balances	*(280)*	*(389)*
Cash and central bank balances	**184,742**	**210,200**
Loans and receivables to banks at amortized cost	96,755	54,737
Loss allowances for current account with other banks	*(99)*	*(56)*
Obligatory reserve which does not qualify as cash and cash equivalenst	(80,571)	(74,297)
Cash and cash equivalents for the statement of cash flows	**200,848**	**190,584**

The minimum reserve requirement is calculated as a percentage of the average amount of total deposits and borrowed funds for each business day during 10 calendar days after the mandatory reserve maintenance period.

From 1 July 2016, a single rate of 10% of total short-term and long-term deposits and borrowed funds is applied. Cash held as a compulsory reserve in the CBBH account is not available for use without the special approval of CBBH and FBA.

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

18. CASH AND CASH EQUIVALENTS AND OBLIGATORY RESERVES AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA (*continued*)

The changes in loss allowances for central bank balances are presented in the following table. All central bank balances are classified as Stage 1.

	2023	2022
Balance as at 31 December	**(389)**	**(308)**
Newly recognized financial assets (*Note 16*)	(109)	(81)
Derecognition *(Note 16)*	-	-
Impairment allowances as of 31 December	**(280)**	**(389)**

The changes in loss allowances for current accounts with other banks are presented in the following table. All balances with other banks are classified as Stage 1.

	2023	2022
Balance as at 31 December	**(58)**	**(22)**
Newly recognized financial assets (*Note 16*)	(53)	(37)
Derecognition	12	1
Impairement allowances as of 31 December	**(99)**	**(58)**

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

18. CASH AND CASH EQUIVALENTS AND OBLIGATORY RESERVES AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA (*continued*)

Credit ratings of banks where the Bank has current accounts are as follows:

	31 December 2023	Credit risk rating
ProCredit Bank AG. Frankfurt am Main, Njemačka	6,783	BBB
Bank im Bistum Essen	18,488	AA-
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Njemačka	17,070	AA-
UniCredit Bank d.d. Mostar, Bosna i Hercegovina	450	B+*
Raiffeisen Bank International AG. Beč, Austrija	55	A+
ProCredit Bank Sh.a, Kosovo	3	BB
ING Belgium NV/SA	18,580	AA-
Landesbank Baden-Wuerttemberg	17,744	A-
UniCredit bank Austria	17,602	BBB+
Bruto vrijednosti na 31. decembar	**96,775**	
Manje:umanjenje vrijednosti za kreditne gubitke	(99)	
Neto knjigovodstvena vrijednost	**96,677**	

** Country credit rating*

	31 December 2022	Credit risk rating
ProCredit Bank AG. Frankfurt am Main, Njemačka	14,503	BBB
Bank im Bistum, Essen, NJemačka	17,046	AA-
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Njemačka	17,127	AA-
UniCredit Bank d.d. Mostar, Bosna i Hercegovina	251	B*
Zagrebačka Banka d.d. Zagreb, Hrvatska	-	BBB
Raiffeisen Bank International AG. Beč, Austrija	5,808	A-
ProCredit Bank Sh.a. Kosovo	2	BB
Raiffeisen Bank International d.d. Sarajevo, Bosna i Hercegovina	-	B*
Gross value	**54,737**	
Less: impairment for credit lossess	*(56)*	
Net value	**54,681**	

** Country credit rating*

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

19.1 INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In the course of 2023, the Bank made no new investments in securities classified at fair value through other comprehensive income.

	31 December 2023	31 December 2022
Treasury bills – Government FBiH	2,982	20,037
Treasury bills – Government of RS	-	29,133
SWIFT shares	91	85
Gross value as at 31 December	**3,073**	**49,255**

Securities at fair value through other comprehensive income are classified in stage 1 as of 31 December 2023.

As of 31 December 2023, the Bank also held SWIFT equity securities in its securities portfolio with a fair value of BAM 91 thousand (2022: BAM 85 thousand).

19.2 INVESTMENT SECURITIES AT AMORTIZED COST

	31 December 2023	31 December 2022
Treasury bills – Government of RS	35,753	-
Bonds - Germany	7,727	-
Bonds - Netherlands	7,805	-
Gross value as at 31 December	**51,285**	**-**

In the course of 2023, the Bank made new investments in securities, which it classified at amortized cost. In the previous year, investments in RS government treasury bills were classified at fair value through other comprehensive income. However, after the expiry of the maturity date of these securities, new investments in short-term securities are classified in accordance with the Bank's previous practice, which is held until maturity. In addition to investing in bonds of entity governments in Bosnia and Herzegovina, the Bank invested in short-term debt instruments of the governments of Germany and the Netherlands. As there was no need to liquidate the securities in order to manage liquidity, the acquisition was made in order to achieve inflows from interest and principal.

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

20. LOANS AND RECEIVABLES TO CUSTOMERS

The analysis of loans and receivables according to the original maturity is as follows:

	31 December 2023	31 December 2022
Short-term loans:		
Short-term loans in domestic currency	132,528	120,649
Short-term loans in foreign currency (*including indexed to EUR)*	1,766	763
	134,294	*121,412*
Long term loans:		
Long-term loans in domestic currency	94,312	78,235
Long-term loans in foreign currency (*including indexed to EUR)*	354,032	358,217
	448,344	*436,452*
Total loans before impairment	***582,638***	***557,864***
Less: impairment	(17,033)	(16,383)
	565,606	**541,481**

Interest rates on loans and receivables to customers as at 31 December 2023 and 31 December 2022 are as follows:

	31 December 2023		31 December 2022	
	'000 BAM	**Annual interest rate**	**'000 BAM**	**Annual interest rate**
Domestic currency				
Business	221,365	280% - 13.80%	195,192	2.60% - 13.81%
Private	5,475	3.00% - 15.00%	3,692	3.00% - 15.00%
Foreign currency				
Business	330,015	2.20% - 12.00%	334,317	2.20% - 12.81%
Private	25,783	3.00% - 12.80%	24,633	3.00% - 14.00%
	582,638		***557,864***	

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

20. LOANS AND RECEIVABLES TO CUSTOMERS *(continued)*

All loans and receivables to customers are measured at amortized cost. The following tables show reconciliationsfrom the opening to the closing balance of the loans and advances to customers and respective loss allowances.

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as of 1 January 2023	**507,361**	**38,762**	**11,741**	**-**	**557,864**
New loans and receivables originated	277,686	5,308	151	-	**283,146**
Modification of cash flows	(414)	32	-	-	**(383)**
Derecognitions (including write-offs)	(113,540)	(26,888)	(3,610)	-	**(144,038)**
Changes in interest accrual and principal	(104,792)	(8,185)	(973)	-	**(113,951)**
Transfer from Stage 1 to Stage 2	(47,387)	47,387	-	-	**-**
Transfer from Stage 1 to Stage 3	(336)	-	336	-	**-**
Transfer from Stage 2 to Stage 1	19,982	(19,982)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(2,790)	2,790	-	**-**
Transfer from Stage 3 to Stage 2	-	97	(97)	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Gross amount as of 31 December 2023	**538,559**	**33,742**	**10,337**	**-**	**582,638**

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairement allowances as of 31 December 2022	**(4,871)**	**(2,620)**	**(8,893)**	**-**	**(16,383)**
New loans and receivables originated	(2,644)	-	-	-	**(2,644)**
Release due to derecognition	1,189	1,224	397	-	**2,810**
Transfers to Stage 1	(148)	146	2	-	**-**
Transfers to Stage 2	234	(236)	2	-	**-**
Transfers to Stage 3	28	63	(91)	-	**-**
Change in credit risk	358	(955)	(2,443)	-	**(3,040)**
Usage of allowance	-	-	2,225	-	**2,225**
Impairement allowances as of 31 December 2023	**(5,855)**	**(2,378)**	**(8,800)**	**-**	**(17,033)**

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

20. LOANS AND RECEIVABLES TO CUSTOMERS *(continued)*

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as of 1 January 2022	**480,776**	**27,446**	**15,521**	**-**	**523,743**
New loans and receivables originated	253,449	1,893	26	-	**255,368**
Modification of cash flows	(289)	(21)	18	-	**(292)**
Derecognitions (including write-offs)	(90,503)	(17,133)	(5,664)	-	**(113,300)**
Changes in interest accrual and principal	(98,969)	(7,238)	(1,448)	-	**(107,655)**
Transfer from Stage 1 to Stage 2	(44,206)	44,206	-	-	**-**
Transfer from Stage 1 to Stage 3	(726)	-	726	-	**-**
Transfer from Stage 2 to Stage 1	7,829	(7,829)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(2,668)	2,668	-	**-**
Transfer from Stage 3 to Stage 2	-	106	(106)	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Gross amount as of 31 December 2022	**507,361**	**38,762**	**11,741**	**-**	**557,864**

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairement allowances as of 31 December 2021	**(3,706)**	**(2,939)**	**(12,776)**	**-**	**(19,421)**
New loans and receivables originated	(2,130)	(97)	(51)	-	**(2,278)**
Release due to derecognition	624	1,113	2,316	-	**4,053**
Transfers to Stage 1	485	(472)	(12)	-	**-**
Transfers to Stage 2	(471)	742	(271)	-	**-**
Transfers to Stage 3	-	(45)	45	-	**-**
Change in credit risk	327	(922)	(1,706)	-	**(2,301)**
Usage of allowance	-	-	3,561	-	**3,561**
Impairement allowances as of 31 December 2022	**(4,871)**	**(2,620)**	**(8,893)**	**-**	**(16,383)**

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

20. LOANS AND RECEIVABLES TO CUSTOMERS *(continued)*

The table below provides a reconciliation between amounts showen in the tables above reconciling opening and closing balances of impairement allowances and impairement losses line item in the statement of profit and loss.

	2023	**2022**
Effects of the net cost of provision recognized through movement of impairment allowance	2,874	2,180
Modification effects, net	388	295
Collected written-off receivables	(441)	(320)
Direct write-offs	1	3
Impairment losses, net	**2,821**	**2,158**

Modification of financial assets

The table below shows information on financial assets for which the contracted cash flows have changed during the reporting period.

	31 Decembar 2023	**31 Decembar 2022**
Financial assets modified during the reporting period		
Stage 1		
Amortized cost before modification	13,993	10,548
Modification effect, net cost	(388)	(295)
Stage 2		
Amortized cost before modification	145	88
Modification effect, net income	-	(1)
Stage 2		
Amortized cost before modification	-	-
Modification effect, net income	-	-
Financial assets modified from the date of initial recognition		
Gross amount of financial assets previously modified for which the amount of impairment was changed from life expectancy to 12-month ECL	-	-

The impacts of financial asset modification mostly apply to loans whose contractual terms have been altered as a result of changes to market conditions and reference interest rates increase. According to the adopted accounting policies, the effect of non signifficant modifications are recognized within net impairment losses.

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

21. INVESTMENT PROPERTY

Cost	**31 December 2023**	**31 December 2022**
Balance at 1 January	**1,694**	**2,652**
Additions	-	-
Transfers	(1,694)	(958)
Balance at 31 December	**-**	**1,694**
Accumulated depreciation		
Balance at 1 January	**394**	**541**
Charge for the year	17	62
Transfers	(411)	(209)
Balance at 31 December	**-**	**394**
Balance at 31 December	**-**	**1,300**

During 2023, part of the building that was rented out in the earlier period was returned to use for the bank's business purposes, and a proportional part was transferred to commercial real estate. As of the end of the year, the bank has no parts of the building that are classified as investment real estate.

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

22. PROPERTY AND EQUIPMENT

	Building and land	Equipment	Right of use assets - properties	Right of use assets - equipment other	Total properties and equipment
Cost					
At 1 January 2022	**11,245**	**7,109**	**1,350**	**606**	**20,310**
Additions	7	270	252	225	**755**
Disposals and write-off	(182)	(1,169)	(207)	(236)	**(1,794)**
Transfer	958	-	-	-	**958**
Balance at 31 December 2022	**12,027**	**6,210**	**1,396**	**595**	**20,228**
Accumulated depreciation at 1 January 2022	**(2,335)**	**(6,280)**	**(604)**	**(304)**	**(9,523)**
Charge for the year	(299)	(476)	(213)	(175)	**(1,163)**
Disposals and write-off	69	1,169	73	236	**1,547**
Transfer	(209)	-	-	-	**(209)**
Accumulated depreciation at 31 December 2022	**(2,774)**	**(5,587)**	**(746)**	**(242)**	**(9,347)**
Cost					
At 1 January 2023	**12,027**	**6,210**	**1,396**	**595**	**20,228**
Additions	516	1,591	1,025	173	**3,304**
Disposals and write-off	(100)	(35)	(620)	(72)	**(827)**
Transfer	1,694	-	-	-	**1,694**
Balance at 31 December 2023	**14,137**	**7,766**	**1,801**	**695**	**24,398**
Accumulated depreciation at 1 January 2023	**(2,774)**	**(5,587)**	**(746)**	**(242)**	**(9,349)**
Charge for the year	(366)	(353)	(224)	(185)	**(1,128)**
Disposals and write-off	100	35	492	59	**686**
Transfer	(411)	-	-	-	**(411)**
Accumulated depreciation at 31 December 2023	**(3,451)**	**(5,905)**	**(478)**	**(368)**	**(10,202)**
Net book value at 31 December 2022	**9,253**	**623**	**651**	**353**	**10,880**
Net book value at 31 December 2023	**10,685**	**1,861**	**1,323**	**327**	**14,196**

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

23. INTANGIBLE ASSETS

	Software		Licences	
Software and locenses	**2023**	**2022**	**2023**	**2022**
Balance at 1 January	**1,404**	**1,404**	**1,168**	**990**
Additions	-	-	82	**178**
Disposals and write-off	-	-	-	**-**
Balance at 31 December	**1,404**	**1,404**	**1,250**	**1,168**
			-	**-**
Accumulated depreciation at 1 January	(1,269)	(1,130)	(959)	**(819)**
Charge for the period	(134)	(139)	(68)	**(141)**
Disposals and write-off	-	-	-	**-**
Accumulated depreciation at 31 December	**(1,403)**	**(1,269)**	**(1,027)**	**(959)**
Net book value	**1**	**134**	**223**	**209**

24. OTHER ASSETS AND RECEIVABLES

	31 Decembar 2023	**31 Decembar 2022**
Repossessed assets	2	2
Short-term financial assets	273	201
Advances given	65	59
Inventory	8	7
Other assets - accruals	1,067	864
Loans and advances to banks, termed as collateral	2,649	2,444
	4,063	**3,577**
Less. impairment	*(84)*	*(66)*
Less. impairment Loans and advances to banks, termed as collateral	*(3)*	*(2)*
Other assets	**3,976**	**3,509**

Repossessed assets are non-financial assets acquired in the process of collection of credit claims with the aim to sell these assets as soon as the conditions are met. Assets are recognized at the lower of fair value less cost to sell or net carryng value of receivables. Depreciation is not charged on the repossessed assets. Any subsequent impairment or increases up to the initial value is recorded under other operating income/expense.

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

24. OTHER ASSETS AND RECEIVABLES *(continued)*

The following tables show reconciliations from the opening to the closing balance of the loss allowance for financial assets:

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairement allowances as of 1 January 2023	**(1)**	**(2)**	**(64)**	**-**	**(66)**
New financial assets originated	(3)	-	-	**-**	**(3)**
Derecognition of assets	3	3	16	**-**	**22**
Change in credit risk	-	(4)	(33)	**-**	**(37)**
Impairement allowances as of 31 December 2023.	**(1)**	**(2)**	**(80)**	-	**(83)**

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairement allowances as of 1 January 2022	**(1)**	**(2)**	**(72)**	**-**	**(74)**
New financial assets originated	(6)	-	-	**-**	**(6)**
Derecognition of assets	6	10	40	**-**	**55**
Change in credit risk	-	(9)	(32)	**-**	**(41)**
Impairement allowances as of 31 December 2022.	**(1)**	**(2)**	**(64)**	-	**(66)**

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

25. LIABILITIES TO BANKS

The analysis of liabilities to banks according to the original maturity is as follows:

	31 December 2023	31 December 2022
Short-term deposits:		
Short-term bank deposits with a maturity of up to three months	-	13,793
Short-term bank deposits with a maturity of up to one year	-	-
	-	**13,793**

26. LIABILITIES TO OTHER FINANCIAL INSTITUTIONS

Remaining maturity

31 December 2023	up to 3 months	3 - 12 months	1 - 5 years	more than 5 years	without maturity	Total
Liabilities with fixed interest rates	23,225	9,266	38,073	9,377	-	**79,941**
Liabilities with variable interest rates	855	2,002	10,804	-	-	**13,661**
Total	**24,080**	**11,268**	**48,877**	**9,377**	**-**	**93,602**

Remaining maturity

31 December 2022	up to 3 months	3 - 12 months	1 - 5 years	more than 5 years	without maturity	Total
Liabilities with fixed interest rates	1,520	17,466	66,724	12,707	-	**98,416**
Liabilities with variable interest rates	54	279	7,544	-	-	**7,877**
Total	**1,573**	**17,745**	**74,268**	**12,707**	**-**	**106,293**

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

27. LIABILITIES TO CUSTOMERS

	31 December 2023	31 December 2022
Current accounts:	**401,238**	**367,996**
- Private	97,834	*65,225*
- Business	303,403	*302,771*
Demand deposits:	**57,230**	**47,683**
- Private	51,755	*41,447*
- Business	5,475	*6,236*
Term deposits:	**266,814**	**249,297**
- Private	74,161	*42,433*
- Business	192,653	*206,864*
Customer deposits	**725,282**	**664,976**

28. SUBORDINATED DEBT

	31 December 2023	31 December 2022
Green for Growth Fund (GGF)	8,033	7,918
	8,033	**7,918**

In 2022, one credit line issued by Green for Growth Fund, Southeast Europe S.A. has been active. Granted on 24 October, 2022 in total amount of BAM 7,823 thousand (4,000 EUR), this amount of debt totals to the principal payment. Interest will be charged at 6M EURIBOR + 4.95% per annum rate. The debt is due on 31 October 2032. No principal or interest payments are passed due, and neither the Bank has exceeded or violated any contractual obligations. Funds granted from subordinated debt will be used to cover any potential losses, solely on the premise of the bank's bankruptcy or liquidation legal proceedings. The debt won't be utilized to cover prospective losses in any other situation.. Under the premise of the bank's bankruptcy or liquidation, the subordinated debt repayment will fall behind other liabilites.

If permitted by the local regulator, subordinated debt can be used to raise regulatory capital.

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

29. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2023	31 December 2022
Provisions for court cases	576	463
Provisions for employee benefits	612	452
Provisions for off-balance items	283	285
Other	289	179
	1,760	**1,379**

Gurantees and loan commitments

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments.

	31 December 2023	31 December 2022
Loan commitments		
Loan commitments (revocable)	16,127	15,242
Loan commitments (irrevocable)	31,850	26,335
	47,977	**41,577**
Guarantees		
Performance guarantees	37,372	36,620
Payment guarantees	18,894	15,989
Letters of credit	-	183
	56,266	**52,792**
Total gurantees and loan commitments	**104,242**	**94,369**

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

29. PROVISIONS FOR LIABILITIES AND CHARGES *(continued)*

Movements in provisions for liabilities and charges were as follows:

Provisions for:	31 December 2022	Additions	Released	Used	31 December 2023
Long-term employee benefits (*Note 14)*	**452**	**160**	**-**	**-**	**612**
Provisions for court cases *(Note 12, 15)*	**463**	**323**	**(92)**	**(118)**	**576**
Provisions for off-balance items (*Note 16)*	**285**	**225**	**(227)**	**-**	**283**
Other provisions*	**179**	**110**	**-**	**-**	**289**
Total	**1,379**	**818**	**(319)**	**(118)**	**1,760**

Provisions for:	31 December 2021	Additions	Released	Used	31 December 2022
Long-term employee benefits (*Note 14)*	**345**	107	-	-	**452**
Provisions for court cases *(Note 12, 15)*	**642**	112	(75)	(216)	**463**
Provisions for off-balance items (*Note 16)*	**346**	444	(505)	-	**285**
Other provisions*	**179**	-	-	-	**179**
Total	**1,512**	**663**	**(580)**	**(216)**	**1,379**

*Other provisions mostly refers to the provision for default interest according to the Decision of the Tax Administration, on which the Bank appealed to the second instance body for decision-making.

The total amount of legal proceedings is BAM 713 tousand (2022: BAM 1,030 thousand) which mainly relates to court procedures initiated by ex employees. The Bank creates provisions in support with its internal and external legal advisors and adjust the level of provisions based on the cirsumstances that exists at each reporting date.

If there are a number of similar obligations, the probability of outflows required to settle the obligation is determined by assuming that the same obligations are involved.

The following actuarial assumptions for 2023 were used to calculate the effects of provisions in accordance with IAS 19:

a. Demographic assumptions:

i. Average mortality rate – 0.83% (2022: 0.82%)
ii. Average fluctuation rate – 2.33% (2022: 2.62%)

b. Financial assumptions:

iii. Discount rate– 3.0% (2022: 2.5%) and
iv. Expected salary growth – 4.0% (2022: 3.5%)

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

30. OTHER LIABILITIES

	31 December 2023	31 December 2022
Lease liabilities	1,703	1,053
Accruals	412	321
Deferred income	681	278
Liabilities to legal entities	218	225
Liabilities to sppliers	0	147
Liabilities to Central Bank of Bosnia and Herzegovina	42	69
Liabilities to governments	21	21
Liabilities to legal entities - blocked accounts	1,465	251
Liabilities to legal entities - guarantee funds	1,152	222
Other tax liabilities	1	2
Other	154	229
	5,847	**2,818**

i. Lease liabilities

Lease agreements relate to business premises in which the Bank performs its activities and equipment.

	Currency	Nominal interest rate	Agreed/ expected maturity	Present value as at 31.12.2023
Lease liability – business premises	BAM	3.65%	2020-2027	234
Lease liability – business premises	BAM	0.89%	2022-2027	94
Lease liability – business premises	BAM	1.61%	2022-2027	85
Lease liability – business premises	BAM	2.92%	2023-2033	623
Lease liability – business premises	BAM	3.90%	2023-2027	149
Lease liability – business premises	BAM	3.90%	2023-2033	174
Lease liability – bank equipment	BAM	3.93%	2023-2027	37
Lease liability – bank equipment	BAM	1.13%	2020-2024	44
Lease liability – bank equipment	BAM	1.36%	2022-2026	34
Lease liability – bank equipment	BAM	1.13%	2021-2025	29
Lease liability – bank equipment	BAM	1.61%	2022-2026	48
Lease liability – bank equipment	BAM	1.61%	2022-2024	25
Lease liability – bank equipment	BAM	3.93%	2023-2028	51
Lease liability – bank equipment	BAM	4.28%	2023-2028	74
				1,703

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

30. OTHER LIABILITIES (*continued)*

	Currency	Nominal interest rate	Agreed/ expected maturity	Present value as at 31.12.2022
Lease liability – business premises	BAM	3.65%	2020-2027	456
Lease liability - equipment	BAM	1.61%	2022-2027	108
Lease liability - equipment	BAM	0.89%	2022-2027	118
Lease liability - equipment	BAM	1.13%	2020-2024	97
Lease liability – bank equipment	BAM	1.13%	2020-2023	6
Lease liability –equipment	BAM	1.13%	2021–2025	44
Lease liability – bank equipment	BAM	1.13%	2021-2024	25
Lease liability - equipment	BAM	1.36%	2022-2026	47
Lease liability – equipment	BAM	1.61%	2022-2026	65
Lease liability - equipment	BAM	1.61%	2022-2024	87
				1,053

Amounts recognised in profit and loss

	2023	2022
Interest on lease liabilities *(Note 8)*	43	27
Depreciation of righ-of-use assets *(Note 22)*	410	388
Expenses relating to low value assets and short-term leases *(Note 13)*	38	140

Amounts presented in the statement of cash flows

	2023	2022
Total lease outflows	438	401

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

31. SHARE CAPITAL

Capital is made up of 9,166,270 ordinary shares at nominal value of BAM 10. Equity instruments of the Bank are not traded in a public market, but are listed at Sarajevo Stock Exchange.

The shareholding structure is as follows:

Shareholders	**No. of Shares**	**'000 BAM**	**%**
ProCredit Holding AG, Frankfurt, Germany	9,166,270	10	100.00
Total	**9,166,270**	**91,662,700**	**100.00**

	2023	**2022**
Balance as of January 1	91,663	91,663
Newly issued shares	-	-
Balance as of December 31	**91,663**	**91,663**

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

32. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit/loss attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year.

	31 December 2023	**31 December 2022**
(Loss) / (Profit) attributable to ordinary shareholders (BAM '000)	10,699	7,088
Weighted average number of regular shares outstanding	8,220,953	8,220,953
	1.30	**0.86**

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

33. SEGMENT REPORTING

The Bank is managed as one operating segment.

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

34. RELATED PARTY TRANSACTIONS

Balances with related parties can be summarized as follows:

	31 December 2023	31 December 2022
Assets		
ProCredit bank Germany	9,432	17,193
ProCredit bank Kosovo	10	9
	9,442	**17,202**
Management Board	21	34
Family members of key personnel	74	28
	95	**62**
Total	**9,537**	**17,264**
Liabilities		
ProCredit Holding Germany	19,889	29,687
ProCredit bank Germany	3	13,793
ProCredit bank Kosovo	41	40
Quipe Germany	42	32
	19,975	**43,552**
Management Board	153	164
Family members of key personnel	259	151
	412	**315**
Total	**20,387**	**43,866**

	31 December 2023	31 December 2022
Income		
ProCredit bank Germany	328	78
	328	**78**
Management Board	1	2
Family members of key personnel	2	2
	3	**4**
Total	**331**	**81**

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

34. RELATED PARTY TRANSACTIONS *(continued)*

	31 December 2023	31 December 2022
Expenses		
ProCredit Holding Germany	(2,051)	(2,027)
Quipe Germany	(2,225)	(2,242)
ProCredit bank Germany	(832)	(827)
ProCredit Academy Germany	(393)	(317)
ProCredit bank Serbia	(127)	(109)
Quipe Kosovo	(38)	(25)
ProCredit Academy Makedonija	(4)	-
	(5,670)	**(5,547)**
Management Board	(831)	(497)
Supervisory Board	(4)	(4)
Family members of key personnel	(591)	(420)
	(1,426)	**(921)**
Total	**(7,096)**	**(6,468)**

Fees to the Management and other members of the management:

The following fees were paid to the Management Board members during the period:

	31 December 2023	31 December 2022
Net salaries	460	274
Taxes and contributions on salaries	360	212
Other benefits	10	11
	830	**497**

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

35. AUDIT COSTS

The agreed audit costs can be shown as follows:

	31 December 2023	**31 December 2023**
Audit of annual financial statements	86	86
	86	86

In accordance with the contract on the revision of the annual report, group package and regulatory reports for the Banking Agency of the Federation of Bosnia and Herzegovina for the year 2023, the Bank contracted with KPMG B-H d.o.o. the amount of BAM 86 thousand excluding VAT and costs (2022: BAM 86 thousand excluding VAT and costs).