**NLB Banka d.d. Sarajevo**

**Annual report for 2023**

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## About us

**Home is where the people who matter most to us are.**

**Our home is in this region. With you and with you.**

### Who we are

NLB Banka d.d., Sarajevo (NLB Banka) is part of The NLB Group, the largest bank and financial institution in Slovenia, whose main focus is on the markets of Southeast Europe (Macedonia, Kosovo, Bosnia and Herzegovina, Montenegro, Serbia).

The parent bank is the largest Slovenian bank, which has strengthened its strategic and systemic position in the region. In 2023, The NLB Group and all its members, despite all the challenges of the market, achieved good business results and thus confirmed that NLB Group continues to operate in a successful and sustainable way. Such results speak in favor of the strengthened trust that clients, businessmen and citizens have shown to NLB banks in all business markets.

Clients and their satisfaction are in the focus of the Group's business, which strives to provide an adequate response to the real needs of clients and in their best interest in the region where it operates. NLB Bank is guided by a strategy focused on customer experience, in accordance with which it continues to position itself as a regional champion that offers comprehensive banking services to individuals and legal entities.

NLB Bank provides its clients throughout the Federation of BiH and Brcko District:
- Complete financial services
- Offer tailored to the needs of clients
- High level of service quality
- An extensive network of 34 business units in the Federation of BiH and Brcko District
- Modern channels of distribution of their services
- Individual approach and dedication to clients

### Vision

Together, we will take care of the financial needs of our clients and contribute to the quality of life in our region.

### Mission

We love our home, we want to advance it together and develop it for present and future generations.

### NLB Group's strategic focus
- Becoming a regional champion
- Putting customers first
- Defend your market position.
- Seize opportunities and synergies

### Our goal

The goal of NLB Bank is to build sustainable business growth with a clear focus on profitability, improve corporate culture, business processes and efficiency, and provide a stimulating working environment that allows NLB Bank employees to achieve their personal goals. The Bank pays special attention to the development of new banking services, new channels of service distribution, as well as greater availability of the Bank's services to clients, thus continuously building a stronger reputation and brand recognition.

## Core values

The core values on which NLB Bank bases its business are: transparency, trust, stability, simplicity and responsibility, which is recognized by our clients who have shown us their trust for many years.

## Sustainable banking

NLB is the first bank in Slovenia to become a signatory to the United Nations (UN) Sustainable Banking Principles, and other members of the NLB Group have already taken decisive steps on the path to sustainable banking as well, by fulfilling the given obligations of the EBRD and MIGA. NLB Bank as part of the NLB Group has ambitions to anchor sustainable business in its core mission, which ensures that its products and services meet the needs of current generations, while preserving opportunities for future generations.

Employee care is important for NLB Bank, and in 2023 it was declared the second most desirable employer in the financial sector in Bosnia and Herzegovina.

NLB Group proudly points out that it has one of the most comprehensive social responsibility programs in the region, because it supports a large number of projects of philanthropic character, culture and youth, athletes, with the aim of improving the quality of life in the region.

## Word from the President of the Management Board

Dear clients, shareholders and business partners,

We are pleased to present the business results achieved by NLB Bank d.d., Sarajevo (hereinafter Banka), in 2023. Thanks to the determination and hard work of our employees, understanding and dedication to our clients, and significant financial criteria, we have achieved good results in 2023 and again proved that we have a very sustainable business model.

NLB Bank is the sixth largest bank in the Federation of Bosnia and Herzegovina with an asset growth of 6.3% and a market share of 6.1% as of September 30, 2023 (latest available data).

The Bank maintained satisfactory liquidity, capital adequacy rate, and other regulatory prescribed limits and achieved profit after tax on December 31, 2023 in the amount of BAM 24.9 million (2022: 22.1 million BAM) and profit before impairment and provisions in the amount of BAM 31.5 million (2022: 26.6 million BAM). Total assets of the Bank increased by 9%, with deposits from clients growing by 13% and net loans and receivables from clients by 10%.

As the Bank's strategic decision is to invest in various digitalisation and process optimization initiatives, productivity is expected to increase and support the strong ambition to achieve greater market share, especially when it comes to loans from the non-banking sector.

The Bank continued to provide a wide range of services and products to clients, through a developed business network of 35 branches spread throughout the Federation of Bosnia and Herzegovina and Brcko District.

Below we highlight a few indicatorswhich emphasize our strong performance. Loans of natural persons increased by +11.5% compared to 2022, above the market growth average, while loans in the Micro clients segment achieved growth in the amount of +16.5%. There was also growth in the part of credit cards and overdraftcompared to the year before by +3%, while the realization of packages compared to 2022 is higher by +10.7%. Significant growth was also recorded in active users of digital services, +36.5% compared to the previous year. Loans approved in the segment of business with legal entities achieved an increase compared to the previous year by 10.2%.

Following previous years, one of the key goals in 2023 was the development of digital products and services, and in addition to the most significant commercial achievements, we have actively worked on increasing the use of ATMs and POS devices, as well as reducing cash transactions in branches, and compared to 2022, the volume of payment transactions at ATMs increased by +4%, as well as the volume of deposits on ATMs by +60%, the volume of POS transactions with bank cards increased by +25%, and the number of cash transactions in branches decreased by -1%.

We are the first bank in Bosnia and Herzegovina that has provided its customers with Google Pay service for fast, easy and secure payment through the upgrade of NLB Pay mobile wallet, and it is also possible to digitize various Loyalty cards that the client owns at domestic and foreign merchants. In addition to cards, cashless transactions at POS terminals and ATMs are also enabled by certain smartwatches.

In 2023, we have become pioneers in the launch of two new services for legal entities including Smart POS, which allows merchants to accept cards without additional hardware and a Self-Service POS terminal that allows the customer to pay independently without the presence of a merchant. By introducing these products, we have offered innovative and modern solutions for safer and easier acceptance and use of card payments.

During the past year, we have organized several promotional campaigns with the aim of increasing users and transactions of payment cards and digital solutions of NLB Bank in cooperation with partners from several industries, with enabled discounts and benefits.

Customer care and employee commitment and responsible risk management are key items on the road to success. Conducted research, showed that the perception of NLB Bank in the market has grown and that we are among the top three banks according to brand recognition. In 2023, the Bank was re-elected as the second most desirable employer in the financial sector in BiH, which further confirmed our efforts to promote the values that put people at the forefront, the development of human resources and prosperity, as well as continuous learning and trust.

Recognitions and awards are always an incentive to improve our performance, and they have a special significance when they come as a crown for another successful business year. We are honored with the "Golden BAM" award as the most successful bank in the category "Total ESG performance", and the "GO Green Star" recognition, which is certainly a confirmation of NLB Bank's commitment to a sustainable future. The Bank was also awarded in the segment of socially responsible activities with the award "Best Digital Socially Responsible Campaign" for the campaign "The Horse That Heals".

As stated in our vision and mission, this region is our home, and we love our home and in addition to caring about the financial needs of our clients, we also want to contribute to the quality of life in our region. We are especially proud that we have continued to support a significant number of socially responsible initiatives in the segment of culture and education, sports science and entrepreneurship. We have continued our path towards sustainable banking, supporting a range of initiatives in the field of sustainable finance and projects that support the UN Sustainable Development Goals.

We organized the first NLB ESG conference with the aim of promoting a green future, thus strengthening our position of the bank towards digitalization and improving the community in which we live and work. Last year we sponsored many important events, supporting culture, sports and our local community.

We have become partners to many public institutions that have recognized our importance in the local community. On the other hand, we have recognized the importance of the cultural vibrancy of the local communities in which we operate and we have supported public New Year's Eve in Sarajevo, Mostar and Tuzla through general sponsorship.

Our intention is to become a regional champion and we are confident that we are on the right track. In addition to taking care of the financial needs of our clients, we want to support and positively impact the quality of life of the community in which we live and work.

There is no doubt that we have another challenging business year ahead of us. In the coming period, we will adapt to macro-economic opportunities, and continue to support our clients and communities, of which we are a part.

On behalf of the Management Board of NLB Bank d.d., Sarajevo, I would like to express special thanks to all clients and business partners for the trust shown to us. We also owe a sincere debt of gratitude to the Bank's collective, which continuously show dedication and efforts to further improve each segment of the Bank's business. We believe the best is yet to come and look forward to the challenges ahead. I hope that our business activities will be sufficient for your trust in the coming year. I'm confident we're ready for whatever's to come.

Sincerely,

Lidija Žigić, President of the Management Board of NLB Bank d.d., Sarajevo

## Management Bodies as at December 31, 2023

| **Supervisory Board** | | **Term of office:** |
|---|---|---|
| President | Peter Andreas Burkhardt | 30.5.2021.-29.5.2025. |
| Deputy President | Damir Kuder | 22.4.2022.-29.5.2025. |
| Member | Andrej Lasič | 30.5.2021.-29.5.2025. |
| Independent member | Ayda Šebić | 30.5.2021.-29.5.2025. |
| Independent member | Dino Osmanbegović | 30.5.2021.-29.5.2025. |
| **Audit Committee** | | |
| President | Andreja Golubić | 2.6.2022.-1.6.2026. |
| Member | Polona Kurtevski | 2.6.2022.-1.6.2026. |
| Member | Mirko Ilić | 2.6.2022.-1.6.2026. |
| **Risk Committee** | | |
| President | Dino Osmanbegović | 30.5.2021.-29.5.2025. |
| Member | Peter Andreas Burkhardt | 30.5.2021.-29.5.2025. |
| Member | Damir Kuder | 22.4.2022.-29.5.2025. |
| **Appointment Committee** | | |
| President | Damir Kuder | 22.4.2022.-29.5.2025 |
| Member | Peter Andreas Burkhardt | 30.5.2021.-29.5.2025. |
| Member | Ayda Šebić | 30.5.2021.-29.5.2025. |
| **Compensation Committee** | | |
| President | Ayda Šebić | 30.5.2021.-29.5.2025. |
| Member | Damir Kuder | 22.4.2022.-29.5.2025. |
| Member | Andrej Lasič | 30.5.2021.-29.5.2025. |
| **Management Board** | | |
| President | Lidija Žigić | 1.1.2021.-31.12.2024. |
| Member | Denis Hasanić | 1.1.2021.-31.12.2024. |
| Member | Jure Peljhan | 1.1.2021.-31.12.2024. |
| **Head internal auditor** | Sanela Pušina | |
| **Secretary of the Bank** | Rijad Hamidović | |

**Memberships of members of Supervisory Board and Board of Directors of the Bank in other affiliated and unaffiliated entities**

**Memberships of members of the Supervisory Board and the Management Board of the Bank in other related and unrelated persons**

**Members of the Supervisory Board:**

Peter Andreas Burkhardt, President of the Supervisory Board
1. NLB d.d., Ljubljana, Member of the Management Board
2. NLB Banka a.d. Banja Luka, President of the Supervisory Board
3. NLB Lease&Go Ljubljana, President of the Supervisory Board

Damir Kuder, Deputy President of the Supervisory Board
1. NLB Banka a.d. Banja Luka, Deputy President of the Supervisory Board
2. NLB d.d., Ljubljana, proxy

Andrej Lasič, member of the Supervisory Committee
1. NLB d.d., Ljubljana, Member of the Management Board

Dino Osmanbegović, Member of the Supervisory Board
1. OWNERSHIP d.o.o. Sarajevo, owner and director

**Members of the Management Board of the Bank:**

Lidija Žigić, President of the Management Board
1. Chamber of Commerce and Industry of Tuzla Canton, member of the Board of Directors

Denis Hasanić, Member of the Management Board
1. Association of Professional Risk Managers (UPRMBiH), member of the Board of Directors
2. Property appraisers (BHPA-BH), Member of the Board of Directors

Jure Peljhan, Member of the Management Board
1. Slovenian Directors' Association, Member
2. Slovenian Association of Businessmen in Bosnia and Herzegovina, President of the Association

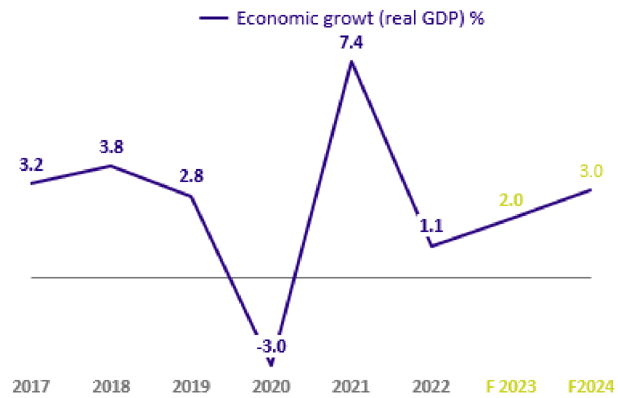
## Macroeconomic environment

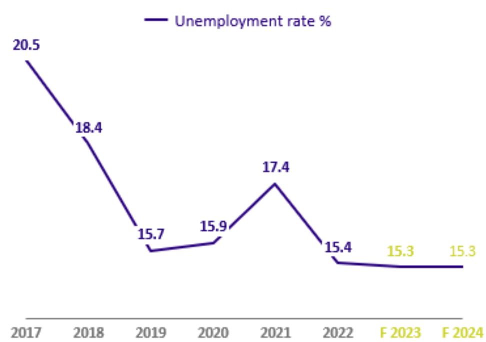
Under the conditions of pronounced geopolitical risks and deteriorating global economic environment, the third quarter of 2023 saw stagnation of economic growth in the EU and the eurozone. September 2023 saw the lowest annual rate of price growth since December 2021. More favourable price developments have influenced the ECB's decision to halt further hikes in key interest rates. Most eurozone countries, according to the amount of public debt and budget deficit, are in fiscal imbalance, and the growth of yield rates to maturity in the bond market further worsens their fiscal position. Energy prices on the world market in the third quarter were at a much lower level compared to the same period last year due to diversification of supply sources and weaker demand.
After significant shocks that marked the first half of 2023, the stagnation of economic growth in the third quarter is directly related to the deterioration of the global economic environment, amid growing geopolitical risks, primarily uncertainty about the war in Ukraine and the Middle East.

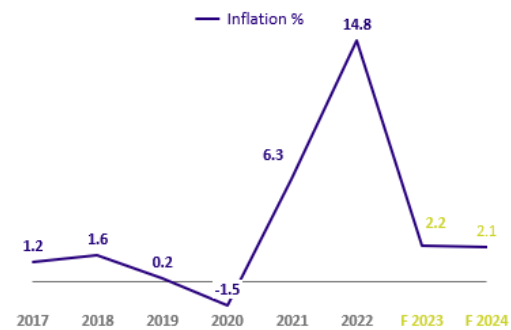
Overall inflation remains well above the multi-year average, and inflationary pressures continue to come, mainly, from the domestic economy, from categories taken into account when assessing underlying inflation. The trend of growth in average nominal and real wages continued in the third quarter, and the trend of declining number of unemployed persons continued.
On an annual basis, gross investment growth has slowed significantly. The growth of household consumption has also slowed, because real disposable income, for a long time, has been affected by inflationary pressures. Finally, exports of goods and services decreased, on an annual basis, partly due to the base effect, but also a slowdown in economic activity in the countries of major trading partners. Due to projections of a significant slowdown in economic activity in the European Union, the CBBH expects that weakening foreign demand will result in a further decline in industrial production and exports in 2024.
Turnover on domestic stock exchanges was extremely strong in the third quarter, but still due to the large volume of debt securities issued by entity governments. As the emissions were mainly purchased by residents, there were no effects on the level of foreign exchange reserves. Foreign exchange reserves recorded quarterly growth, but were significantly lower compared to the third quarter of 2022. The positive contribution of the successful tourist season was not enough to neutralize, on an annual basis, the effects of the growth of the foreign trade deficit and servicing external debt on foreign exchange reserves.
There is still no indication that changes in domestic interest rates, or increased demand for loans, are driving inflation to rise. Interest rates on deposits with agreed maturity rose slightly compared to the second quarter, resulting in a weak increase in the average cost of bank financing. Interest rates on newly approved loans to companies also recorded a slight increase compared to the second quarter. Interest rates on newly approved loans to households were almost unchanged, compared to the previous quarter. Deposits of domestic sectors, mostly without agreed dopsis, and in domestic currency, continued to grow in the third quarter. Consequently, there has been an increase in the reserve base. Since the beginning of the third quarter, the CBBH has further increased the fee rate on funds in banks' mandatory reserve accounts. Funds held by banks with the CBBH above the prescribed minimum are still not charged. However, due to macroeconomic circumstances, and the specifics of the domestic financial sector, cbbh fee rates are still well below the ECB's benchmark rates.

On August 4, 2023, the international agency Standard & Poor's upgraded bosnia and herzegovina's credit rating, which reads "B+ with a stable outlook outlook".[1]

[1] www.cbbh.ba




| BIH | | Actual 2017 | Actual 2018 | Actual 2019 | Actual 2020 | Actual 2021 | Actual 2022 | Forecast 2023 |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product, constant prices | % | 3,2% | 3,8% | 2,9% | -3,0% | 7,4% | 4,1% | 2,0% |
| Inflation, average consumer prices | % | 0,80% | 1,4% | 0,6% | -1,1% | 2,0% | 14,0% | 5,5% |
| Unemployment rate | % | 20,5% | 18,4% | 15,7% | 15,9% | 17,4% | 15,4% | 15,3% |
| General government net debt | %BDP | 28,7% | 23,8% | 20,7% | 24,6% | 21,4% | 18,0% | 17,8% |
| General government gross debt | %BDP | 37,4% | 33,8% | 32,1% | 36,0% | 34,6% | 29,7% | 28,6% |
| Exchange rate | - | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 |
| Investments | %BDP | 23,6% | 23,7% | 24,3% | 22,6% | 25,6% | 28,0% | 26,5% |

* Source: World Economic Outlook Database, October 2023 www.imf.org;

**Information on the banking sector in the Federation of Bosnia and Herzegovina**

The Banking Agency of the Federation of Bosnia and Herzegovina publishes quarterly information on the banking sector of the Federation of BiH, and the latest available final data are from 30.09.2023.

As of September 30, 2023, 13 commercial banks operated in the Federation of BiH, with 516 organizational parts, employing a total of 6,563 workers, which is 153 more than at the end of 2022.

The total net assets at the level of the banking sector in the FBiH amounted to BAM 28.6 billion as of September 30, 2023, and is 1.4 billion BAM or 5.2% higher compared to the end of 2022. In the structure of bank assets, net loans (56.7%) have the largest share, followed by funds (31.3%), and securities (7.6%). Deposits (82.5%) and equity (12.4%) have the largest share stake within the bank's liability balance sheet.

Over the past few years, the capital adequacy of the banking sector has been maintained continuously above 15%, which is satisfactory capitalization at the sector level. The own funds ratio as at 30.09.2023. is 19.03% and is significantly higher compared to the statutory minimum, which also applies to other capital rates (Common Equity Tier 1 and Tier 1 capital ratio). Compared to the end of 2022, the own funds rate decreased by 0.3 p.p., and common tier 1 and tier 1 capital rates decreased by 0.4 p.p.

At the level of the banking sector in the FBiH for the period 01.01. - 30.09.2023. a positive financial result was expressed in the amount of 432.7 million BAM, which is 137.6 million BAM more than in the same period last year. All banks based in the FBiH have shown a positive financial result.

Looking at the basic indicators of liquidity, qualitative and quantitative requirements, as well as other factors affecting the liquidity position of banks, it can be concluded that the liquidity of the banking sector in the FBiH at the end of the nine months of 2023 is satisfactory.

The Banking Agency of the Federation of Bosnia and Herzegovina performs continuous determination, implementation and supervision of the system of rules of safe and prudent operation of banks and banking groups on a consolidated basis, within the supervisory review and assessment procedure (Srb. Supervisory review and evaluation process (SREP). SREP is a comprehensive process by which the Banking Agency assesses and evaluates the exposure of each individual bank to risks, with the aim of effective risk management at the level of the banking sector.

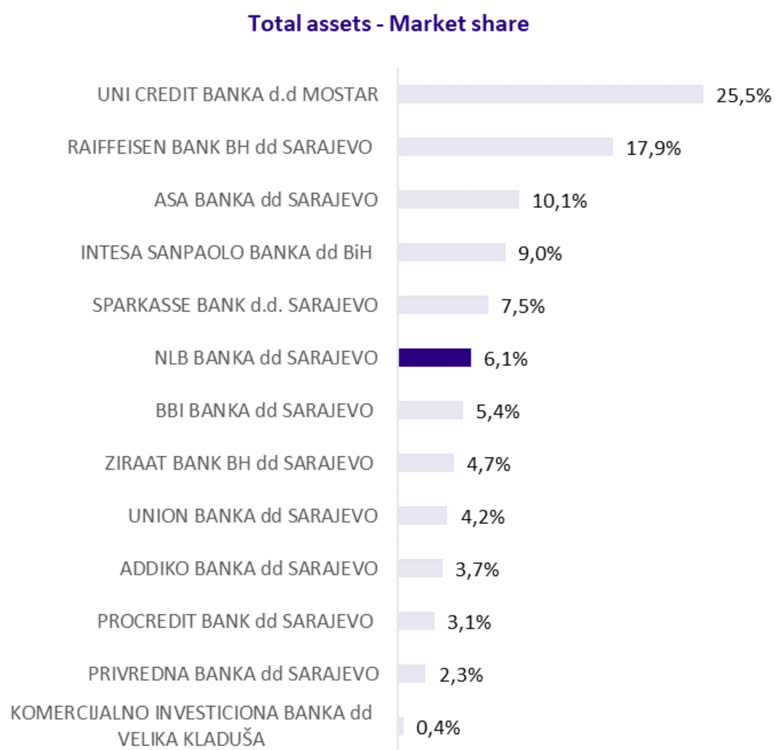
In accordance with the Law on Banks, banks in the Federation of Bosnia and Herzegovina must meet the minimum requirements for capital and eligible liabilities (MREL requirement). The MREL requirement is calculated as the amount of own funds and eligible liabilities, expressed as a percentage of own funds and total liabilities.

The bank is not required to have an additional capital requirement based on the SREP assessment, as well as the fulfilment of the MREL requirements for 2023.

**Position of NLB Banka d.d., Sarajevo on the market in the Federation of Bosnia and Herzegovina:**

**Total Assets**
In terms of total assets, the Bank occupies the 6th position in the banking sector.
Compared to December 31, 2022, the Bank achieved an increase in assets by 6.3% from 30 September 2023, while the sector achieved a growth of 5.2%, so that the market share increased from 6.0% to 6.1%.

The market share of the Bank according to the total assets, is shown below:




**Total credits**[2]
Compared to December 31, 2022, the Bank recorded a 7.2% increase in loans, while loans in the sector increased by 3.9%, so that the Bank's market share increased by 0.2 p.p. and amounted to 6.6%. According to the amount of total loans, the Bank occupies the 6th position in the sector.
The Bank's market share towards the amount of non-bank loans increased by 0.1 p.p. compared to December 31, 2022 and amounted to 6.7%, with the market share of loans of legal entities increased by 0.1 p.p., and the market share of loans to households remained at the same level.

**Total deposits**[3]
Compared to December 31, 2022, the Bank's deposits grew by 6.3%, while the sector achieved a 5.1% growth in total deposits. In terms of the amount of total deposits, the Bank ranks 6th with 30.9.2023, while the market share increased by 0.1 p.p. and amounts to 6.1%.

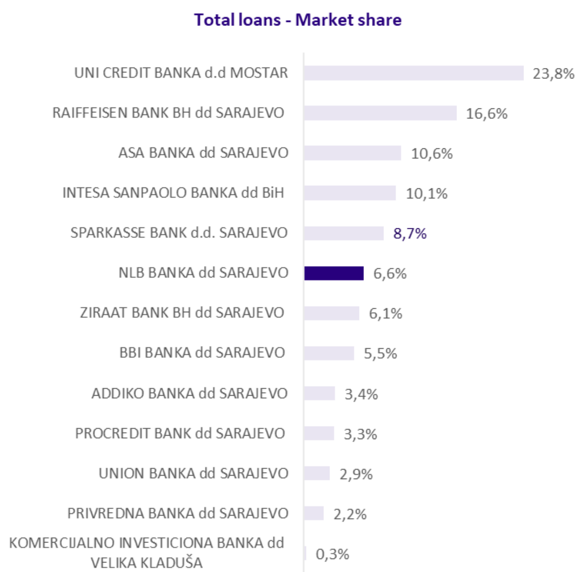
[2] Agencija za bankarstvo FBiH ne objavljuje podatke o kreditima NBS pojedinačnih banaka, već podatak o ukupnim kreditima (bankarskim i nebankarskim)

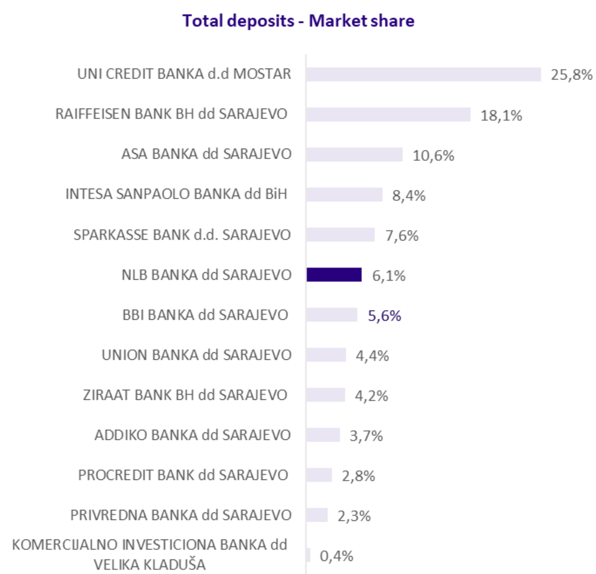
[3] Agencija za bankarstvo FBiH ne objavljuje podatke o depozitima NBS pojedinačnih banaka, već podatak o ukupnim depozitima (bankarskim i nebankarskim)

The market share of the Bank in terms of the amount of non-bank deposits increased compared to December 31, 2022 by 0.2 p.p. and amounts to 6.2%.

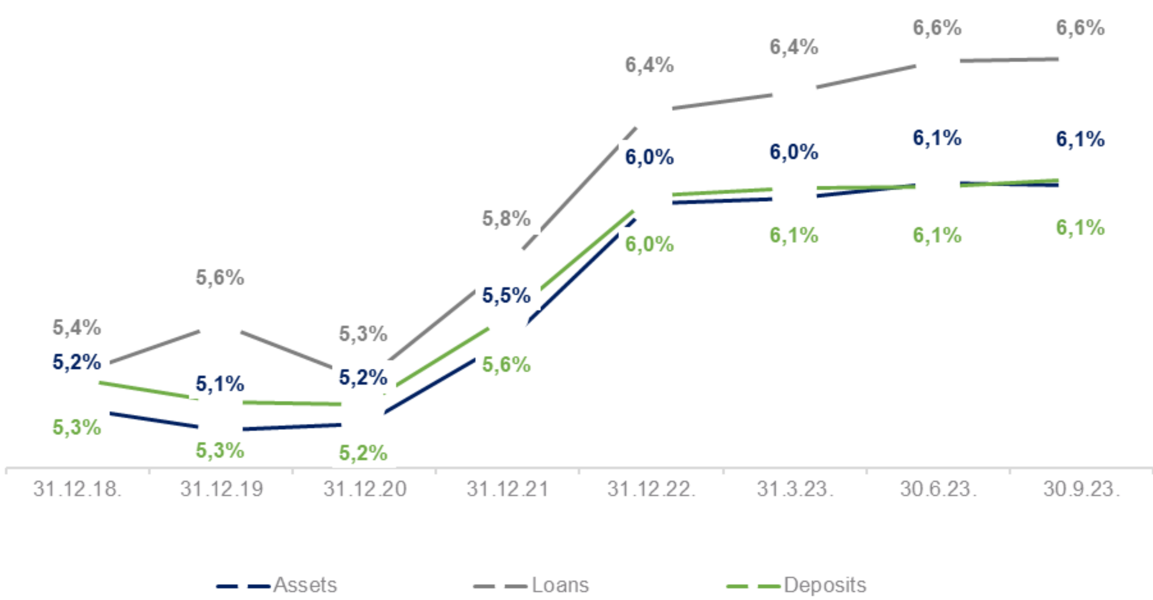
**Position of NLB Bank d.d., Sarajevo on the market in the Federation of Bosnia and Herzegovina (continued):**

The Bank's market share by total loans and deposits is shown below:




The trend of the Bank's market share by assets, loans and deposits is shown in the following chart:



## Basic business indicators of NLB Bank d.d., Sarajevo

The most significant financial and regulatory indicators in 2023 compared to 2022, as well as the Statement of Comprehensive Income for the period and the Financial Position Statement at the end of the period are presented below:

| | 2023 | 2022 |
|---|---|---|
| **Basic business indicators** | | |
| ROE after tax | 14,2% | 13,2% |
| ROA after tax | 1,5% | 1,4% |
| CIR | 58,7% | 58,8% |
| LTD (net) | 79,2% | 81,1% |
| Capital adequacy ratio | 17,8% | 16,5% |
| **The success rate (in thousands of km)** | | |
| Net interest income | 51.113 | 38.176 |
| Net commissions | 24.581 | 23.483 |
| Costs | (44.697) | (37.879) |
| Gain/loss before impairment and provision | 31.465 | 26.552 |
| Profit / loss after tax from regular business | 24.910 | 22.120 |
| Overall score | 26.082 | 19.941 |
| **Balance sheet (in thousands of KM)** | | |
| Total Assets | 1.787.729 | 1.634.954 |
| Loans and receivables from clients | 1.118.906 | 1.012.946 |
| Deposits from clients | 1.412.767 | 1.249.431 |
| Capital | 181.468 | 170.385 |
| **Credit portfolio and reservations (in thousands of KM)** | | |
| Amount of credit portfolio | 1.160.684 | 1.053.530 |
| Value adjustments and provisions for loans | (41.778) | (40.584) |
| Coverage of credit portfolio with value corrections (in %) | 3,6% | 3,9% |
| **Other indicators** | | |
| Number of organizational units | 34 | 35 |
| Number of employees | 478 | 475 |

| Balance of Success - Report on the total result for the period | December 31, 2023 | December 31, 2022 | | in 000 KM |
|---|---|---|---|---|
| | amount | amount | difference | index |
| **BALANCE OF SUCCESS** | | | | |
| Interest income and similar income at the effective interest rate | 60.442 | 43.973 | 16.469 | 137 |
| Interest expenditure and similar expenditure at the effective interest rate | (9.329) | (5.797) | (3.532) | 161 |
| **Net interest income and similar income at the effective interest rate** | **51.113** | **38.176** | **12.937** | **134** |
| *Revenues from fees and commissions from contracts with clients of which:* | *33.877* | *31.451* | *2.426* | *108* |
| *revenues from payment transactions* | *11.736* | *11.220* | *516* | *105* |
| *Arrivals from card transactions* | *10.432* | *9.319* | *1.113* | *112* |
| *revenues from basic accounts* | *7.826* | *6.741* | *1.085* | *116* |
| *Income from fees and commissions from guarantees and credit obligations* | *1.540* | *1.495* | *45* | *103* |
| Fee and commission income | 35.417 | 32.946 | 2.471 | 108 |
| Expenses from fees and commissions | (10.836) | (9.463) | (1.373) | 115 |
| **Net income/(expense) from fees and commissions** | **24.581** | **23.483** | **1.098** | **105** |
| Impairments and reservations | (4.486) | (2.568) | (1.918) | 175 |
| Other gains and losses from financial assets | (2.035) | 196 | (2.231) | - |
| Net positive/(negative) kurs differences | 823 | 910 | (87) | 90 |
| Gains and losses from long-term non-financial assets | 1.335 | 1.276 | 59 | 105 |
| Other arrivals | 345 | 390 | (45) | 88 |
| Employee costs | (21.474) | (18.950) | (2.524) | 113 |
| Depreciation Costs | (4.704) | (4.788) | 84 | 98 |
| Other expenses and expenses | (18.519) | (14.141) | (4.378) | 131 |
| **PROFIT/LOSS FROM REGULAR BUSINESS BEFORE TAXATION** | **26.979** | **23.984** | **2.995** | **112** |
| Current corporate income tax | (2.844) | (2.554) | (290) | 111 |
| Deferred corporate income tax | 775 | 690 | 85 | 112 |
| **CORPORATE INCOME TAX** | **(2.069)** | **(1.864)** | **(205)** | **111** |
| **PROFIT/(LOSS) FROM REGULAR OPERATIONS** | **24.910** | **22.120** | **2.790** | **113** |
| | | | | |
| **REPORT OF OTHER TOTAL RESULT** | | | | |
| Items that can be reclassified in the balance of success | 1.258 | (2.650) | 3.908 | - |
| Items that will not be reclassified in the balance of success | (86) | 471 | (557) | - |
| **OTHER TOTAL SCORE** | **1.172** | **(2.179)** | **3.351** | **-** |
| **TOTAL SCORE** | **26.082** | **19.941** | **6.141** | **131** |

| Balance sheet - Statement of financial position at the end of the period | December 31, 2023 | December 31, 2022 | | in 000 KM |
|---|---|---|---|---|
| | amount | amount | difference | index |
| **ASSETS** | | | | |
| Cash and cash equivalents | 237.382 | 274.089 | (36.707) | 87 |
| Investments in capital instruments | 105 | 99 | 6 | 106 |
| Loans, securities and other debt instruments | 181.819 | 163.300 | 18.519 | 111 |
| Reserve requirement at the Central Bank | 153.116 | 140.447 | 12.669 | 109 |
| Deposits with other banks | 445 | 461 | (16) | 97 |
| Loans and receivables from clients | 1.118.906 | 1.012.946 | 105.960 | 110 |
| Other financial assets at amortised cost | 56.157 | 3.846 | 52.311 | 1.460 |
| Pre-paid corporate income tax | - | 2.628 | (2.628) | - |
| Deferred tax assets | 1.642 | 1.007 | 635 | 163 |
| Tangible assets | 35.637 | 32.967 | 2.670 | 108 |
| Intangible assets | 1.755 | 1.941 | (186) | 90 |
| Long-term assets intended for sale and business assets to be suspended | 12 | 13 | (1) | 92 |
| Other assets and receivables | 753 | 1.210 | (457) | 62 |
| **TOTAL ASSETS** | **1.787.729** | **1.634.954** | **152.775** | **109** |
| **OBLIGATIONS** | | | | |
| Financial liabilities at fair value through the balance of success | 654 | 287 | 367 | 228 |
| Deposits from banks and other financial institutions | 54.922 | 111.070 | (56.148) | 49 |
| Deposits from clients | 1.412.767 | 1.249.431 | 163.336 | 113 |
| Take out loans | 89.315 | 67.298 | 22.017 | 133 |
| Obligations based on leases | 4.709 | 4.349 | 360 | 108 |
| Other financial liabilities at amortised cost | 36.580 | 23.512 | 13.068 | 156 |
| Corporate Income Tax Liabilities | 290 | 2.554 | (2.264) | 11 |
| Deferred tax liabilities | 6 | 6 | - | 100 |
| Reservations | 6.001 | 5.274 | 727 | 114 |
| Other obligations | 1.017 | 788 | 229 | 129 |
| **TOTAL LIABILITIES** | **1.606.261** | **1.464.569** | **141.692** | **110** |
| **CAPITAL** | | | | |
| Share capital | 53.605 | 53.605 | - | 100 |
| Reserved | 75.106 | 75.106 | - | 100 |

| | | | | |
|---|---|---|---|---|
| Revaluation reserves for financial assets measured at fair value through other total | (1.195) | (2.457) | 1.262 | - |
| Ostale revalorizacione reserves | (332) | (242) | (90) | 137 |
| Profit of the current year | 24.910 | 22.120 | 2.790 | 113 |
| Accumulated, unallocated profits from previous years | 29.374 | 22.253 | 7.121 | 132 |
| **TOTAL CAPITAL** | **181.468** | **170.385** | **11.083** | **107** |
| **TOTAL LIABILITIES AND CAPITAL** | **1.787.729** | **1.634.954** | **152.775** | **109** |

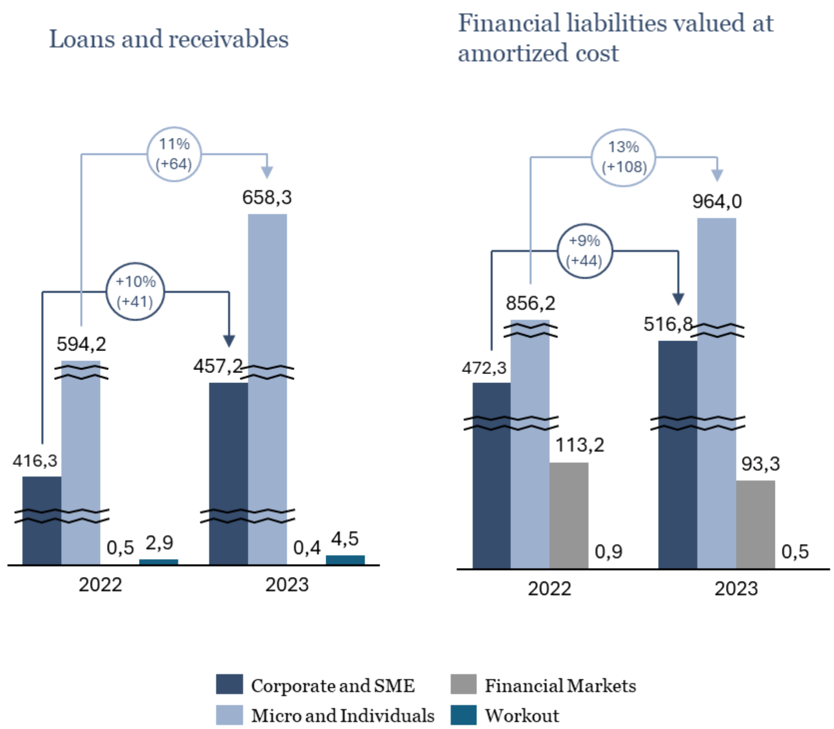
## Information on the purchase of own shares, or stakes

The bank did not repurchase its own shares or stakes.

## Information on business segments of a legal entity

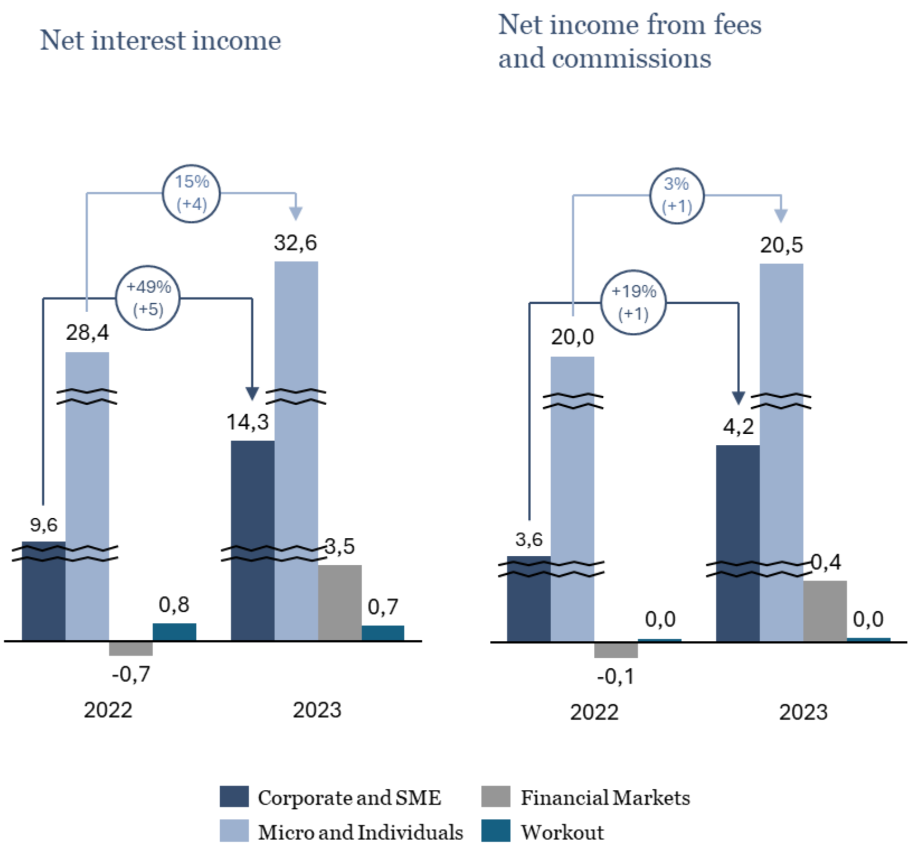
The bank monitors business operations by business segments, i.e. organizational units that communicate directly on the market with clients and contract and / or realize the services of the Bank and thus generate revenues for the Bank. These are: Sector with business with business centers Tuzla, Sarajevo and Mostar (Corporate and SME), Retail Business Sector with branches (Micro and Population), Sector for Asset Management (Financial Markets) and Sector for Collection and Management of Non-Quality Assets (Collection).

Compared to the previous year, loans and receivables of the Sector for Business with Economy increased by 10% and the Retail Business Sector by 11%. At the same time, financial liabilities valued at the depreciation expense of the Sector for Business with The Economy increased by 9%, and the Retail Sector by 13%.



### Information on business segments of a legal entity (continued)

Net interest income increased by 34% compared to the previous year, with net interest income of the Sector for Business with Economy increased by 49% and net interest income of the Retail Business Sector by 15%. Net income from fees and commissions increased by 5% compared to the previous year, of which net income from fees and commissions of the Sector for Business with The Economy increased by 19%, and the Retail Business Sector by 3%.




More information on business segments is given under Chapter 29. Business by segment.

### The Bank's most important business activities in 2023

NLB Bank is strongly oriented towards providing services to the population, small and medium-sized enterprises, and corporate clients. The goal of the Bank is to meet the needs of clients and, based on that, create and offer the most adequate services.

The Bank has achieved significant commercial results, of which the following stand out in particular:
• find credit
• The growth of the packaged products
• Development of digital banking (growth of card transactions, and decrease in the number of cash transactions)
• The growth of active users of digital services

Although during 2023, there was an increase in reference rates on the financial market, the Bank took timely measures to adjust the offer to market conditions, thus managing to find a way to facilitate the new situation for existing and new clients and increase market participation and further stabilize the market position.

**The bank's most important business activities in 2023 (continued)**

NLB Bank has upgraded its mobile wallet NLB Pay with the option of digitizing cards through Google Pay, thus providing a practical and secure experience for its users. The first is the Bank in Bosnia and Herzegovina, which has provided its clients with Google Pay service for fast, easy and secure payment, and in addition, clients in the NLB Pay application can digitize various Loyalty cards that they own at domestic and foreign merchants.

NLB Pay remains nlb Group's primary mobile wallet, with technical improvements in the form of Google Pay functionality, for all contactless payments NLB Mastercard and Visa payment cards. In addition to cards, cashless transactions at POS terminals and ATMs are also enabled by certain smartwatches.

In 2023, new products and services were launched, with which the Bank has become a pioneer in the market in Bosnia and Herzegovina, including NLB Smart POS and Self-Service Terminal.

NLB Smart POS is a certified mobile application with POS terminal function and is one of the most advanced technologies in the field of card payments, which allows merchants to accept card payments without additional hardware. With NLB Smart POS, the phone can accept contactless payments with Visa and Mastercard payment cards issued by any bank and through mobile payment applications (Apple Pay, Google Pay, Samsung Pay and others), as well as through wearables (Garmin Pay).

A self-service POS terminal is a device adapted to work in self-service environments. Payment by card on such a device is as simple and secure as with the standard payment terminal in the store with one difference - the buyer does everything independently, i.e. payment by card is made without the presence of the seller. The device allows you to sell 24/7.

Since the Bank has officially committed to integrating sustainability into its banking business, it has also adopted the Greenhouse Gas Protocol (GHG Protocol), which is the most widespread global standard for calculating GHG.
The introduction of ESG business in the segment of reporting, $CO_2$ emission analysis and electricity and heating energy consumption, has resulted in activities on the transition to environmentally friendly heating systems (heat pumps), limiting heating and cooling temperatures, warming / insulation (façade, foil...), procurement of Hybrid vehicles.

At the beginning of 2023, a Contract on consulting services was signed between NLB Banka d.d., Sarajevo, Finance in Motion GmbH (EFSE representative office in Sarajevo) and "Deloitte" Limited Liability Company for audit, accounting and financial consulting d.o.o. Sarajevo. The project to improve the ESG standard was designed through several stages. In one of the phases, the Bank has enabled 20 clients, who have ambitions and vision to introduce sustainable development and ESG approach to their business, to assess their potential for the transformation of ESG. High-level sustainability maps have been created for these clients, focusing on some of the specific areas of sustainable development such as: the potential of the circular economy, the use of renewable energy sources, waste reuse, wastewater recycling, digitalization and smart use of resources, positive impact on the community, etc.

In accordance with the guidelines of sustainable management of NLB Group, NLB Banka d.d., Sarajevo has adopted a sustainable fleet management policy in order to reduce the impact of necessary business mobility on the environment. The aim is to reduce negative impacts through a combination of cleaner vehicles and fuels, economical operations and driving, and sustainable management of mobility needs. The Bank has achieved a significant volume of green loans and projects, and supported a large number of clients and thus contributed to the sustainability and development of clients and the community.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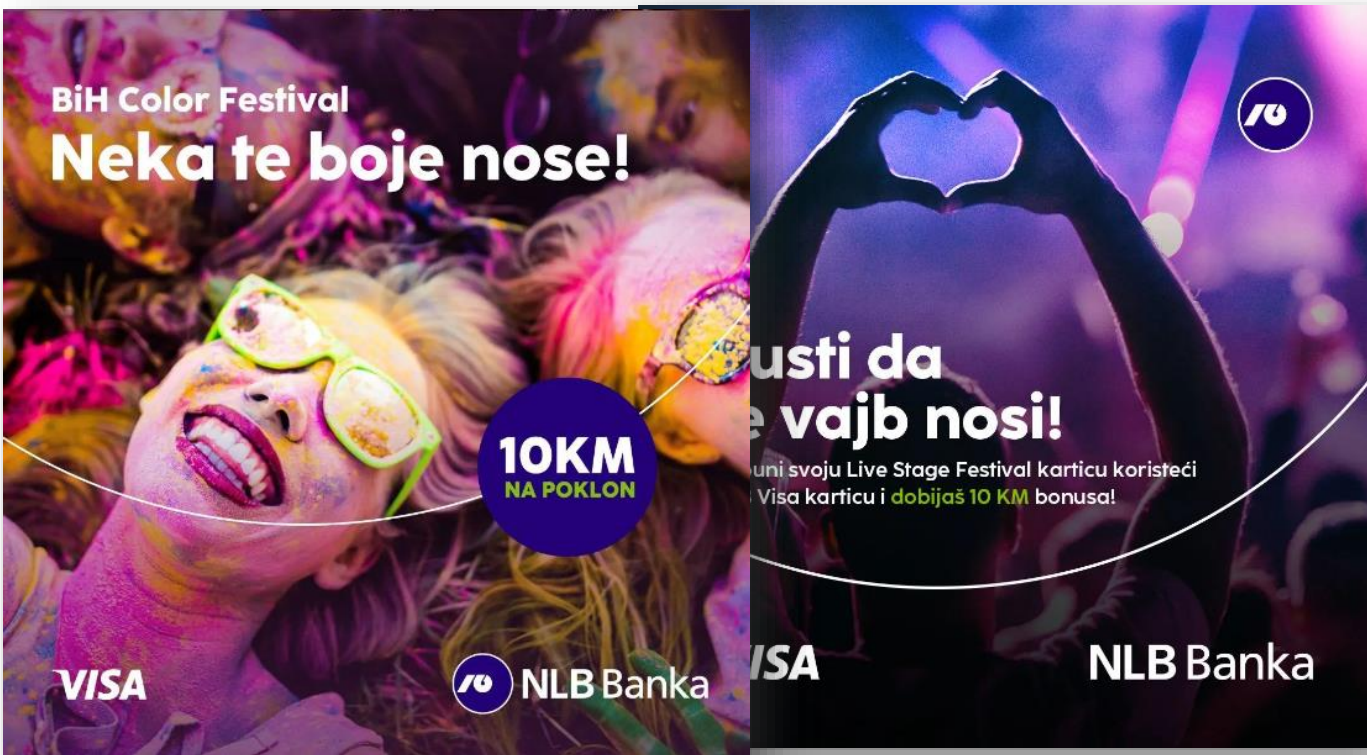
BiH Color Festival
Neka te boje nose!
10KM
NA POKLON
VISA
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usti da
vajb nosi!
uni svoju Live Stage Festival karticu koristeći
Visa karticu i dobijaš 10 KM bonusa!
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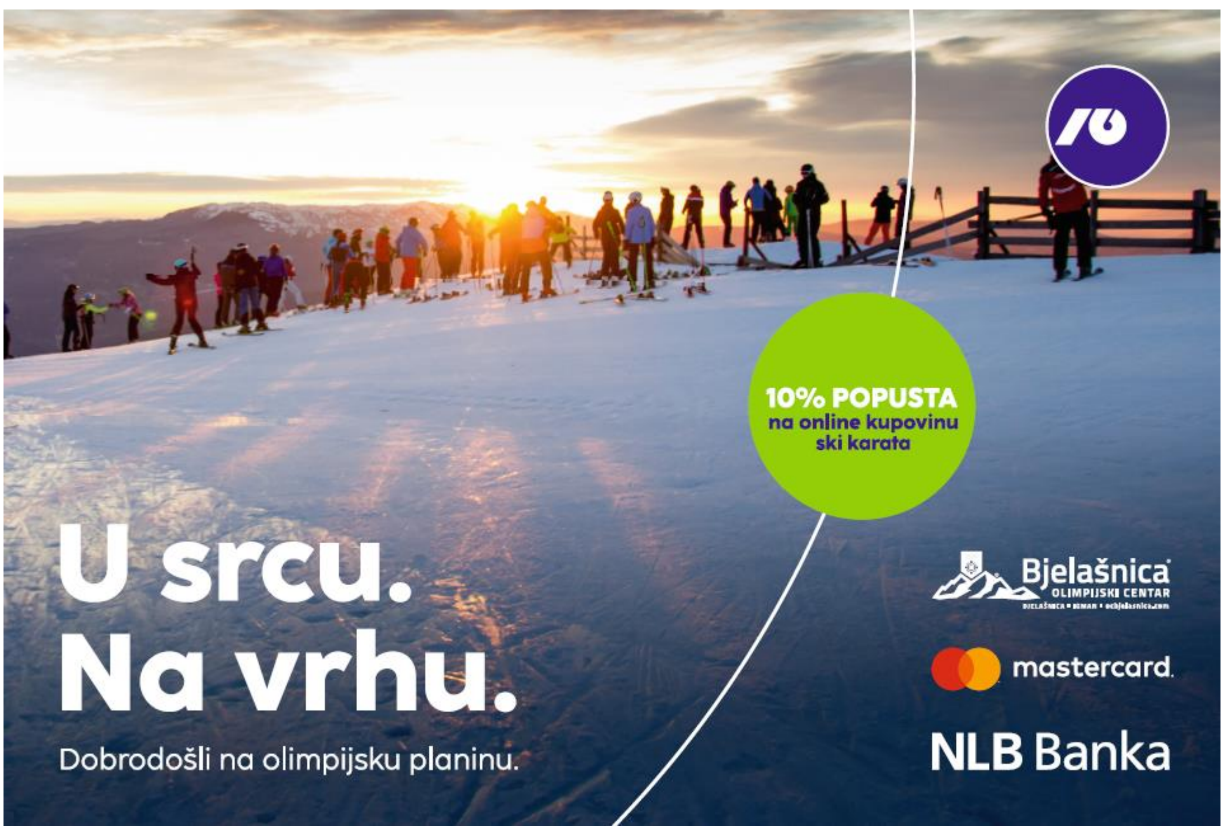
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## Asset management

The previous year was extremely dynamic for the world economies through heightened geopolitical tensions and macroeconomic trends, and consequently for the financial market. In the context of high inflation at the global level, tightened monetary measures have been taken by raising key benchmark rates with the aim of reducing inflationary pressures.

The Bank has established a robust liquidity risk management framework that ensures that customer needs are met and compliance with prescribed quantitative and qualitative indicators. The bank contracts funds from various types of sources of financing with the aim of diversification.

During 2023, the Bank continued its long-standing cooperation with supranational financial institutions to obtain attractive sources of financing in accordance with market requirements.

The Bank has contracted long-term sources of funding with the European Fund for South East Europe (EFSE) in the total amount of EUR 10 million. In cooperation with EFSE, technical assistance has been implemented, which focuses on programs to improve ESG standards that will contribute to the sustainability strategy within nlb bank and encourage initiatives containing ESG components. The project has contributed to strengthening internal capacities and raising awareness of the topic of sustainability and green lending to small and medium-sized enterprises. The project provides advisory services to 20 selected companies whose operations and projects require ESG compliance.

The Bank has signed an agreement with the Development Bank of the Federation of Bosnia and Herzegovina to provide the necessary support to micro, small and medium-sized enterprises with the aim of improving operations and strengthening competitiveness, thus joining the implementation of the World Bank project entitled "Recovery and Support Project to Companies - Business Entities".

In the previous year, NLB Bank was a reliable partner to clients and promptly responded to all challenges arising from foreign exchange risk management, while ensuring maximum protection for the Bank. By responsible and controlled management of foreign exchange risk, NLB Bank has ensured compliance with legal regulations and internal regulations of NLB Group.

In 2023, we have maintained a significant position in the domestic market in the field of foreign currency trading through the provision of high-quality services to the Bank's clients. We have continuously worked on improving the service, recognizing and meeting the needs of clients, which is recognized in the market. A very successful year was marked by a significant increase in the number and volume of transactions in financial instruments.

## Used Financial instruments

The bank invests in debt securities for the purpose of building stable stocks of highly liquid reserves.
The banking book's debt securities portfolio consists of short-term and long-term highly liquid issue securities. The level of investment in debt securities and equity investments is limited by the limits prescribed by regulators, the group and internally set limits.
The Bank's portfolio in 2023 consists of highly liquid securities, with 70% of securities related to issuers from the European Union and 30% of securities to domicile issuers.

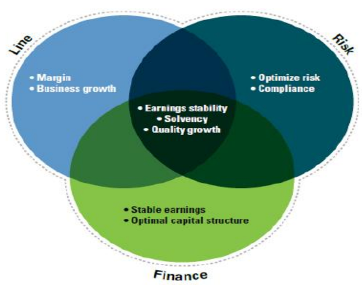
The structure of securities per issuer is expressed under Note 16b.

## Risk management

The strategy of taking over and managing risks is part of the overall risk management system that the Bank is exposed to in its operations and is aligned with the Bank's business policy and general strategy.

In addition to credit risk, as the most significant risk, the Bank is also exposed to market, interest rate, liquidity risk, operational risk, and other risks such as reputational risk, strategic risk, cybernetic risk, model risk, business risk, environmental, social and management risk (eng. Environmental, Social and Governance (ESG) and real estate risk.

The strategy defines what types of risks the Bank is willing to take, which are not acceptable to the Bank as well as strategic risk-taking guidelines set out within the Bank's risk management (such as Risk Appetite, Risk Profile, ICAAP, ILAAP, Recovery Plan, Budgeting and Capital Planning Process).

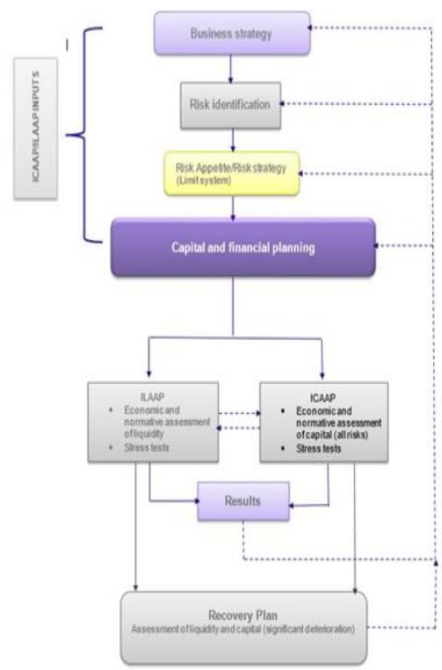



An effectively established framework for Risk Appetite, as well as the Strategy of Risk Acquisition and Management, are a management tool and a key component of risk management. The objective of the Risk Appetite framework is to align strategic objectives with the risks and financial objectives defined in internal acts.

Based on the results of the Internal Capital Adequacy Assessment Process (**ICAAP**), the Bank has sufficient capital to cover exposure to identified material risks in the economic and normative perspective.

The results of the Internal Liquidity Adequacy Assessment Process (**ILAAP**) confirm the Bank's strong position in the liquidity risk management process and the fulfilment of minimum and internal liquidity requirements under normal and stressful circumstances.

**The** Bank's recovery plan has been prepared with the aim of ensuring the bank's financial sustainability, as well as restoring the bank's sustainable operations and appropriate financial position in the event of a significant deterioration in its financial condition.



**Risk management (continued)**

The strategy also sets out material principles and risk-taking guidelines in the following business segments:

- loans to legal and natural persons,
- ensuring adequate liquidity volume and managing liquidity reserves,
- ensuring an appropriate funding structure, including guidelines for retail business in the part relating to savings products,
- managing market risk, i.e. foreign exchange and interest rate risk, with the aim of managing the Bank's own positions,
- the conclusion of other financial transactions in the Treasury business,
- operational risk management.
- management of environmental and social (ESG) risks as an integral part of the above risk categories.

More detailed rules, limits, guidelines and competencies related to risk management are defined by individual internal acts, policies and procedures, methodologies, guidelines, guidelines.

Credit **risk** management, as the most important risk, is aimed at accepting moderate risks and ensuring an optimal return with regard to the undertaken risks. With the aim of maintaining the medium and long-term sustainability of the business, the Bank strives to maintain the quality of its credit portfolio and increase profitability, based on a better ratio between returns and risks taken. The basic indicators of credit risk whose limits and targets are defined in The Risk Appetite Bank are in the segment of maintaining portfolio quality and credit risk volatility. In 2023, the Bank paid special attention to the management of interest-induced credit risk due to macroeconomic developments in the market.

The key principles of taking over and managing risks relate to lending to clients, legal (non-financial corporations) and natural persons focused on the domestic market. The principles and rules of lending of various segments are defined by the Bank's internal acts.

The bank has a moderate appetite for risk-taking risk the main source of repayment is the borrower's creditworthiness and available cash flow, while securing placements is considered a secondary source of repayment.

Credit risk mitigation is carried out through the provision of quality security funds in accordance with the Bank's internal acts. Diversification of portfolios by segments and activities of business is carried out, especially taking into account exposures to one person or group of related persons.
In addition, regular monitoring and analysis of trends in the quality of individual segments of the credit portfolio, with special emphasis on new transactions, enables early detection of increased risk, as well as optimization of assumed risks in relation to profitability.

The Bank monitors exposures to credit risk in such a way that it is aligned with legal restrictions as well as in accordance with the bank's internal limit system. Credit risk management is defined by internal acts as well as an adequately established organizational structure of taking over and managing risks in the Bank. Also, control in the process of taking over the level of credit risk is carried out through defined levels of decision-making in the credit business.

The measurement of exposure **to market risks** is carried out in accordance with the legislation and the methodology for measuring exposures at the NLB Group level on a standardized approach. NLB Group implements a relatively conservative market risk management policy, which is reflected in appropriate restrictions and procedures in policies and other acts at the NLB Group level.

**Risk Management (continued)**

The bank is exposed to market risk, which poses the risk that there will be changes in the fair value of the future cash flows of the financial instrument due to changes in prices in the market. Market risk arises from open positions in interest rates, currency and capital products, all of which are exposed to general and specific market developments and changes in the level of arbitrariness of market rates and prices such as interest rates, foreign currency exchange rates and capital prices. Market risks, within the meaning of the Banking Act, are considered positional risk, currency (foreign exchange) risk and commodity risk.

The Bank sets limits and provides guidelines for monitoring and mitigating exposure to market risk, which are regularly supervised by the competent organizational units and risk management boards at the Bank.

In the area of market risk management, the demarcation of liability between monitoring and managing market risks is crucial. Exposure to market risks is regularly monitored by the Non-Credit Risk Management Department, which is an integral part of the Risk Management Sector - Global Risk by controlling whether positions by certain types of risks are within the defined limits. Open positions are managed by the Bank's Balance Sheet Management Department, keeping them within the established limits.

The sector for managing funds daily currency conversions maintains a foreign exchange position in legally and internally established limits, and continuously undertakes various activities that minimize market risks.

Risk control monitors compliance with certain legal and internal limits. Monitoring and managing market risks are supported by internal methodologies that are adapted to local regulations and aligned with the requirements at the nlb group level (EU regulations). In accordance with local regulations, the Bank provides a sufficient amount of capital to cover potential unexpected losses incurred due to exposure to currency and other market risks.

Given that, in accordance with the Currency Board arrangement, the currency OF KM is fixed lynched to EUR, the Bank is not exposed to changes in the EUR exchange rate. Fluctuations in other currencies did not have a significant impact on the Bank's exposure to foreign exchange risk, since the openness of the foreign exchange position was reduced to a minimum.

Interest sensitivity as a result of changes in market interest rates affects two categories:
- the amount of net interest income,
- the market value of certain financial instruments (interest sensitive placements and sources), which consequently affects the market value of the Bank's capital.

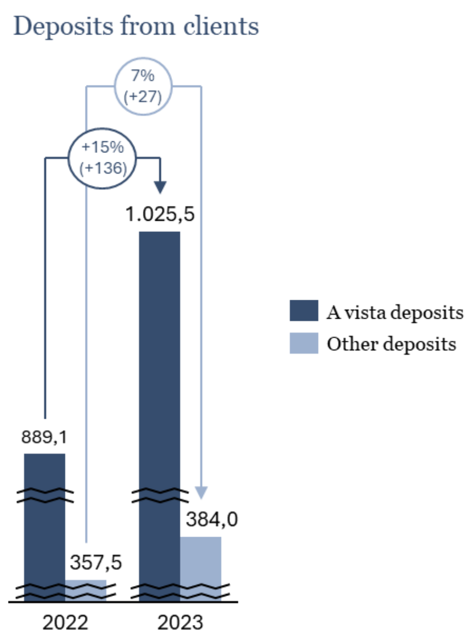
In accordance with the Policy and procedures for monitoring interest rate risk exposure, the Bank must meet the criterion of the impact of parallel shifting of the interest curve by 200 basis points, which it applies to the existing open interest position at individual time intervals. In 2023, there were no significant changes in policy and procedures for monitoring interest rate risk exposure. The Economic Value of Equity (EVE) limit is 8% and during 2023 the Bank maintained exposure to interest rate risk in line with the Strategy and internally defined limits in Risk Appetite. Due to the trend of rising market interest rates, and due to the increase of EURIBOR on the market, the Bank regularly monitors and prepares 6 stress scenarios, regarding the potential effect on capital.

**Risk Management (continued)**

**Liquidity risk management** is established in a way that allows a reliable procedure for identifying, measuring, monitoring and controlling liquidity risk in the short and long term. Ensuring adequate liquidity volume and managing liquidity reserves in the Bank shall be carried out in centralism, in accordance with the requirements of local regulations and the Bank's applicable internal guidelines and policies.
The bank has access to various sources of funding. Funds are collected through a large number of instruments including various types of deposits of citizens and legal entities, borrowed loans, share capital as well as through bond issuance. This increases the flexibility of sources of funding, reduces dependence on a single source, and generally the cost of financing.

In the structure of financing sources, the largest share is held by deposits of clients with 82% participation in total sources, and loans taken with 5% share and own capital with 10% share.

Below is the structure of sight deposits and other deposits:




The Bank strives to maintain a balance between continuity of financing and flexibility through the use of liabilities with varying maturities. The Bank continuously assesses liquidity risk by identifying and tracking changes in financing that are necessary to achieve the business objectives set in accordance with the Bank's strategy. In addition, the Bank has a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk exposure measurement is also done using the Scoring model. In accordance with local regulations, the Bank is obliged to maintain the minimum liquidity requirement through the liquidity coverage ratio LCR, which has been monitored before due to the requirements of the Risk Management Standard at the NLB Group level.
The Bank regularly conducts stress tests in the liquidity risk management process. The Bank regularly conducts the Internal Liquidity Adequacy Assessment Process (ILAAP). The purpose of ILAAP is to establish a strong liquidity risk management system at the Bank. ILAAP is involved in the daily business process and business decisions in the form of daily monitoring of cash flows, the results of stress tests serve to define the volume of liquid reserves, and defined indicators in the internal system of limits related to monitoring exposure to liquidity risk are used to activate the Contingency Liquidity Plan or the Bank's Recovery Plan.

**Risk Management (continued)**

The Bank coordinates its operations with regard to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, asset and liability compliance, as well as limits and target liquidity indicators. The Bank's balance sheet management department manages liquidity reserves daily, ensuring that the Bank meets the needs of its clients.

The Non-Credit Risk Management Department monitors the following liquidity indicators on a monthly basis and is reported to the relevant boards of the Bank:

- Liquidity coverage ratio (LCR),
- Net Stable Funding Ratio (NSFR),
- Net Loan to deposit (Net LTD),
- The share of non-pledged liquid reserves in total assets (AUAR),
- Share of non-bank deposits in total liabilities (excluding capital),
- Share of sources of the 30 largest non-bank depositors in the total balance sheet,
- A'vista stability - Stable deposits at sight,
- Stress liquidity test - strong combined stress test and reverse stress tests.

The implementation of key indicators in liquidity risk management during 2023 was in line with internal indicators defined in Risk Appetite Bank except for the indicator "Share of sources of the 30 largest non-bank depositors in the total balance sheet" indicator.

Operational **risk** management, as an important part of the Bank's operations, enables its long-term successful operations and the preservation of its reputation, and is based on:

- monitoring of adverse events,
- risk identification,
- evaluation and
- overcoming the risk.

The aim of operational risk management is to limit the extent of potential losses and the likelihood of their realization to a level acceptable to the Bank from the point of view of financial damage, and indirectly from the point of view of preserving the Bank's reputation. The complete elimination of operational risks is neither possible nor reasonable. The Bank accepts those operational risks, which in the case of realization will not have a significant impact on the business result, i.e. will not jeopardize the further operations of the Bank.

The objectives and principles of operational risk management include the awareness that the Bank, unlike other types of risk, may be exposed to this type of risk in all products, activities, processes and systems, and that operational risks can significantly affect the Bank's security, reputation and reputation. Therefore, effective management of this type of risk is the basis of sound risk management at the Bank.

In taking operational risk, the Bank follows the direction that this type of risk should not significantly affect its operations, so the willingness to take operational risk is low to moderate.

In addition to significant risks that are materially significant for the Bank's operations with possible effects on capital and liquidity, the Bank also allocates internal capital requirements for **Other Risks**[4], with particular isolation of personnel risks, ESG risks in the future as well as business risk taking into account the situation caused by the war in Ukraine.

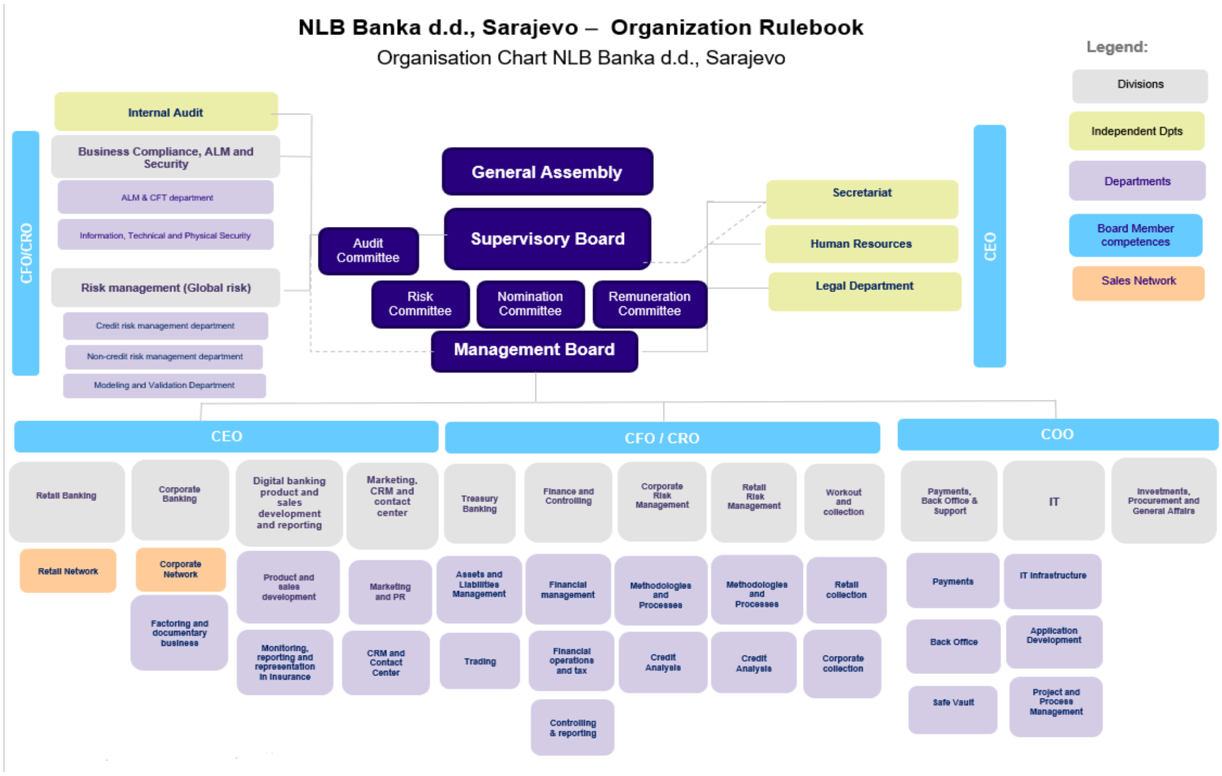
[4] Ostali rizici – rizici klasifikovani u skladu sa Smjernicama za izvještavanje Agencije za bankarstvo FBiH o primjeni ICAAP-a i ILAAP-a u banci

## Risk Management (continued)

It is expected that reputational and accountability risks related to sustainability issues will increase over time (e.g. scandals caused by the financing of environmentally controversial activities, usury...). The Bank carefully considers the potential reputational and accountability risks that could arise from the sustainable financing of its clients. Therefore, such risks are minimized or mitigated by limiting funding to companies where ESG risks are increased as defined in the Social Protection and Environmental Framework and other internal guidelines and policies. Special attention is paid to the approval of new products and monitoring the fulfilment of relevant criteria by clients.

## Human Resources

As of December 31, 2023, the bank has 478 employees. Employee care is the foundation of all processes in human resource management, with particular intensity in the segment of health and safety protection of the business environment. Taking into account the specific circumstances of business and new trends in work models, 2023 in the segment of human resources management was marked by intensified activities to strengthen the corporate culture and brand of the employer. A high level of employee engagement and significant progress in all categories of corporate culture measurement have given confidence in the quality of implemented systems and practices. We proudly highlight the title of one of the top 3 most desirable employers in the financial sector for six consecutive years.
In addition to activities in the segment of strengthening corporate culture, strengthening the core values of the Bank, and raising the level of employee engagement, key HR activities such as talent management, performance management, successor planning for key positions have been regularly implemented, and various educational content for all employees has been realized. A special focus is given to the reward system, which, based on the results of market research, is conceived with the aim of competitiveness in the part of fixed and variable rewards, which reflect work performance. A special scheme of awarding is defined for holders of key functions that also contains a delay instrument, with the aim of long-term sustainability of parameters or results that are subject to reward.




## Corporate social responsibility

NLB Bank acts responsibly towards its customers, employees, society and the environment and wants to become their responsible and caring mentor. In addition to financial results, the Bank wants to contribute to a better quality of life in the region in which it operates, which is why in 2023 activities in accordance with the UN Sustainable Development Goals were intensively implemented. Furthermore, in accordance with the mission and goals, it undertakes various CSR activities, in order to position itself as a responsible banking partner through support to the development of sports, preservation of cultural heritage, youth education and humanitarian activities.

## Responsibility to employees

Taking care of the health of all employees is a priority at all times. In accordance with the Law on Safety at Work, employees are provided with a systematic health examination, which is organized every two years. The Bank continued to continuously support the implementation of the remote work model for jobs for which this is possible by the nature of work, and therefore the number of workers with permanent work-from-home engagement increased in 2023 compared to previous years.

## Responsibility to clients and society

In the previous year, we thought intensively about how we can influence positive change. Our own actions inspire us to look for sustainable, especially local solutions. We paid a lot of attention to sustainable business in the region of Southeast Europe, and organized the first ESG conference entitled "We leave better traces" for all clients and partners with the aim of educating and promoting a green future and sustainability. Promoting the importance of the application of ESG standards, four unique lectures and panel discussions were held where eminent experts spoke about the challenges and opportunities of business models that include environmental, social and governance factors for a sustainable future.

The sustainability of our decisions and activities is at the heart of our business and we are aware that we can affect the quality of life in the region and where we live and work. That is why we have been conducting a campaign throughout the year called "Movement that Makes A Difference" encouraging clients and employees to dedicate themselves to improving their healthy lifestyle habits and physical form. By paying with NLB cards and NLB Pay service, our clients had the opportunity to get a discount on regular monthly membership fee slots in three fitness centers in Sarajevo and Tuzla.



The Bank has actively participated in supporting children who need help in mental, linguistic and social development, and has supported various associations for the benefit of children and youth such as "Association Down" Mostar, Association "My Star", Center for Autism "Meho Sadiković" Tuzla, Home for Children without Parental Care in Sarajevo, Mostar and Tuzla, Foundation "Older Brother, Older Sister", Center for children with multiple disabilities Tuzla.

**Employment and financial literacy initiatives**

During the year, the Bank supported educational activities at universities that affect the financial literacy of young people through support to the Faculty of Economics in Tuzla and Sarajevo and the Student Center of the University of Mostar. A number of projects for the education of students were implemented with the faculties, and students were provided with the opportunity to practice in NLB Bank.

On the occasion of World Savings Day, the Bank gave children a play organized by the Youth Theatre in Sarajevo, the National Theatre in Tuzla and the Puppet Theatre Mostar in order to encourage culture among the youngest population.

**Supporting sport**

At the state and local level, the Bank has supported top athletes and sports collectives in BiH, because they are also the best ambassadors of the country in their travels and matches.

When it comes to professional and semi-professional sports, NLB Bank has sponsored various teams: in football, volleyball, basketball, tennis and other sports.

In order to encourage healthy habits in children and youth, we continuously invest in initiatives that are focused on this population such as international basketball tournaments, amateur sports clubs for young people and the like with the aim of connecting children through sports from various cities of BiH, and many others.

**Culture and environment**

NLB Bank continuously improves awareness of culture and heritage, as well as nature conservation. NLB Bank has sponsored several cultural events such as the Tuzla Contemporary Women's Festival, Live Stage Music Festival, Youth Film Festival, Sarajevo Street Food Market, and sponsorship of the work of the National Theatre in Tuzla and The Youth Theatre in Sarajevo. All these activities have influenced the visibility of NLB Bank in terms of responsibility towards culture in BiH.

As part of the sustainable banking initiative, the Bank is continuously working on education on the rational use of resources and the importance of recycling. Environmental care is increasingly important and the Bank has supported events and organizations whose mission is focused on environmental activities and nature protection. The Bank thus supported the celebration of World Water Day, and the action of cleaning the planet Earth for one day "Let's do It" in Tuzla and Sarajevo, and the association "Eco-Zeleni" TK.

We affirm that we are the bank of the future, responsible to our customers, partners, the environment and the community within which we live and work. We want to leave a healthy environment to our future generations.

**Humanitarian activities**

Within the framework of humanitarian activities, a number of socially responsible actions and initiatives have been undertaken:

- Donation to the Association for support of children and parents "Moja zvijezda"
- Donation for association "Down syndrome" Mostar
- Donations for children without parental care Sarajevo, Tuzla and Mostar
- Donations for associations "Women from Una", "Viva žene Tuzla" and "Žena BiH Mostar"
- Donation for the Foundation "Older Brother, Older Sister"
- Donation for the Center for Autism ''Meho Sadiković'' Tuzla
- Donations to various youth sports clubs;

- Donations to the Association Pomozi.ba for the purpose of helping the treatment of fellow citizens;
- Donation for the organization of the humanitarian winter bazaar by the Embassy of the Republic of Slovenia, and many others.

As part of the aforementioned activities, in 2023, the Bank donated a total amount of BAM 233 thousand to legal entities and natural persons from its own funds and with the support of NLB Group.

**Events after reporting date**

Between the balance sheet date and the date of approval of these financial statements, there were no significant events requiring disclosure.

## Responsibility for financial statements

The Management Board is responsible for preparing the financial statements that give a true and fair view of the Bank's financial position and financial performance and cash flows in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina and is responsible for maintaining proper accounting records that allow the financial statements to be prepared at all times. The Management Board is also responsible for taking steps reasonably available to safeguard the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for applying them consistently, making reasonable and prudent assumptions and estimates, and preparing financial statements on the going concern basis unless the assumption that the Bank will continue as a going concern is inappropriate.

The Management Board is responsible for submitting the Bank's annual reports to the Supervisory Board together with the annual financial statements, after which the Supervisory Board approves the annual financial statements.

Signed on behalf of the Management Board

NLB Banka d.d., Sarajevo

Lidija Žigić, President of Management board

NLB Banka d.d., Sarajevo
Koševo 3
71000 Sarajevo
Bosnia and Herzegovina

19 April 2024

## Independent Auditors' report

## To the shareholders of NLB Banka d.d. Sarajevo

### *Opinion*

We have audited the financial statements of NLB Banka 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 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 NLB Banka 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 from customers**

As at 31 December 2023, gross loans and receivables to customers: KM 1,161 million, related impairment allowance: KM 42 million and, for the year then ended, impairment loss recognised in the statement of profit or loss and other comprehensive income: KM 4.3 million (31 December 2022: gross loans and receivables: KM 1,053 million, related impairment allowance: KM 41 million and, for the year then ended impairment loss recognised in the statement of profit or loss and other comprehensive income: KM 2.6 million).

Refer to Summary of material accounting policies, Note 3.30 Critical accounting judgements and key sources of estimation uncertainty, Note 17 Loans and receivables from clients at amortised cost, and Note 4 Credit risk.

| Key audit matter | How our audit addressed the matter |
|---|---|
| Impairment allowances represent Management Board’s best estimate of the expected credit losses (“ECLs”) within loans to and receivables from customers (collectively, “loans”, “exposures”) at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions.<br><br>The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina (“FBA”), which combines the requirements of IFRS 9 “Financial Instruments” with the FBA-prescribed minimum requirements for provisioning.<br><br>The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework’s hierarchy) and non-performing (Stage 3) exposures below EUR 50 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information, as well as specific rules of the FBA regarding various minimum provisioning requirements (together “collective impairment allowance”). | Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management (FRM) and information technology (IT) specialists included, among others:<br><br>• Inspecting the Bank’s ECL methods and assessing their compliance with the relevant requirements of the regulatory and financial reporting frameworks. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology’s sophistication is appropriate based on an assessment of the entity-level factors;<br>• Making relevant inquiries of the Bank’s risk management and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Bank’s IT control environment for data security and access;<br>• Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances. |

## Independent Auditors' report
## To the shareholders of NLB Banka d.d. Sarajevo *(continued)*

### *Key Audit Matters (continued)*

| **Key audit matter *(continued)*** | **How our audit addressed the matter *(continued)*** |
|---|---|
| Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above EUR 50 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the realization of the related collateral and the minimum period for collateral disposal, as well as the FBA's specific minimum provisioning requirements.<br><br>In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook and slowing economic growth as well as elevated inflationary pressures and increase in interest rates, we considered impairment of loans and receivables to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit.<br><br>Accordingly, we considered this area to be our key audit matter. | • For loss allowances calculated on a collective basis:<br>— Challenging the key risk parameters (PD, EAD and LGD) applied in the collective ECL model, by reference to the Bank's data on historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;<br>— 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;<br>— Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of the industry and our understanding of the macro-economic situation;<br>• For impairment allowances calculated for individually significant exposures:<br>— For a sample of exposures, taking into account customer's business, market conditions and debt service, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3;<br>• For loan exposures in totality:<br>— Assessing the adequacy of the recognized ECLs against the various minimum provisioning requirements prescribed by the FBA;<br>— Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposure and the non-performing loans provision coverage.<br>— Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework. |

# Independent Auditors’ report
# To the shareholders of NLB Banka d.d. Sarajevo *(continued)*

### *Other Matter*

The financial statements of the Bank as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 19 April 2023.

### *Other Information*

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

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

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

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

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

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

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

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

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

## Independent Auditors' report
## To the shareholders of NLB Banka 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

# Independent Auditors’ report
# To the shareholders of NLB Banka d.d. Sarajevo *(continued)*

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

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

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

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

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

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

*19 April 2024*

*Registered Auditors*
Zmaja od Bosne 7-7a
71000 Sarajevo
Bosnia and Herzegovina

*(All amounts are given in thousand BAM unless otherwise stated)*

| | Note | 2023 | 2022 Restated |
|---|---|---|---|
| Interest and similar income calculated using the effective interest method | 5a | 60,442 | 43,973 |
| Interest and similar expense calculated using the effective interest method | 5b | (9,329) | (5,797) |
| **Net Interest and similar income using effective interest rate method** | 5 | **51,113** | **38,176** |
| Fee and commission income | 6a | 35,417 | 32,946 |
| Fee and commission expense | 6b | (10,836) | (9,463) |
| **Net Fee and commission income** | 6 | **24,581** | **23,483** |
| Impairment losses and provisions | | *(4,486)* | *(2,568)* |
| *Impairment losses on financial instruments* | *7a* | *(4,262)* | *(2,553)* |
| *Other net impairment losses and provisions* | *7b* | *(224)* | *(15)* |
| Other gains/(losses) from financial assets | 8 | (2,035) | 196 |
| Net positive currency differences | 9 | 823 | 910 |
| Gains from long term non-financial assets | 10 | 1,335 | 1,276 |
| Other income | 11 | 345 | 390 |
| Employee's expenses | 12 | (21,474) | (18,950) |
| Depreciation | 18a,18b | (4,704) | (4,788) |
| Other expenses | 13 | (18,519) | (14,141) |
| **Profit before income tax** | | **26,979** | **23,984** |
| Income tax | 14 | (2,844) | (2,554) |
| Deferred income tax | | 775 | 690 |
| **Income tax** | | **(2,069)** | **(1,864)** |
| **Net profit for the year** | | **24,910** | **22,120** |
| **Statement on total comprehensive income** | | | |
| **Items that can be reclassified to profit or loss** | | **1,258** | **(2,650)** |
| Decrease in fair value of debt instruments recognized at fair value through total comprehensive income | | 1,398 | (2,875) |
| Income tax referring to these items | | (140) | 225 |
| **Items that will not be reclassified to profit or loss** | | **(86)** | **471** |
| Increase / (decrease) of fair value of equity instruments recognized at fair value through total comprehensive income | | 4 | 16 |
| Actuarial gains / (losses) related to severance provision | | (90) | 461 |
| Income tax referring to these items | | | (6) |
| **Other comprehensive Income** | | **1,172** | **(2,179)** |
| **Total comprehensive income** | | **26,082** | **19,941** |
| **Basic and diluted earnings per Share (in BAM)** | 26 | **63,06** | **56,00** |

Notes on pages from 46 to 152 form an integral part of these financial statements.

**NLB BANKA d.d., SARAJEVO**
**Statement of financial position**
*(All amounts are given in thousand BAM unless otherwise stated)*

| | Note | December 31 2023 | December 31 2022 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 15 | 237,382 | 274,089 |
| Financial assets at fair FVOCI | 16 | 181,924 | 163,399 |
| *Investments in equity instruments* | *16a* | *105* | *99* |
| *Loans to customers, securities and other debt instruments* | *16b* | *181,819* | *163,300* |
| Financial assets at amortized cost | 17 | 1,328,624 | 1,157,700 |
| *Reserve at Central Bank* | *17a* | *153,116* | *140,447* |
| *Bank deposits* | *17b* | *445* | *461* |
| *Loans and receivables from clients* | *17c* | *1,118,906* | *1,012,946* |
| *Other financial assets at amortized cost* | *17d* | *56,157* | *3,846* |
| Prepaid income tax | | - | 2,628 |
| Deferred tax assets | 14a | 1,642 | 1,007 |
| Property, plant and equipment | 18a | 30,946 | 29,294 |
| Right-of-use assets | 18b | 4,691 | 3,106 |
| Intangible assets | 19 | 1,755 | 1,941 |
| Long term assets intended to sales and assets from discontinued operations | 20 | 12 | 13 |
| Other assets and receivables | 21 | 753 | 1,210 |
| **Total assets** | | **1,787,729** | **1,634,954** |
| **Liabilities** | | | |
| Financial liabilities at air value through profit and loss | 22 | 654 | 287 |
| Financial liabilities at amortized cost | 23 | 1,598,293 | 1,455,660 |
| *Banks' deposits and other financial institutions* | *23a* | *54,922* | *111,070* |
| *Customers' deposits* | *23b* | *1,412,767* | *1,249,431* |
| *Borrowings* | *23c* | *89,315* | *67,298* |
| *Lease liabilities* | | *4,709* | *4,349* |
| *Other financial liabilities at amortized cost* | *23d* | *36,580* | *23,512* |
| Income tax liabilities | 14 | 290 | 2,554 |
| Deferred tax liabilities | 14a | 6 | 6 |
| Provisions | 24 | 6,001 | 5,274 |
| *Credit risk of taken liabilities and given guarantees* | 24a | *3,675* | 3,139 |
| *Court* | 24b | *2* | 42 |
| *Other provisions* | 24c | *2,324* | 2,093 |
| Other liabilities | 25 | 1,017 | 788 |
| **Total liabilities** | | **1,606,261** | **1,464,569** |
| **Equity** | | | |
| Share capital | 26 | 53,605 | 53,605 |
| Reserves | | 75,106 | 75,106 |
| Revaluation reserves | | (1,527) | (2,699) |
| Revaluation reserves for financial assets a fair value through total comprehensive income | | (1,195) | (2,457) |
| Other revaluation reserves | | (332) | (242) |
| Profit | | **54,284** | **44,373** |
| Profit of the year | | 24,910 | 22,120 |
| Accumulated, retained profit from previous years | | 29,374 | 22,253 |
| **Total equity** | | **181,468** | **170,385** |
| **Total equity and liabilities** | | **1,787,729** | **1,634,954** |

Notes on pages from 46 to 152 form an integral part of these financial statements.

The Management has authorized these financial statements on 19 April 2024 and signed them accordingly:

| | | |
|---|---|---|
| Jure Peljhan<br>MB member | Denis Hasanić<br>MB member | Lidija Žigić<br>President of MB |

*(All amounts are given in thousand BAM unless otherwise stated)*

| | Share capital | Reserves | Revaluation reserves for financial assets measured at fair value through other comprehensive income | Other revaluation reserves | Accumulated retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as of Dec 31 December 2021** | **53.605** | **75.106** | **183** | **(703)** | **37.071** | **165.262** |
| **Balance as of January 1 2022** | **53.605** | **75.106** | **183** | **(703)** | **37.071** | **165.262** |
| Profit for the period | - | - | - | - | 22.120 | 22.120 |
| Other total comprehensive income for the period | - | - | (2.640) | 461 | - | (2.179) |
| **Total comprehensive income for the period** | **-** | **-** | **(2.640)** | **461** | **22.120** | **19.941** |
| *Dividends paid* | - | - | - | - | *(14.818)* | *(14.818)* |
| **Balance as of 31 December 2022** | **53.605** | **75.106** | **(2.457)** | **(242)** | **44.373** | **170.385** |
| | | | | | | |
| **Balance as of 31 December 2023** | **53.605** | **75.106** | **(2.457)** | **(242)** | **44.373** | **170.385** |
| Profit for the period | - | - | - | - | 24.910 | 24.910 |
| Other total comprehensive income for the period | - | - | 1.262 | (90) | - | 1.172 |
| **Total comprehensive income for the period** | **-** | **-** | **1.262** | **(90)** | **24.910** | **26.082** |
| *Dividends paid* | - | - | - | - | (14.999) | (14.999) |
| **Balance as of 31 December 2023** | **53.605** | **75.106** | **(1.195)** | **(332)** | **54.284** | **181.468** |

Notes on pages from 46 to 152 form an integral part of these financial statements.

**NLB BANKA d.d., SARAJEVO**
**Statement of cash flows**

*(All amounts are given in thousand BAM unless otherwise stated)*

| | Note | 2023 | 2022 Restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and similar income calculated using the effective interest method | | 59,579 | 43,405 |
| Interest expenses and similar income calculated using the effective interest method | | (7,518) | (4,582) |
| Fees and commission income | | 41,230 | 40,577 |
| Fees and commission expenses | | (8,098) | (8,705) |
| Collection of previously written-off receivables for given loans and interest | | 2,849 | 4,908 |
| Cash payments to employees | | (20,904) | (18,712) |
| Cash payments on operating expenses | | (24,728) | (21,253) |
| Other income from operating activities | | (3,558) | - |
| Paid income tax | | (2,480) | (2,792) |
| **Net cash from operating activities before changes on operating assets and operating liabilities:** | | **36,372** | **32,846** |
| **Cash flows from operating activities** | | | |
| (Increase) / decrease reserve at Central bank, net | | (12,626) | (23,623) |
| (Increase) / decrease placement at other banks, net | | 13 | (29) |
| (Increase) / decrease in loans and receivables from clients, net | | (112,624) | (134,733) |
| (Increase) / decrease in other assets and receivables, net | | (471) | (333) |
| Increase / (decrease) of bank deposits and other financial institutions | | (55,888) | 52,660 |
| Increase / (decrease) of clients deposits | | 162,780 | 122,204 |
| Increase / (decrease) of provisions for liabilities | | - | (1) |
| Increase / (decrease) of other liabilities | | (189) | (124) |
| **Net cash from operating activities** | | 13,136 | (333) |
| | | **30,503** | **48,534** |
| **Cash flows from investment activities** | | | |
| Acquisition of debt instruments at fair value through other total comprehensive result | | (433,992) | (140,271) |
| Proceeds from the disposal of debt instruments at fair value through OCI | | 420,213 | 121,768 |
| Proceeds from disposal of debt instruments at fair value | | (54,047) | - |
| Proceeds from disposal of property, plant and equipment | | 185 | 945 |
| Acquisition of property, plant and equipment | | (3,576) | (2,631) |
| Acquisition of intangible assets | | (725) | (372) |
| **Net cash flow from investment activities:** | | **(71,942)** | **(20,561)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (14,936) | (14,737) |
| Proceeds from bank loans | | - | 43,028 |
| Repayment of principal bank loans | | (17,044) | (14,145) |
| Proceeds from loans from other financial institutions | | 19,558 | 9,779 |
| Repayment of loans principal from other financial institutions | | - | (1,956) |
| Proceeds from subordinated loans | | 18,580 | - |
| Repayment of principal leases | | (1,438) | (1,272) |
| **Net cash flow from financing activities** | | **4,720** | **20,697** |
| **Net increase / (decrease) in cash and cash equivalents:** | | **(36,719)** | **48,670** |
| **Cash and cash equivalents at the beginning of the period:** | **15** | **274,089** | **225,384** |
| Effects of changes in foreign exchange currency rates: | | 12 | 35 |
| **Cash and cash equivalents at the end of the period:** | **15** | **237,382** | **274,089** |

## 1. General information

NLB Banka d.d., Sarajevo (hereinafter: The Bank) is a bank of universal type, which is organized as separate shareholders' company as of April 1, 1990.

The Bank was initially registered with the Registry of Companies with the Cantonal Court in Tuzla, and following the move of the head office from Tuzla zo Sarajevo in 2015, the Bank is registered with the Registry of Companies with the Municipal Court in Sarajevo, and with the Registry of the Securities Commission of the Federation of BiH, with all relevant data and permissions issued by the Banking Agency of the Federation of BiH (hereinafter: FBA) and other relevant bodies.

The Bank operates directly or through its organizational units in a business network:
a) Branch Office Tuzla with its Business Offices Centar Tuzla, Slatina, Sjenjak, Lukavac, Brčko, Čelić and Orašje,
b) Branch Office Sarajevo with its Business Offices Centar Sarajevo, Ilidža, Alipašino Polje, Pofalići, Ferhadija, Dobrinja, Otoka, Goražde, Zenica, Travnik, Vitez
c) Branch Office Mostar with its Business Offices Centar, Rondo, Čapljina, Široki Brijeg and Ljubuški,
d) Branch Office Kalesija with Business Offices Centar, Sapna and Teočak,
e) Branch Office Tuzla 2 with Business Offices Centar, Doboj Istok, Gradačac, Živinice, Srebrenik, Banovići and Kladanj
f) Branch Office Bihać with Business Offices Centar and Cazin.

Through its Head Office in Sarajevo and network the Bank is authorized to perform all types of business that Banks can do:

1. Receiving of all types of money deposits and other monetary assets;
2. Granting and taking financial loans;
3. Issuing guarantees and commitments;
4. services in internal and international payments and money transfers, in accordance with special regulations;
5. Buying and selling of foreign currencies and precious metals;
6. Issuing and managing means of payment (including credit cards, travel and bank cheques);
7. Financial leasing;
8. Buying, selling and collecting receivables (factoring, forfeiting and others);
9. Purchase and sale of money market instruments and capital for its own or somebody else's account;
10. Purchase and sale of securities (brokering-dealership);
11. Managing portfolio of securities and other valuables;
12. Securities market support operations, agent operations and issuance of shares, in accordance with regulations governing the securities market;
13. Investment consulting and custody operations;
14. Financial management and consulting services;
15. Data collection services, preparing analysis and providing information on the creditworthiness of legal and natural persons who independently carry out the registered business activity;
16. Safe deposit box lease;
17. Insurance intermediary services in accordance with regulations governing insurance intermediary services, except liability insurance for motor vehicles;
18. other operations that support concrete banking activities.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 1. General information *(continued)*

### Bank's shareholders

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Amount in BAM | % | Amount in BAM | % |
| Nova Ljubljanska banka d.d., Ljubljana, Slovenia | 52,177,300 | 97.34 | 52,177,300 | 97.34 |
| Others | 1,427,860 | 2.66 | 1,427,860 | 2.66 |
| **Total** | **53,605,160** | **100.00** | **53,605,160** | **100.00** |

The headquarters of the Bank is at the address Koševo 3, 71000 Sarajevo, Bosnia and Herzegovina.

The majority owner of the Bank is Nova Ljubljanska banka d.d., Ljubljana, with 97,34% of share capital as of 31 December 2023, which is also ultimate owner of the Bank.

NLB Bank d.d. Sarajevo is subject to consolidation in the financial statements of NLB d.d., Ljubljana, whose financial statements can be found at Trg republike 2, 1520 Ljubljana, Slovenia, and are available at the following link: https://www.nlb.si/financial-reports .

### Employees

As of 31 December 2023, NLB Banka d.d., Sarajevo had 478 employees (31 December 2022: 475 employees).

*(All amounts are given in thousand BAM unless otherwise stated)*

## 2. Adoption of new and revised standards

### 2.1. Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, interpretations and amendments to existing standards, which may be applicable to the Bank, are mandatory for periods beginning on January 1, 2023:

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

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

| Effective date | New standards or amendments |
|---|---|
| | |
| 1 January 2025 | Lack of Exchangability (Amendments to IAS 21) |
| 1 January 2024 | Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) |
| | Lease Liability in a Sale and Leaseback - Amendments to IFRS 16 |
| | Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenats- Amendments to IAS 1 |
| Available for optional adoption/effective date deferred indefinitely | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) |

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

## 3. Summary of material accounting policies

### 3.1. Basis of preparation and statement of compliance

The financial statements of the Bank have been prepared in accordance with the accounting regulations applicable to banks in Federation of Bosnia and Herzegovina (FBiH), which are based on the Law on Accounting and Auditing in FBiH, Law on Banks of FBiH, and bylaws of the Banking Agency of FBiH, passed based on aforementioned laws:

- The Law on Accounting and Auditing in FBiH (Official Gazette of FBiH, no. 15/21 of 24.02.2022) stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).
- The Law on Banks of FBiH stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in FBiH, this law and bylaws passed based on both laws.
- The Decision of the Banking Agency of FBiH on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2022, has established minimum rates for the calculation of value adjustments and for the valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRS).

The form of the attached financial statements is prescribed by the Rulebook on the content and form of financial statements for companies ("Official Gazette of FBiH", no. 81/21, 102/22 and 99/23).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses as of 31 December 2023 in the amount of BAM 5,156thousand compared to the amount calculated by using the Bank's internal model in line with the requirements of IFRS 9. This difference arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk in the amount of BAM 3,213 thousand,
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk (non-performing assets) in the amount of BAM 1,803 thousand, of which the amount of BAM 1,378 thousand refers to exposures not secured by acceptable collateral.
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) in the amount of BAM 140 thousand, of which the amount of BAM 239 refers to exposures secured by acceptable collateral and where higher credit loss allowances are recognised, while for exposures not secured by acceptable collateral lower credit loss allowances were lower by BAM 99 thousand.

Previously described differences between the statutory accounting regulations applicable to banks in FBiH and requirements for recognition and measurement under International Financial Reporting Standards are presented in the table below*:

## 3. Summary of material accounting policies (continued)

### 3.1. Basis of preparation and statement of compliance (continued)

| *BAM '000* | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Assets | (5,156) | (1,254) |
| Liabilities | 465 | 498 |
| Equity: | (5,621) | (1,752) |
| | **2023** | **2022** |
| Financial result before taxation | (5,621) | (1,752) |

* Note: positive amount represents increase in value, and the negative amount decrease in value of balance sheet positions.

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

For debt instruments measured at FVOCI loss allowance is recognized in the statement of financial position as part of the Financial assets at fair value through FVOCI, and is not included as part of the revaluation amount in the investments revaluation reserve.

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

These financial statements were authorizes by the Management Board as at 19 April 2024 for submission to the Supervisory Board.

*Comparatives*

Except where a standard or interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where IAS 8 is applied, comparative data has been adjusted to conform to changes in presentation in the current year.

Compared to the presentation of the Statement on total comprehensive income for the year ended 31 December 2022, information in line items 'Interest and similar income calculated using the effective interest method and 'Interest and similar expense calculated using the effective interest method' in the Income statement and note 5. were changed due to reclassification of amortization of premiums paid for acquisition of debt securities previously presented in the line item 'Other interest expenses' from section 'Interest Expense and similar expenses at effective interest rate' to section 'Interest Income calculated using the effective interest rate' and disclosed line item 'Financial assets at fair value through other comprehensive income'.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.1. Basis of preparation and statement of compliance (continued)

Additionally, information in line items 'Impairments and provisions' and 'Other income' in the Income statement and nots 7 and 11. were changed due to reclassification of income from recovered written of receivables previously presented in the line item 'Income from recovered written off receivables' from section 'Other income' to section 'Impairment losses and provisions' and disclosed line item 'Impairment losses on financial instruments'.

| **2022** | **As previously reported** | **As restated** | **Change** |
|---|---|---|---|
| Interest and similar income calculated using the effective interest method | 45,107 | 43,973 | (1,134) |
| Interest and similar expense calculated using the effective interest method | (6,931) | (5,797) | 1,134 |
| **Net Interest and similar income using effective interest rate method** | **38,176** | **38,176** | **-** |
| Fee and commission income | 32,946 | 32,946 | - |
| Fee and commission expense | (9,463) | (9,463) | - |
| **Net Fee and commission income** | **23,483** | **23,483** | **-** |
| Impairment losses and provisions | (7,476) | (2,568) | 4,908 |
| Other gains/(losses) from financial assets | 196 | 196 | - |
| Net positive currency differences | 910 | 910 | - |
| Gains from long term non-financial assets | 1,276 | 1,276 | - |
| Other income | 5,298 | 390 | (4,908) |
| Employee's expenses | (18,950) | (18,950) | - |
| Depreciation | (4,788) | (4,788) | - |
| Other expenses | (14,141) | (14,141) | - |
| **Profit before income tax** | **23,984** | **23,984** | **-** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.1. Basis of preparation and statement of compliance (continued)

Compared to the presentation of the financial statements for the year ended 31 December 2022, some positions in the Statement of cash flows were changed due to identified need for more adequate presentation of financial information.

| 2022 | As previously reported | As restated | Change |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and similar income calculated using the effective interest method | 39,496 | 43,405 | 3,909 |
| Fees and commission income | 41,848 | 40,577 | (1,271) |
| Collection of previously written-off receivables for given loans and interest | 4,901 | 4,908 | 7 |
| Cash payments to employees | (19,626) | (18,712) | 914 |
| Cash payments on operating expenses | (24,043) | (21,253) | 2,790 |
| Other income from operating activities | 137 | - | (137) |
| **Net cash from operating activities before changes on operating assets and operating liabilities:** | **42,713** | **48,925** | **6,212** |
| | | | |
| **Cash flows from operating activities** | | | |
| (Increase) / decrease in loans and receivables from clients, net | (135,842) | (134,733) | 1,109 |
| Increase / (decrease) of bank deposits and other financial institutions | 19,904 | 51,994 | 32,090 |
| Increase / (decrease) of clients deposits | 157,544 | 122,204 | (35,340) |
| Increase / (decrease) of other liabilities at amortized cost | - | (1) | (1) |
| Increase / (decrease) of other liabilities | (785) | 333 | 1,118 |
| **Net cash from operating activities** | **83,534** | **88,722** | **5,188** |
| | | | |
| **Cash flows from investment activities** | | | |
| Acquisition of debt instruments at fair value through other total comprehensive result | (42) | - | 42 |
| Proceeds from disposal of property, plant and equipment | 1,702 | 945 | 757 |
| Acquisition of property, plant and equipment | (2,567) | (2,631) | (64) |
| Acquisition of intangible assets | (436) | (372) | 64 |
| Other gains from investing activities | 2,479 | - | 2,479 |
| **Net cash flow from investment activities:** | **1,136** | **(2,058)** | **(3,194)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | (14,016) | (14,737) | (721) |
| Proceeds from bank loans | 43,029 | 43,028 | (1) |
| Repayment of principal leases | - | (1,272) | 1,272 |
| **Net cash flow from financing activities** | **29,013** | **27,019** | **(1,994)** |

Comparative amounts have been adjusted to reflect these changes in the presentation.

**3. Summary of material accounting policies (continued)**

### 3.2. Going concern

The financial statements are made under going concern assumption, which implies that the Bank will continue with its business activities in the foreseeable future, and will be able to realize receivables and settle liabilities in the normal course of operations.

### 3.3. Basis for the preparation and presentation of financial statements

These statements have been prepared using the historical cost basis, except for financial assets and liabilities measured and presented at fair value.

**Fair value** is the price which may be achieved by sale of an asset or would be paid for a transfer of a liability in the ordinary transaction between parties on the primary (or on the most favourable) market on the measurement date, regardless of whether the price is directly observed or estimated by application of the other techniques for value measurement. While estimating the fair value of assets or liabilities the Bank takes into consideration characteristics of assets or liabilities that the participants in the market would have considered when determining the price of assets or liabilities on the date of measurement. Fair value for measurement and/or for the purpose of disclosure in these financial statements is estimated on such a basis (apart for measurements which have some similarity to fair value measurement i.e., net realizable value according to IAS 2 or value in use according to IAS 36.

Fair value of financial instruments on active market is based on current prices of supply and demand for financial assets or financial liabilities. If the market for some financial instrument is not active, the Bank determines fair value using various valuation techniques. Valuation techniques include using current independent market transactions between informed parties, discounted cash flow analysis and other valuation techniques which participants on the market usually use. Valuation techniques reflects current conditions on the market on the day of valuation which does not have to reflect real conditions on the market before or after valuation.

Furthermore, for the financial reporting purposes fair value indicators are divided into levels 1, 2 or 3, based on the degree to which the measurement of fair value can be viewed according to the importance of evaluating fair value in its entirety, as follows:

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

The valuation techniques used for the measurement of fair value maximize the use of relevant observable inputs, while the use of unobservable inputs is minimized.
In cases where input data which is used for measurement of fair value of assets or liabilities can be classified in different levels of the fair value hierarchy, the measurement of fair value is classified fully in the appropriate level according to the lowest level inputs which are important for the overall measurement considered.

The Bank performs transfers or reclassifications among different fair value levels of hierarchy when input data used for the determination of the fair value of assets or liabilities are classified in a different level than the level in which the input data used for the previous measurement of fair value of that asset or liability are classified.

## 3. Summary of material accounting policies (continued)

### 3.3. Basis for the preparation and presentation of financial statements (continued)

Reclassification of financial assets from one to another level of hierarchy of fair value is made due to changes in circumstances or input data:
- From level 1 into level 2: when the bond is withdrawn from organized market or when it becomes illiquid
- From level 1 into level 3: when the shares are withdrawn from organized market, if company bankruptcy proceeding has been started or when disclosure of value has been terminated
- From level 2 into level 3: when base instrument (share or equity share) of derivative financial instrument is withdrawn from organized market, when it starts bankruptcy proceeding (for shares and bonds)
- From level 2 into level 1: if bonds are actively traded on organized market
- From level 3 into level 1: if shares or bonds are included on an organized market
- From level 3 into level 2: if base instrument (share or equity share) of derivative financial instrument is included on an organized market with no active quotation, but there are identical or similar instruments listed on the market.

Reclassification from one level of hierarchy of fair value to another is required in cases when, during the measurement of fair value, inputs from one level are replaced by inputs from another level.

### 3.4. Functional and presentation currency

Financial statements are presented in Convertible Marks (BAM), which represents official reporting currency in Bosnia and Herzegovina. The Convertible Mark has a fixed exchange rate linked to the Euro (EUR 1 = BAM 1.95583).

### 3.5. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Board to use judgements, estimates and assumptions which have influence on the application of accounting policies and disclosed amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and related assumptions are reviewed on a regular basis. Changes in accounting estimates are recognized in the period in which these estimates were changed, and possibly in future periods, if affected by them.
Information on areas of significant uncertainty related to estimates and judgements used in the application of accounting policies, which have a significant influence on amounts disclosed in these financial statements, are disclosed in *Note 3.30*.

Accounting policies listed below were applied consistently to all periods presented in these financial statements.

### 3.6. Foreign Currencies

Assets and liabilities in foreign currencies are translated into the local currency using the exchange rate set by the Central Bank of Bosnia and Herzegovina on the last day of the reporting period.

Monetary items denominated in foreign currencies are translated at the exchange rate ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial recognition.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the year-end translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.6. Foreign Currencies (continued)

All foreign exchange gains and losses recognized in the statement of profit or loss are presented in net amount within appropriate items.

Exchange rates used in financial statements are the official rates determined by the Central Bank of Bosnia and Herzegovina. On 31 December, the average exchange rates were as follows:

| Exchange rate | 31 December 2023 BAM | 31 December 2022 BAM |
|---|---|---|
| USD | 1,769982 | 1,833705 |
| EUR | 1,95583 | 1,95583 |

### 3.7. Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis. Penalty interest income is accounted for on an accrual basis.

Interest income is calculated using the method of effective interest rate on gross carrying value of on-balance exposure.

Accrued interest income on non-performing loans is excluded from profit or loss and recognized as income upon collection.  For loans to legal entities for which credit loss allownce is calculated on an individual basis, and for which there is acceptable collateral, interest income is calculated using the effective interest rate method applied to amortized cost.

Interest is calculated in accordance with the contract between creditor and debtor. If stipulated by the contract, interest for deposits is added to the principal.

Loan origination fee income is deferred throughout the duration of the loan using the effective interest rate method. Income from loan origination fees is presented within the Interest income position.

### 3.8. Fee and commission income and expense

Fee and commission income is recorded in the statement of profit or loss because the Bank meets the obligation embedded in the contract, in accordance with the rules of “IFRS 15 Revenue from contracts with customers”.

The rule is as follows:
- if the performance obligation is met at a particular point in time, the related revenue is recognized in the statement of profit or loss when the service is provided;
- If the obligation to execute is met over time, the related income is recognized in the statement of profit or loss to reflect progress in meeting that obligation.

Due to the above rules, fees for transactions arising from domestic and foreign payment transaction services are usually recorded at the time the service is provided, while fees related to portfolio management and the like are usually recognized over the life of the contract (input method).

The amount of income related to income from fees and commissions and other operating income is measured based on contractual provisions. If the contractual amount is subject to change in whole or in part, revenue must be recorded based on the most probable amount that it expects to receive.

## 3. Summary of material accounting policies (continued)

### 3.8. Fee and commission income and expense (continued)

Such an amount is determined based on all the facts and circumstances deemed relevant to the assessment, which depend on the type of service provided, and on the assumption that it is unlikely that the revenue recognized will not be significantly reversed. For services provided by the Bank, such variability is not normally foreseen.

If the contract relates to different services whose performance obligation is not fulfilled at the same time, the income is allocated to different obligations, in proportion to the independent price of the delivered goods/services. Therefore, these amounts will be recorded in the statement of profit or loss, based on the time of fulfilment of each obligation.

Fee expenses consist of fees paid by the Bank to the CBBH for internal payment operations, SWIFT costs, card operations costs and deposit insurance costs. Fees and commissions expenses are recognized in the period to which they relate.

### 3.9. Dividend Income

Dividends are recognized in the income statement as dividend income when the shareholders' rights to receive dividends are established.

### 3.10. Employee benefits

In its regular operations, the Bank pays taxes and contributions on and from salaries, calculated from the gross salary, as well as meal allowances, transport allowances, and vacation bonuses in accordance with local legislation for its employees. These expenses are recorded in the statement of comprehensive income in the period to which the salaries relate.

The Bank may, in accordance with the business result and individual work success of employees, periodically, by special decisions, award variable rewards for work performance that exceeds the expected or target result by up to 20% of the basic salary of employees. When paying the variable part of the salary for the achieved results above the average (total score over 101%), the starting point is the quota allocated to the organizational unit by the competent manager, which can amount to 8% of the salary. In 2022, there was no payment of variable rewards.

Employee benefits represent amounts the employer must pay to the employees in accordance with laws, rulebooks and contracts, which also represents a basis for recording provisions in accordance with IAS 19.

The Bank forms provisions for severance payments, based on an actuarial calculation, which is usually made on 30.09 every year. The effects of provisions for severance payments arising from differences between projected actuarial payments and actual payments and changes in actuarial assumptions (discount rate, employee turnover, increase in average salary, etc.) are recognized in other comprehensive income and are never reclassified to the statement of profit or loss. Changes in the present value of liabilities arising from the approach of the maturity date are recognized as interest expense.

The Bank has made provisions for unused vacation days in 2022 using the Bank's average gross hourly rate method for each unused vacation day and created additional provisions, which were charged to cost of provisions for unused vacation.

## 3. Summary of material accounting policies (continued)

### 3.11. Taxation

Taxes are calculated in accordance with the regulations of the Federation of Bosnia and Herzegovina and Brčko District. The starting point in determining the income tax base is the business result reported in the income statement. Differences between the profit presented in the accounting records and the taxable profit in the tax balance occur due to corrections prescribed by the Corporate Income Tax Act and the accompanying Rulebook, according to which certain expenses shown in the accounting records, although actually incurred, from the aspect of the income tax regulations represent non-deductible expenses, which as such increase the tax base.

Accordingly, individual expenses, depending on the type, can be treated in the tax balance:
- as non-deductible expenses in their full amount (which increase the corporate income tax base as a whole), or
- as non-deductible expenses in the prescribed percentage (which increase the corporate income tax base only in the non-deductible part).

In addition, certain expenses may be tax deductible permanently (as permanent tax differences that are reflected in the income tax base only once, i.e., only for that tax period), while other expenses may be tax deductible with a certain time lag (as temporary tax differences, which are reflected based on income tax not only in one but in several accounting and tax periods).

Temporary tax differences occur:
- in cases where once unrecognized items (i.e. items that increased taxable profit in one period) will subsequently be treated as tax deductible items, for which taxable profit may be reduced in some future period
- in cases where pre-tax items (i.e., items used to reduce taxable profit in one period) will subsequently be treated as non-tax deductible, and these amounts will have to be increased by taxable profit in some future period.

In the first case, when it comes to temporary tax differences, such items will in future periods result in deferred tax assets and in the second case deferred tax liabilities.

The current regulations also provide for tax relief as tax incentives, for example through the tax balance, the recognition of double the amount of gross salary for newly hired employees, subject to certain conditions.

The income tax rate is 10%.

When it comes to indirect taxes, the Bank is in the VAT system. Given the specificity of the services provided by the Bank, most of such services are exempt from VAT.
There is an obligation to calculate VAT for services that are subject to this obligation and the Bank acts accordingly.

The Bank has no right to deduct input VAT and input VAT is recorded on the expense on which the related service is recorded.

The VAT rate is 17%.

### 3.12. Earnings per share

The Bank discloses basic earnings per share. Basic earnings per share are calculated by dividing net profit or loss of the current period attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares for the period.

## 3. Summary of material accounting policies (continued)

### 3.13. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than 3 months, including cash and non-restricted balances with the Central Bank as well as other eligible securities and loans and advances to banks.

### 3.14. Due from other banks

Amounts due from other banks encompass placements with other banks that become due for collection on a fixed date.

### 3.15. Financial Assets

Financial assets originate from lending operations, foreign exchange related operations, deposits, and payments operations; they are also used in securities trading, the purchase and collection of receivables, and they are the result of other banking services. Loans, deposits, debt securities issued are recognised on the date on which they are originated. Financial assets under regular-way purchases and sales are recognised at settlement date. All other financial assets are recognised on the date on which the Bank becomes a party to the contractual provision of the instruments.

***Transaction costs*** are incremental costs that are directly attributable to the acquisition, issue or decrease in financial instruments. An incremental cost is incurred upon rendering a transaction. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

***Amortized cost*** (AC) is the amount at which the financial instrument was recognized at initial recognition less any principal repayments increased by accrued interest, or the amount at which the financial instrument was recognized less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and amortization of all premiums or discounts up to the maturity date by applying the effective interest rate. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discounts or premiums (including fees deferred at origination, if any), are not presented separately and are included in the carrying values in the statement of financial position (balance sheet).

***The effective interest rate method*** is a method of calculation of the amortized cost of a financial asset or financial liability, and the allocation of interest income or interest expenditures over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, if appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate discounts cash flows of variable interest instruments until the next interest re-pricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the entire expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

### Measurement of financial assets

According to IFRS 9 – Financial Instruments, financial assets are measured at:
- Amortized cost,
- Fair value, with valuation effects recognized in other comprehensive income (FVOCI), or
- Fair value, with valuation effects recognized in profit or loss (FVPL).

Criteria that determine classification and valuation of financial assets are:
- business model for financial asset management,
- characteristics of financial instrument's contractual cash flows.

The Bank adopts the business model that reflects how it manages groups of financial assets to achieve its business objectives. Business model is not assessed on an instrument-by-instrument basis, but at their level of aggregated portfolios considering following:
- how the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model and the way those risks are managed
- how key management personnel is compensated (sales – collection of fair value or collection of contractual cash flows)
- the expected frequency, value and timing of sales.

The decision on selection of business model is based on reasonably expected events without 'stress case' scenarios. If the cash flows are different from the expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing business model for new financial assets. According to the Bank's business model, loans to customers and deposits are classified in business model which has purposes of collecting contractual cash flow. Loans to customers and deposits are valued at amortized cost, except in cases when they don't pass SPPI test.

Conditions for classification of debt instruments in banking book are provided in Policy for operating with financial instruments.

If the contractual cash flows represent Solely Payments of Principal and Interest (SPPI), then debt instruments are measured at amortised cost or at fair value through other comprehensive income (FVOCI), depending on the business model.

In case the contractual cash flows do not satisfy SPPI criteria, then financial assets are valued at fair value through profit or loss (FVPL).

For SSPI test, the principal represents fair value of the financial asset at the moment of initial recognition, and interest compensation for:
- Time value of money
- Credit risk, in relation to unpaid principal at a given moment
- Compensation for other basic lending risks (liquidity) and expenses
- Profit margin that is consistent with a basic lending arrangement.

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

For SPPI the Bank uses Manual for Performance of SPPI Test in Accordance with IFRS 9 for Debt Financial Assets. To confirm correctness of SPPI test performance, which was performed by operating sector, the secondary controls are performed as defined by the Manual for SPPI test performance.

Equity financial instruments and instruments which are combination of debt and equity are not subject to SPPI test and are valued at fair value.

***Financial assets valued at amortized cost***

Financial assets are valued at amortized cost if the following conditions are met:
- Business model objective is to collect contractual cash flows
- In accordance with contractual terms, cash flows occur on specified date that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets valued at amortized cost are initially recognized at fair value increased for direct transaction cost, and subsequently are valued at amortized cost. Interests and exchange differences are recognized directly in profit or loss. Interests are calculated using effective interest rate which includes accrual of direct transaction costs, premiums and discounts which are accrued during the lifetime of financial asset.

Loans and deposits are recognized in the off-balance record at the date of contract, and in balance sheet at the date of contract realization.

Bank places short-term, long-term, frame agreements and commission loans (in own name, for someone else's account) to corporate and retail clients according to business policy of the Bank.

Loans are subsequently recognized in amount of unpaid principal, increased by accrued interests and fees and decreased by impairment.

Loans and placements in foreign currency are recalculated in domicile currency in general ledger, Convertible Mark, using average rate of Central Bank BiH.
Exchange differences are daily calculated and recognized in profit or loss as revenue or expense.

***Financial assets valued at fair value through other comprehensive income (FVOCI)***

Debt instruments within financial assets are valued at fair value through other comprehensive income when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- at specified dates, in accordance with the contractual terms, cash flows occur and they represent solely payment of principal and interest of the financial asset (meet the SPPI test)

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

Equity instruments which are not held for trading, are measured at fair value through other comprehensive income, if management at initial recognition makes a decision that effects of valuation are recognized in other comprehensive income.

Financial assets classified in group of financial assets valued at fair value through other comprehensive income, initially and subsequently are measured at fair value. Direct expenses occurred at the moment of purchase are added to the fair value. Change of fair value as a result of valuation is recorded in other comprehensive income. At the moment of derecognition (e.g. sales)) the total accumulated amount in other comprehensive income for debt financial instruments is transferred to profit or loss statement, and for equity instruments to retained earnings.

Interests and exchange differences for debt financial instruments are recognized directly in profit or loss. Interests are calculated using effective interest rate which involves accrual of direct transaction costs, premiums and discounts which are accrued during the lifetime of financial asset.

For debt securities the impairment is calculated.
For equity securities impairment is not calculated. Dividend income is recognized in profit or loss.

***Financial assets valued at fair value through profit or loss statement (FVPL)***

In this group of financial assets are:
- Financial assets held for trading,
- Financial assets which are mandatorily measured at fair value through profit or loss (which do not pass SPPI test and equity securities for which management didn't decide to recognize effects of valuation through other comprehensive income).
- Financial assets classified to be measured at fair value through profit or loss in case that this classification significantly decrease or alleviate imbalance which would have occurred due to different measurement basis of financial assets or liabilities.

Financial assets which are valued at fair value through profit or loss are valued at fair value at the moment of recognition and subsequently, and effects of valuation are recognized in profit or loss.

Fee for approval of loans to customers and deposits is recognized as current year income and it is not accrued through the period.
Costs occurred during the purchase of debt securities are recognized in profit or loss as fee expense.
Financial assets are valued at fair value on a monthly basis and individually for each financial asset.

***Reclassification of financial assets***

The Bank can reclassify financial assets when business model for financial assets management is changed. Those changes are very rare and occur based on internal or external factors, they must be significant to the bank's operation and demonstrable to external parties. Changes of business model can occur in case when Bank starts or ceases to perform activities significant for its business, e.g., if Banks buy or sell business segment.

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

Reclassification is done prospectively, as of the day of reclassification onwards, where the day of reclassification is the first day of reporting period, which follows change of business model (in case of quarterly reporting, that is first day of quarter after change).

In case the Bank reclassify financial assets from category which is measured at amortized cost into category which is measured at fair value through profit or loss, fair value is measured at the day of reclassification. Possible gain or loss which occurs as difference between previously repaid value and fair value is recognized in profit or loss.

If the Bank reclassifies financial assets from the category measured at fair value through profit or loss into a category measured at amortized cost, the fair value of that financial asset at the date of reclassification becomes their new gross carrying value.

If the Bank reclassifies financial assets from a category measured at fair value through other comprehensive income into the category measured at amortized cost, the reclassification is carried out at fair value at the date of reclassification. Cumulative gains or losses from other comprehensive income are removed from equity and adjust the fair value of financial assets at the date of reclassification. Consequently, financial assets at the date of reclassification are measured as if they were always measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not changed.

If the Bank reclassifies financial assets from a category measured at fair value through other comprehensive income into the category measured at amortized cost, the reclassification is carried out at fair value at the date of reclassification. Cumulative gains or losses from other comprehensive income are removed from equity and adjust the fair value of financial assets at the date of reclassification. Consequently, financial assets at the date of reclassification are measured as if they were always measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not changed.

If the Bank reclassifies financial assets from a category measured at fair value through other comprehensive income into the category measured at fair value through profit or loss, the financial assets are further measured at fair value. Cumulative gains or losses from other comprehensive income are transferred from other comprehensive income to the profit or loss as a reclassification adjustment at the date of reclassification.

***Change of contracted cash flows during the lifetime of the financial asset***

Modified financial assets are those for which the contractual terms are changed during the lifetime. The contractual terms are changed if the Bank and the borrower conclude a contract for the replacement (payment) of the old financial asset (before the original maturity) with a new financial asset (new contract), but in a way that the bank and the borrower define new contractual terms (annex to the contract). The contract terms are changed as follows:
- As a renewal or extension of the loan maturity, where this is possible for clients that have no financial difficulties and
- As a restructuring of financial assets for clients with financial difficulties.

***Renewal or extension of the period of loan***

The Bank recognizes a new financial asset when renewing or extending the loan repayment term if the change of contractual terms results with significant modification of contractual terms.

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

#### 3.15.1. *Restructured financial assets*

Restructuring of a loan is carried out in accordance with the Bank's business policy. The aim of the loan restructuring is to provide the borrower with an adequate repayment in accordance with his capabilities and to provide the Bank with more efficient collection of receivables. In this sense, the restructuring includes a proposal to modify the contractual terms agreed when approving the loan. Restructuring is carried out according to the Bank's decision in cases where it is estimated that the client has a problem with the repayment of the loan and when it is estimated that according to the original contract the loan will not be repaid within the agreed deadline.

Possible types of restructuring that are performed individually or in combination are the following:

- prolongation of principal repayment and/or interest or postponing the repayment of principal and/or interest,
- reduction of interest rate and/or other costs,
- reduction of the number of receivables (principal and/or interest) as a result of the agreed debt write off,
- taking over debtor's receivables from a third party, in the name of partial and full repayment of the loan,
- replacement of the existing loan with a new loan,
- other similar benefits, which facilitate the financial position of the debtor.

If the restructuring contract involves significant changes in cash flows, then a new financial asset is recognized and the existing one is derecognized. For the new asset, it is necessary to perform the SPPI test on the day of recognition and classify it into a particular group depending on the SPPI test result. The effects arising from the change in the previously contracted characteristics (the difference between the repayment value of previously contracted cash flows and new contracted cash flows) are recalculated through the impairment.
A newly recognized asset is treated as a POCI financial asset at the initial recognition.
In accordance with Measures and procedures for placement approval, a restructured asset is classified into the credit rating group C or below.

If the restructuring contract does not result in significant changes in the characteristics of cash flows, the effects are recognized as a gain or loss on the modified financial assets. The effects of the modification are calculated as the difference between the repayable gross carrying value of the asset and the new contracted cash flows discounted at the original effective interest rate.

In the case of a financial asset item that represents a debt financial instrument (securities and loans), the Bank is required to determine whether a modification is significant, i.e. whether the difference between the present value of the remaining cash flows discounted using the original effective interest rate and the present value of the modified cash flow flows discounted using the original effective interest rate of more than 10%, according to local regulations, for individuals and legal entities.
If the modification is significant, the bank derecognizes the original item of financial assets and begins to recognize the new item.

If the modification is not significant, the bank continues to recognize the financial asset. The SPPI test is performed at the recognition day of the originally contracted financial asset. The starting point for assessing whether the credit risk of the financial asset in relation to the initial recognition has significantly changed is the date of original recognition of the financial asset.

If the Bank approaches the restructuring of receivables by taking over other assets (tangible assets, securities, etc.), including investments in borrowers' equity acquired through conversion of receivables from debtors, the acquired assets are recognized in the balance sheet at fair value. The difference between the fair value of the acquired asset and the carrying amount of receivables is recognized in the profit or loss as a decrease/release of the impairment of approved loans and receivables.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.15. Financial Assets (continued)

#### 3.15.1. *Restructured financial assets (continued)*

The decision on temporary measures applied by the bank to mitigate the negative economic consequences caused by the viral disease “COVID-19”" stipulates that modifications of loan liabilities that were allocated to credit risk level 1 or 2 on the day of modification, the Bank designates in its information system as modifications caused by current needs of the debtor, and modifications of exposures that are allocated to credit risk level 3 on the day of modification, the Bank designates in its information system as restructured exposures.

### 3.16. Property and equipment

Property and equipment items are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in construction are not depreciated. Applied depreciation rates are set for 2022 and 2021 as follows:

| | 2023 | 2022 |
|---|---|---|
| Buildings | 2% | 2% |
| Leasehold improvements | 20% | 20% |
| Computer equipment | 14.3-50% | 14.3-50% |
| Vehicles | 15% | 15% |
| Furniture and other office equipment | 7-15% | 7-15% |

The period and amortization method is reviewed once a year at the end of each business year. When the expected useful life significantly differs from the previous estimation, the corresponding change in the period of depreciation is required. This represents the change in accounting estimate and such change should be adequately accounted for in the financial statements.

For tangible assets the Bank periodically estimates whether there are indicators of impairment. Within such estimation process the Bank considers several indicators from internal and external sources. When the Bank finds that there are indicators of impairment in tangible assets, then the Bank initiates the process of estimation of recoverable value. Recoverable value is the value in use or the fair value reduced by cost of sale, whichever is higher.

Overview of property and equipment and right of use assets in 2023 and 2022 is presented in Note 18.

***Leasehold improvements*** Leasehold improvements are capitalized and amortized by a straight-line method, during their useful life, or during the lease period depending on what is shorter.

#### 3.16.1 Leases

Leases accounting is in accordance with IFRS 16 Lease. A contract is a lease contract if it transfers the right to control the use of a particular asset for a specified period in exchange for a consideration.

Bank as a lessee
At the inception of the lease, the Bank recognizes an asset that represents a right to use (i.e., a right-of-use asset) and a liability under the lease. This applies to all leases except short-term and low-value leases. Short-term leases are defined as those that have a maximum lease term of 12 months at the commencement date of the lease, with no option to purchase fixed assets. Leases of property, plant, and equipment with a value less than or equal to EUR 5 thousand are defined as low-value leases. In these cases, rents are treated as a cost based on the straight-line method throughout the lease term.

## 3. Summary of material accounting policies (continued)

### 3.16.1 Leases (continued)

The right to use the assets
At the date of commencement of the lease, the Bank measures the right to use the asset at cost less accumulated depreciation, impairment losses and adjusted for each re-measurement of the lease liability. The value of the asset, which constitutes the right to use, includes the amount of the initial measurement of the lease liability, payment of rent made on or before the lease date, less rental incentives received, initial direct costs of tenants and an estimate of costs incurred by the lessee in dismantling or removing the leased property, renovating the location where it is located or returning the leased property to the condition required by the lease terms. After the date of commencement of the lease, the Bank measures the asset that represents the right of use using a cost model and depreciates it on a straight-line basis over the estimated lease term. It also separately recognizes interest on lease obligations. The right to use the asset is presented in the statement of financial position in the line Property, equipment and assets with the right to use.

Lease liabilities
On the commencement date of the lease, the Bank measures the lease liability at the present value of the rent, which has not yet been paid at that date. Rents include fixed rents, variable rents that depend on an index or a rate, amounts expected to be paid by the lessee under the residual value guarantee, executing the purchase option price, if it is fairly certain that the lessee will exercise this option and paying a penalty for termination of the lease, if the lease duration indicates that the lessee will take the opportunity to cancel the lease.

After the commencement date of the lease, the lessee should measure the lease liability so that:
- increases carrying values to take into account interest on the lease liability,
- decreases carrying values to take into account rentals paid; and
- re-measures carrying values to take account of any changes in used assumptions or contractual characteristics of the lease,
- lease liabilities are presented in the statement of financial position under the line "Other financial liabilities".

Bank as a lessor
In 2021, the Bank leased a smaller part of the main building in Tuzla, for 5 years, with the possibility of extending the lease. The contract is classified as an operating lease. The amount of lease income is expressed within the position other revenues in the Statement of comprehensive income .

### 3.17. Intangible assets

***(a) Licences***
Acquired licenses for computer software are measured at historical cost.
Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

***(b) Computer software***
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank are recognized as intangible assets insofar as they are expected to generate economic benefits that exceed costs within the time period beyond one year. Direct costs include the costs of the software development team that has developed the software and an appropriate portion of relevant overheads.

## 3. Summary of material accounting policies (continued)

### 3.17. Intangible assets (continued)

Computer software development costs recognized as assets are amortized over their estimated useful lives (5 years).

An overview of the intangible assets in 2023 and 2022 is presented in the Note 19.

### 3.18. Repossessed financial and nonfinancial assets

Repossessed assets represent financial and non-financial assets acquired by the Bank through the settlement of overdue loans. These assets are initially recognized at fair value when acquired (and they are recorded in other assets, other financial assets or inventories within other assets, depending on their nature and the Bank's intention in respect of recovery of these assets), and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Assets repossessed for overdue loans classified for further sale are held under IFRS 5 if they are non-current assets (mostly real estate), which is available for immediate sale and if the sale in the next 12 months is probable; otherwise, it is classified in accordance with IAS 2.

In accordance with the FBA Decision on minimum standards for credit risk management and the classification of bank's assets, the Bank applies the concept of fair value, or realistic value when assessing repossessed assets received in exchange for full or partial debt repayment. For tangible assets for which a stable and active market exists, the fair value represents a value equal to the market value for such assets.

In the absence of such a market, the fair value has to be established by an independent, formal and professional assessment. When it is not possible to reliably determine the fair value, i.e. uncontested and stable value of the acquired tangible assets, for bookkeeping purposes the Bank will apply only the technical value of BAM 1.
Receivables per repossessed assets (loan amount not settled by repossessed asset) remain in the balance sheet until sale proceeds are realized or until a permanent write-off is recorded provided there are no sufficient funds from the sale or other additional security.

The repossessed tangible assets are classified as risk-bearing assets unless they are sold within one year.

The acquired tangible, which are introduced by the decision into the Bank's operations, are recorded as other fixed assets and are depreciated.

Assets acquired through collection of receivables, which are leased to third parties, are first recorded as fixed assets of the Bank and depreciated, and then based on the lease agreements, revenue is generated.

### 3.19. Liabilities for guarantees

The Bank issues financial guarantees. Financial guarantees represent an irrevocable payment guarantee in case of a customer not being able to meet its liabilities to a third party, and they carry the same credit risk as loans. Financial guarantees are initially recognized at their fair value, which is usually proved by the amount of received fees. This amount is amortized on a straight-line basis over the commitment period.

After initial recognition, issued guarantees are subsequently measured at the higher of:
- Initial measurement less amortized fee, and
- Estimated costs that will be necessary to settle the obligation under the contract.

**3. Summary of material accounting policies (continued)**

### 3.20. Deposits of clients, banks, and other deposits

At initial recognition, received deposits are valued in accordance with corresponding documents which support the initial receipt of funds. For a vista deposits and deposits without a defined maturity, fair value is the amount payable on the reporting date. Estimated fair value of deposits with a fixed maturity is based on cash flows discounted using the currently offered interest rates on deposits with a similar remaining maturity.

### 3.21. Liabilities on received loans, subordinated debts and other borrowings

Liabilities on borrowed loans, subordinated debts and other borrowings are initially recognized at the fair value which is usually represents the amount received. These financial liabilities are subsequently recognized at amortized cost using the effective interest rate method, and the transaction costs occurred are recognized in the profit or loss of the current period.

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9

The model of expected credit losses includes not only credit losses occurred but also losses expected to occur in the future. Allowance for expected credit losses (ECL) is required for all loans and other debt financial assets, except financial assets held at fair value through profit or loss, together with loan commitments and financial guarantee contracts.

Allowance is based on expected credit losses related to probability of default (PD) in the upcoming 12 months, except in case of a significant increase in credit risk since initial recognition, in case of which the allowance is based on probability of default during the lifetime (LECL). When deciding whether the risk of default has significantly increased since the initial recognition, the Bank takes into consideration reasonable information that is relevant and available without unnecessary costs or efforts. This also includes quantitative and qualitative information and analyses based on historical information, experience and estimates of credit experts, also considering future information.

The methodology for the calculation of value adjustments and provisions defines the credit risk level (Stage) classification criteria, criteria for transfer between stages, the calculation of risk indicators and model validation. Financial instruments are classified into Stage 1, Stage 2 and Stage 3, based on the impairment methodology as described below:

- stage 1– performing portfolio: no significant increase in credit risk since initial recognition, impairment is recognized based on 12-month period,
- stage 2 – unsatisfactory portfolio: significant increase of credit risk since initial recognition, impairment is recognized based on lifetime of the assets, and
- stage 3 - poor portfolio: impairment is recognized during the lifetime for this financial asset. The default definition is aligned with the FBA regulation.

A significant increase in credit risk is assumed:

- when credit rating significantly deteriorated at the reporting date compared to the credit rating at initial recognition. More precisely, for natural persons for 2 notches on a short scale (e.g. from A/B to C credit rating group), and for legal entities for 3 notches on a long scale (e.g. from CCC to C),
- when financial assets have material delays exceeding 30 days (maturity days are also included in the credit risk assessment), whereby material delay is considered to be:
  - for individuals, an amount greater than BAM 200 and 1% of the debtor's total balance sheet exposure,
  - for legal entities, an amount greater than BAM 1,000 and 1% of the debtor's total balance sheet exposure.
- accounts blocked in the Bank in the last 30 days for more than 5 working days,
- blocking of accounts in other banks in the last 30 days (longer than >20 days)
- suspicion of fraud and/or criminal acitivities – court proceedings or the client is no the "watch list".

## 3. Summary of material accounting policies (continued)

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued)

Expected credit loss (ECL) for stage 1 financial assets is calculated based on 12-month PD (probability of default) or shorter PD period if the maturity of financial assets is less than 1 year. The 12-month PD already includes the macroeconomic effect.

LECL for stage 2 financial assets is calculated based on PD during the lifetime (LPD), because their credit risk is significantly increased since their initial recognition. This calculation is also based on assessment of future events that considers several economic scenarios to identify probability of losses related to macroeconomic forecasts.

Financial assets in stage 3 are observed in accordance with Methodology of individual allowance and provisions, which has not been changed in relation to the previous period. Exposures below the material threshold have collective impairment using the PD of 100%. The financial instrument will be transferred out of stage 3 if it no longer meets the criteria of decreased value after the probation period.

The bank cannot reclassify exposures from credit risk level 3 directly to credit risk level 1. The bank can reclassify exposures assigned from credit risk level 3 to credit risk level 2 only when the following conditions are met:
• when all conditions for assignment to new credit risk 3 have ceased to be applicable i
• when the debtor during the defined period of recovery has continuously demonstrated regularity in repayment, namely:
- for restructured exposures and POCI assets within 12 months from the date of restructuring, i.e. upon initial recognition of POCI assets,
- for non-restructured exposures within six months from the date when the conditions from Article 20 of the Decision on Credit Risk Management and Determination of Expected Credit Losses ceased to be fulfilled.

**Impairment – allowance for credit losses**

As stated in Note (3.1) Basis of preparation and statement of compliance, the new regulatory decision prescribes minimum rates for calculating allowances for credit losses, i.e., if the Bank, in accordance with its internal methodology, determines higher amounts of allowances for credit losses compared to amounts calculated by applying the Decision, will apply higher amounts of allowances for credit losses.

The minimum rates of expected credit losses prescribed by the Decision are presented below.

**Credit risk level 1**
For exposures allocated to Credit Risk Level 1, the Bank determines expected credit losses at least as follows:

a) for low-risk exposures referred to in Article 18 Paragraph (2) of this Decision – 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 calculating the bank's capital – 0.1% exposure,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which in accordance with Article 69 of the Decision on calculating the bank's capital is assigned to credit quality level 1, 2 or 3 - 0.1 % of exposure,
d) for other exposures – 1% of exposure.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued)

**Impairment – allowance for credit losses (continued)**

Since June 30, 2022, the Bank applies the minimum rate of expected credit losses for credit risk level 1 - for point d) other exposures, which amounts to a minimum of 1% of the exposure, in accordance with Article 23, paragraph (2) of the Decision on credit risk management and determination of expected credit losses. If the bank, in accordance with its internal methodology, determines the amount of expected credit losses greater than those resulting from the provision of this article, the higher amount determined in this way shall be applied.

**Credit risk level 2**

For credit risk level 2 the minimum rate of expected credit losses of 8% of exposure is applied, in accordance with Article 24. paragraph (2) Credit risk management decisions and determining expected credit losses. If the bank determines in accordance with its internal methodology the amount of expected credit losses higher than those arising from the provisions of this Article, a higher amount shall apply.

**Credit risk level 3**
For exposures allocated to Credit Risk Level 3, the Bank determines expected credit losses at least in the amounts defined in Table 1 or Table 2 below.

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

| Days overdue | Minimum regulatory expected credit loss | Minimum applied credit loss |
|---|---|---|
| less than 180 days | 15% | 45% |
| 181 – 270 days | 25% | 45% |
| 271 – 365 days | 40% | 45% |
| 366 – 730 days | 60% | 60% |
| 731 – 1460 days | 80% | 80% |
| Over 1460 days | 100% | 100% |

Minimum expected credit loss rates for exposures not secured by eligible collateral:

| Days overdue | Minimum regulatory expected credit loss | Minimum applied credit loss |
|---|---|---|
| less than 180 days | 15% | 45% |
| 181 – 270 days | 45% | 55% |
| 271 – 365 days | 75% | 75% |
| 366 – 456 days | 85% | 85% |
| Over 456 days | 100% | 100% |

The Bank measures ECL and recognizes allowance for credit losses for each reporting period. The ECL measurement reflects:

1) an unbiased and probable weighted amount that is determined by assessing the range of possible outcomes;
2) the time value of money;
3) all reasonable and available information that is available at no undue cost at the end of each reporting period on past events, current conditions, and forecasts of future conditions.

POCI (Purchased or originated credit impaired asset) asset is an exposure that is determined to be credit impaired at the moment of initial recognition due to the existence of significant credit risk.

## 3. Summary of material accounting policies (continued)

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued)

### Impairment – allowance for credit losses (continued)

Collective provisions are calculated by multiplying the EAD (exposure at default) at the end of each month with corresponding PD and LGD (loss given default). Exposure at default (EAD) is defined as the sum of balance exposure and off-balance exposure multiplied by CCF (CCF – The credit conversion factor is the estimate of the proportion of using off-balance in the event of default. It is calculated as the ratio between the increase of on-balance exposure in total exposure over a period of one year before the default until default date, and the value of off-balance one year before the default.). The results obtained for each month are discounted to the present time. For exposures in Stage 1 expected credit loss (ECL) takes only 12-month period into account, while Stage 2 includes all potential losses up to the maturity date.

For the purposes of estimating the LGD parameter, the Bank uses collateral HC (haircut) at each collateral level and URR (unsecured recovery rate) at the level of each segment of the client. The Bank includes information regarding the future both in the assessment of significant increase in credit risk and in the measurement of expected credit loss (ECL). Information being considered include macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates and housing prices) and economic forecasts.

Recalculation of all parameters is performed once a year or more frequently, if the macro environment changes more than it was included in previous forecasts, in that case, all parameters are recalculated in line with new forecasts.

As of 31 December 2023, the bank applied credit loss allowance percentages to financial instruments in credit risk level 3 in accordance with the tables on the previous page. Exceptions to the above are:

- Loans that are E credit bonity, given that 100% impairment allowance has been recognized in accordance with the Methodology,
- Loans that have an individual approach to calculating expected credit losses,
- Loans which are under legally processed given that 100% impairment allowance has been recognized,
- A more conservative approach was applied in the sense that loans that were not 100% covered by collateral were treated as uncovered.

### Impairment of other assets and receivables

The Bank applies expected credit loss rates for receivables from customers, receivables based on factoring and financial leasing, and other receivables determined at least in the amounts as specified in the Table:

*(All amounts are given in thousand BAM unless otherwise stated)*

## 3. Summary of material accounting policies (continued)

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued))

### Impairment of other assets and receivables (continued)

| No. | Days past due | Mnimum expected credit losses |
|---|---|---|
| 1. | No days past due | 0.5% |
| 2. | Up to 30 days | 2% |
| 3. | From 31 to 60 days | 5% |
| 4. | From 61 to 90 days | 10% |
| 5. | From 91 to 120 days | 15% |
| 6. | From 121 to 180 days | 50% |
| 7. | From 181 to 365 days | 75% |
| 8. | Over 365 days | 100% |

When determining the day past due, the bank takes into account delays in repayment of obligations to the bank in a materially significant amount.
If the bank, in accordance with its internal methodology, determines the amount of expected credit losses greater than those presented in the table above it is obliged to apply the higher amount determined.

### Derecognition of financial assets

Derecognition of financial assets occur when:
– The contractual right to cash flows is terminated,
– when the transfer of a financial asset is carried out, and the transfer meets the criteria for the derecognition.

### Write-off of loans and receivables

The authority for making decisions on write-off and procedures for writing off non-performing loans are prescribed by the provisions of the Standard for writing off overdue receivables and transfer to accounting write-off / off-balance sheet. Write-off of receivables can be accounting write-off and permanent write-off of receivables.

Accounting write-off is the transfer of a balance sheet exposure to off-balance sheet records, whereby the Bank reserves the right to take further measures to collect receivables from debtors. The write-off of exposures in the status of default is applied to receivables according to the criteria:

- Write-off of the balance sheet exposure two years after the Bank has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure, and
- That these receivables are fully due, except for exposure based on financial leasing.

## 3. Summary of material accounting policies (continued)

### 3.22. Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued))

**Write-off of loans and receivables (continued)**

Permanent write-off is a write-off of a balance sheet exposure that leads to the cessation of recognition of all or part of the exposure in the bank's business books (on-balance sheet and off-balance sheet records). To make a decision on permanent write-off of receivables, if no accounting write-off has been done before, 100% of the value adjustment must be formed.

Accounting write-off is the transfer of a balance sheet exposure to off-balance sheet records, whereby the Bank reserves the right to take further measures to collect receivables from debtors.

In accordance with the provisions of the Decision of the Banking Agency of the FBiH on credit risk management and determination of expected credit losses (Official Gazette of FBiH, no. 44/19 and 37/20), the Bank is obliged to write off exposures in the status of default, two years after that the Bank has recorded expected credit losses in the amount of 100% of the gross carrying amount of that exposure, whereby the receivables must be fully due.

The provisions of the aforementioned Decision do not apply to finance lease exposures.

### 3.23. Other provisions

Provisions are recognized when:
- the Bank has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation,
- the amount of liability can be reliably estimated.

When there are a number of similar liabilities, the probability that an outflow will be required in a settlement is determined by considering the type of the entire pool of liabilities. A provision is recognized even if there is a low probability of an outflow with respect to the individual item included in the same class of liabilities.

Provisions are measured at the present value of the expected cash outflows required to settle the liability. When the outflow of assets is not probable anymore, provisions are released.

IAS 19 provisions – Employee benefits  are explained in notes 3.10 and 3.30

### 3.24. Share capital and reserves

Share capital consists of ordinary and preference shares and it is stated in BAM at nominal value. Reserves are being formed based on the decision of the Bank’s Assembly on the adoption of an annual calculation and profit distribution.

## 3. Summary of material accounting policies (continued)

### 3.25. Statutory reserves

Statutory reserves have been created in accordance with the Company Law of the FBiH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of the issued share capital. If the statutory reserves do not reach 25% of issued share capital within five business years, a public limited company is required to increase its transfer to the statutory reserve to 20% of its annual profit for fifth and subsequent business years until capital reserves reach 25% of issued share capital. The statutory reserve can be used for covering current and prior year losses. The Bank was increasing its share capital by redirecting its earnings into statutory reserves, so that as of December 31, 2022, the statutory reserves of the Bank amounted to 140.11% of the share capital.

The Bank's legal reserves as of 31 December 2022, amounted to BAM 75,106 thousand, out of which BAM 13,401 thousand relate to the legally prescribed 25% of the share capital, and BAM 61,705 thousand relate to the amount exceeding the statutory reserve.

### 3.26. Revaluation reserves for financial assets measured at fair value through other comprehensive income and other revaluation reserves

Revaluation reserves for financial assets measured at fair value through other comprehensive income include changes in the fair value of financial assets at fair value through other comprehensive income, and other revaluation reserves, which refer to actuarial gains/losses in accordance with IAS 19, and which arise from the increase or decrease in the present value of the obligation for the defined benefits of employees, and due to changes in actuarial assumptions and experience adjustments.

### 3.27. Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters credit-related commitments which are recorded in the off- balance-sheet and primarily comprise of guarantees, letters of credit and unused frame agreements. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

### 3.28. Funds managed for and on behalf of third parties

Assets and revenues from operating activities, where the Bank acts as an agent, including holding or keeping assets on behalf of individuals, trustees and other institutions, are included in the Bank's financial statements, in positions Other liabilities (*Note 23d*) and Fee and commission income (*Note 6a*).

### 3.29. Related party transactions

According to the definition of IAS 24, related parties are:
- parties which directly or indirectly through one or more intermediaries control the reporting party or are being controlled or jointly controlled by the reporting entity, associates over which the Bank has a significant influence,
- individuals with direct or indirect voting power in the Bank which gives them significant influence over the Bank's operations, or over any other subject which is influenced by a related party in performing transactions with the Bank,
- members of the key management personnel i.e., individuals with authorizations and responsibility for planning, managing and controlling the Bank's operations, including directors and key management.

While considering transactions with a related party, attention is focused on the substance and basis of relationship, not just on the legal form.

## 3. Summary of material accounting policies (continued)

### 3.30. Key accounting estimates and assumptions

The Bank makes estimates and assumptions with respect to effects which influence reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events which are considered reasonable under the circumstances.

**Impairment losses on loans, deposits with other banks and other assets and off-balance sheet items exposed to risk**

The Bank reviews its loan portfolio and other assets and off-balance sheet items to assess the level of impairment monthly. The Bank determines whether a portfolio impairment loss should be recorded in the profit or loss and assesses whether there is any observable data indicating that there will be a decrease in the estimated future cash flows from a portfolio of loans and guarantees before the decrease can be identified with individual loans in that portfolio.

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

– determination of criteria for a significant increase in credit risk (SICR);
– selection of suitable models and assumptions for measuring ECL;
– determination of the number and relative weighting of future scenarios for associated ECL;
– incorporation of forward looking information,
– determination a group of financial assets for the purposes of measuring ECL.

Note 4.1 contains more detailed information on the methods of measuring expected credit losses, clarifies the concept of credit risk levels, input parameters, assumptions and assessment techniques, and the Bank's related judgments and assessments.

*Forward looking information*

During 2023, the Bank reviewed the IFRS 9 provisioning by testing the relevant macroeconomic scenarios to accurately reflect the current circumstances and their future impacts.

The Bank established multiple scenarios (i.e., baseline, optimistic, and severe) for the ECL calculation, aiming to create a unified projection of macroeconomic and financial variables for the Bank. The Bank formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of the IFRS 9. These IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of the ECL impairment calculation. Both features may change when material changes in the future development of the economy are recognised and not embedded in previous forecasts.

The baseline scenario presents an expected forecast macroeconomic view. This scenario is based on recent official and professional forecasts. Key characteristics include no additional supply shocks, decreasing inflation, a slightly less tight labour market, GDP growth supported by declining interest rates and positive expectations, regional containment of political tensions, and limited spill-over effects of financial system issues on the real economy.

*(All amounts are given in thousand BAM unless otherwise stated)*

**3. Summary of material accounting policies (continued)**

**3.30. Key accounting estimates and assumptions (continued)**

**Impairment losses on loans, deposits with other banks and other assets and off-balance sheet items exposed to risk (continued)**

The alternative scenarios are based on plausible drivers of economic development for the next three years. The optimistic scenario is supply- and demand-driven, with a mild winter and sufficient energy supplies easing price pressures in the euro area. China's decision to abandon strict COVID restrictions supports the euro area exports, and stimulating demand. Lower inflation leads to an optimistic financial market outlook, and the first year shows positive growth expectations, followed by additional ECB support and moderated growth potential in the following two years.

The severe, supply- and demand-driven scenario depicts sluggish economic growth due to lower consumer purchasing power, geopolitical disruption, and elevated inflation. The Bank home country experience near-zero real economic growth, leading to substantial upward shocks in financial markets. Political tensions persist, causing supply disruptions, and inflation remains higher than expected, resulting in increased long-term inflation expectations. GDP growth remains low as the ECB implements a restrictive monetary policy. The Bank considers these scenarios in calculating expected credit losses in the context of the IFRS 9.

Macroeconomic scenarios for explanatory variables, developed for the Bank and used in 2022 (in %):

| | Optimistic scenario | | | Baseline scenario | | | Severe scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| **Bosnia and Herzegovina** | | | | | | | | | |
| Real GDP | 4.0 | 4.9 | 4.6 | 2.4 | 2.3 | 3.0 | (0.1) | (0.7) | 1.8 |
| Unemployment rate | 15.4 | 15.4 | 14.8 | 15.3 | 15.1 | 14.4 | 18.3 | 18.9 | 18.3 |

Macroeconomic scenarios for explanatory variables, developed for the Bank and used in 2023 (in %):

| | Optimistic scenario | | | Baseline scenario | | | Severe scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| **Bosnia and Herzegovina** | | | | | | | | | |
| Real GDP | 2.3 | 2.9 | 2.4 | 1.0 | 2.0 | 2.3 | 0.3 | 0.9 | 1.2 |
| Unemployment rate | 15.0 | 14.0 | 14.2 | 15.2 | 15.1 | 14.8 | 15.9 | 16.2 | 16.2 |
| EURIBOR (6M) | 2.4 | 2.1 | 2.2 | 2.7 | 2.3 | 2.3 | 4.6 | 4.5 | 4.6 |

The Bank formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of IFRS 9. IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of ECL impairment calculation. Both features may change when material changes in the future development of the economy are recognised and not embedded in previous forecasts. On this basis, for the year 2023, the Bank assigned weights of 20%-60%-20% (alternative scenarios receiving 20% each, and the baseline scenario 60).

The results for the Bank show the following deviations of the severe and optimistic scenario from the baseline as at 31 December 2023:

| | Optimistic scenario | Baseline scenario | Severe scenario |
|---|---|---|---|
| Level of collective allowances | 90% | 100% | 137% |

The result shows that the optimistic scenario would result in 90% of the baseline provisions, while the severe scenario and its conservative assumptions lead to an increase of 37% compared to the baseline.

**3. Summary of material accounting policies (continued)**

### 3.30. Key accounting estimates and assumptions (continued)

**Severance payments and unused vacation days**

Severance payments are a legally established obligation of an employer to pay compensation to an employee upon retirement. The effects of provisions for severance payments arising from differences between projected actuarial payments and actual payments and changes in actuarial assumptions (discount rate, employee turnover, increase in average salary, etc.) are recognized in other comprehensive income and are never reclassified to the balance sheet. The present value of these future liabilities is calculated by applying a discount interest rate. Changes in the present value of liabilities arising from the approach of the maturity date are recognized as interest expense. These provisions are only used to settle expenses for which they have been originally created for. The Bank re-assesses the value of these provisions as at 30 September each year.

As at 30.09.2023, the authorized actuary has made a calculation of provisions for severances for 2023 in accordance with IAS 19 and the Bank has made the required adjustments.

An assessment of short-term provisions for unused vacation days is done in accordance with the number of days of unused annual holidays as of balance sheet date and the Bank's average gross per diem for reporting year.

**Litigations**

The Bank's management assesses the amount of provisions for outflows of funds based on litigation; the assessment is based on the estimated probability of the future cash outflows, arising from past contractual or legal obligations. More details on ongoing litigations are described in *Note 27*.

**Income tax**

The Bank is subject to income taxes in the Federation of Bosnia and Herzegovina and in the Brčko District of Bosnia and Herzegovina. The Bank performs income tax assessments every month on the basis of taxable accounts balances, and the final calculation is performed at 31 December.

The reconciliation of effective tax rate of the Bank is disclosed in Note 14.

## 4. Bank's financial risk management

### 4.1. Risk management and transfer strategy

Risk management strategy represents part of the overall risk management system for risks to which the Bank is exposed in its operations and is in line with the business policy and general strategy of the Bank.

The Strategy includes guidelines from the Risk Management Strategy of NLB Group. The main purpose of the Strategy is to define key risks while achieving the defined medium-term strategic objectives of the Bank as well as meeting all requests, both local regulator - Banking Agency of the Federation of Bosnia and Herzegovina (Agency), and as directed by NLB d.d. Ljubljana including the requirements of the Bank of Slovenia and ECB at the level of the NLB Group.

The Strategy defines the kind of risks the Bank is willing to assume, those that are not acceptable to the Bank, as well as the strategic guidelines for taking and managing risks at the Bank (including Risk Appetite, Risk Profile, ICAAP, ILAAP, Recovery Plan, Budgeting and Equity Planning Process).

The Bank places significant emphasis on understanding and competencies in risk management across the organization. A lot of emphasis is also placed on continuous improvement of the risk culture and its awareness throughout the organization. The key objective of the Bank's risk management is to comprehensively assess and monitor risks throughout the Bank.

Basic goals and principles of Risk Taking and Risk Management Strategy are:

- taking into account the criteria set out in the Risk Appetite;
- inclusion of risk analysis in the decision-making process at strategic and operational level;
- focus on diversification to avoid large concentration at portfolio level;
- following the risk standards defined for all members at the NLB Group level;
- rational introduction of new products and their analysis and monitoring;
- optimal use of capital;
- price determination in accordance with appropriate risk;
- full compliance with internal policies / procedures and applicable regulations;
- satisfactory system of internal controls, frame of three lines of defense.

The strategy determines the material principles and guidelines for accepting risks in the following business segments:

- lending to legal and natural persons,
- ensuring the appropriate amount of liquidity and managing liquidity reserves,
- ensuring an appropriate structure of financing sources, including guidelines for retail operations in the part related to savings products,
- management of market risk, i.e. foreign exchange and interest rate risk, with the aim of managing the Bank's own positions,
- conclusion of other financial transactions in treasury operations,
- operational risk management
- environmental and social (ESG) risk management as an integral part of the above-mentioned risk categories.

More detailed rules, limits, guidelines and competences related to risk management are defined by individual internal acts, policies and procedures at the NLB Group level (credit risk, liquidity risk, interest rate, foreign exchange, operational risk, etc.), NLB Group risk management, lending policies, Framework methodology for categorizing transactions from an environmental and social aspect and other internal acts and policies specific to the Bank.

## 4. Bank's financial risk management (continued)

### 4.1. Risk management and transfer strategy

Risk Appetite is a comprehensive document that defines the types and risk measures that the Bank is ready to accept or avoid in order to achieve business goals. In that regard, it is a key point of the business strategy, updating and improving the risk management strategy with quantitative measures. It represents the basis for the ICAAP, the ILAAP, the Recovery Plan and other risk-limiting systems and the underlying foundation in multi-year budgeting and capital planning.

ICAAP has key role in Bank's risk management. ICAAP decreases risk uncertainty to which the Bank is exposed or could be exposed in the course of its business while estimating ability of the Bank to maintain required level of capital and effective risk management. ICAAP is a result of relevant business units processes within the Bank, including Management and Supervisory board. The annual statement of the Bank's Management Board on capital adequacy in the Bank gives a clear position of the current and future position of the Bank in the field of capital adequacy management.

ILAAP estimates overall liquidity requirements of the Bank with aim to secure good liquidity risk management. ILAAP is result of relevant business units' processes including Management and Supervisory board. The annual Bank's Management board statement on the adequacy of the Bank's liquidity gives clear position of current and future position of the Bank, in the field of liquidity risk management.

Recovery Plan of NLB Banka d.d. Sarajevo is prepared with aim to secure financial sustainability of the Bank, as well as restoring sustainable business functioning and appropriate Bank's financial position in case of worsening its financial position. The aim of the Recovery Plan is to define procedures that enable the Bank's Management to have timely insight into the potential threat to the Bank's financial stability. For the purpose of crisis preparedness, preliminary plans have been developed on the measures to be taken in the event of different types of emergencies.

The Bank is exposed to various risks in its operations, of which the following risks are crucial for the Bank's overall operations:

- credit risk,
- market risk,
- liquidity risk,
- operational risk.

In addition, the Bank monitors the exposure to risks from the group of Other risks, defined in the Guidelines for the application of ICAAP and ILAAP in the bank, where the emphasis is on minimizing their possible impact on the Bank's operations. These include non-financial risks, i.e., leverage risk, reputational risk, profitability risk, business risk, strategic risk and other risks from the group of Other risks identified by the Bank. Tolerance to all types of risks is also determined based on annual identification, measurement and assessment of material risks in the Bank within the ICAAP and ILAAP.

## 4. Bank's financial risk management (continued)

### 4.2. Credit risk management

The Bank is exposed to the credit risk, which is the risk of loss due to debtors' inability to settle its cash commitments towards the Bank.

General requirements

Credit risk management, as the most important risk, is aimed at accepting moderate risks and ensuring an optimal return given the risks taken. To maintain the medium and long-term viability of the business, the Bank seeks to gradually increase the quality of the loan portfolio and increase profitability, based on a better ratio between returns and risks taken. The main credit risk indicators whose limits and target values are defined in Risk Appetite Banks are in the segment of maintaining portfolio quality and credit risk volatility. The Bank paid special attention during 2022 to the management of interest-induced credit risk due to macroeconomic developments in the market. In 2022, the bank proactively analysed the effects of the increase in the consumer basket and the impacts on the income and creditworthiness of customers. The bank creates strategies for managing interest-induced credit risk.

The key principles of risk taking and risk management are related to lending to clients, legal entities (non-financial corporations) and individuals targeting the domestic market. The principles and rules for lending to different segments are defined by the Bank's internal acts.

The emphasis is mainly on:

- defining the main conditions relating to the approval of placements and collateral
- defining target segments that the Bank is prepared to finance, as it sees potential, taking into account the aspect of the risks taken
- defining segments that the Bank does not want to finance, either because of risks being too high or too low profitability, taking into account assumed risks or other reasons
- a projection of expected losses the Bank is prepared to assume upon approval of the placements, and
- defining the approach by which the Bank proactively manages risks arising from low-quality exposures

Risk mitigation

The Bank has a moderate risk appetite for assuming risk. The main source of repayment is the borrower's creditworthiness and available cash flow, while the placement security is considered to be a secondary source of repayment. Credit risk mitigation is done through the provision of quality collateral in accordance with the Bank's internal acts. Portfolios are diversified by business segments and activities, with particular regard to exposures to a single entity or group of related parties.
In addition, regular monitoring and analysis of trends in the quality of individual segments of the loan portfolio, with a particular focus on new transactions, allows early detection of increased risk as well as optimization of taken risks relative to profitability.

Risk control and monitoring

The Bank monitors credit risk exposures in a manner that is consistent with the legal limits and in line with the Bank's internal limits. Credit risk management is defined by internal acts as well as by an adequately established organizational structure of the Bank's risk management and risk management. Also, control in the process of assuming the level of credit risk is performed through defined levels of decision making in the credit business.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

| **Total credit risk exposure** | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Cash and cash equivalents (*Note 15*) | 237,382 | 274,089 |
| Financial assets at FVOCI *(Note 16)* | 181,924 | 163,399 |
| Financial assets at amortised cost *(Note 17)* | 1,328,624 | 1,157,700 |
| | **1,747,930** | **1,595,188** |

The following table shows the maximum exposure to credit risk

| *Financial assets* | **Total carrying value** | **Impairment** | **Total net carrying value** |
|---|---|---|---|
| **31 December 2023** | | | |
| **Cash and cash equivalents (*Note 15*)** | **237,570** | **(188)** | **237,382** |
| **Financial assets at FVOCI** | **182,545** | **(621)** | **181,924** |
| *Investment in equity instruments* | 105 | - | 105 |
| Loans to customers, securities and other debt instruments | 182,440 | (621) | 181,819 |
| **Financial assets at amortized costs** | **1,371,408** | **(42,784)** | **1,328,624** |
| Reserve at Central bank (Note 17a) | 153,269 | (153) | 153,116 |
| Deposits at other banks (Note 17b) | 446 | (1) | 445 |
| Loans to customers | 1,160,684 | (41,778) | 1,118,906 |
| Other financial assets (*Note 17d*) | 57,009 | (852) | 56,157 |
| | **1,791,523** | **(43,593)** | **1,747,930** |
| Unused loans, letters of credit and guarantees (Note 28) | **248,809** | **(3,675)** | **245,134** |
| **Total** | **2,040,332** | **(47,268)** | **1,993,064** |
| **31 December 2022** | | | |
| **Cash and cash equivalents (*Note 15*)** | **274,314** | **(225)** | **274,089** |
| **Financial assets at FVOCI** | **164,276** | **(877)** | **163,399** |
| *Investment in instruments of equity* | 100 | (1) | 99 |
| Loans to customers, securities and other debt instruments | 164,176 | (876) | 163,300 |
| **Financial assets at amortized costs** | **1,198,981** | **(41,281)** | **1,157,700** |
| Reserve at Central bank (Note 17a) | 140,588 | (141) | 140,447 |
| Deposits at other banks (Note 17b) | 462 | (1) | 461 |
| Loans to customers | 1,053,531 | (40,585) | 1,012,946 |
| Other financial assets (*Note 17d*) | 4,550 | (704) | 3,846 |
| | **1,637,571** | **(42,383)** | **1,595,188** |
| Unused loans, letters of credit and guarantees (Note 28) | **226,585** | **(3,139)** | **223,446** |
| **Total** | **1,864,156** | **(45,522)** | **1,818,635** |

The Bank performs regular reviews of assets, and the credit risk assessment is carried out on a monthly basis based on established rating groups and regularity in servicing liabilities.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

Credit risk exposure regarding loans to customers and funds held with other banks, measured at amortized cost, by credit rating, is presented below:

| 31 December 2023 | Bank deposits | | Loans to customers | | Total | |
|---|---|---|---|---|---|---|
| | Gross | Risk provisions | Gross | Risk provisions | Gross | Risk provisions |
| A | 446 | (1) | 695,512 | (9,774) | 695,958 | (9,775) |
| B | - | - | 391,465 | (8,569) | 391,465 | (8,569) |
| C | - | - | 49,035 | (2,936) | 49,035 | (2,936) |
| D | - | - | 7,001 | (3,725) | 7,001 | (3,725) |
| E | - | - | 17,671 | (16,774) | 17,671 | (16,774) |
| **Total** | **446** | **(1)** | **1,160,684** | **(41,778)** | **1,161,130** | **(41,779)** |
| **Total (net)** | **-** | **445** | **-** | **1,118,906** | **-** | **1,119,351** |

| 31 December 2022 | Bank deposits | | Loans to customers | | Total | |
|---|---|---|---|---|---|---|
| | Gross | Risk provisions | Gross | Risk provisions | Gross | Risk provisions |
| A | 462 | (1) | 623,481 | (6,691) | 623,943 | (6,692) |
| B | - | - | 360,942 | (7,421) | 360,942 | (7,421) |
| C | - | - | 42,001 | (1,503) | 42,001 | (1,503) |
| D | - | - | 6,593 | (5,116) | 6,593 | (5,116) |
| E | - | - | 20,514 | (19,854) | 20,514 | (19,854) |
| **Total** | **462** | **(1)** | **1,053,531** | **(40,585)** | **1,053,993** | **(40,586)** |
| **Total (net)** | **-** | **461** | **-** | **1,012,946** | **-** | **1,013,407** |

The Bank is determining the rating of clients to which it has exposure. A short and long scale is applied, short for Private individuals and long for Legal entities. D and E ratings are assigned to non-performing clients.

| Segment | Product | Rating | PD 2023 |
|---|---|---|---|
| Private individuals | Consumer loans | A | 1.60% |
| Private individuals | Consumer loans | B | 32.35% |
| Private individuals | Consumer loans | C | 48.02% |
| Private individuals | Mortgage loans | A | 0.80% |
| Private individuals | Mortgage loans | B | 18.83% |
| Private individuals | Mortgage loans | C | 32.01% |
| Private individuals | Other loans | A | 0.96% |
| Private individuals | Other loans | B | 33.44% |
| Private individuals | Other loans | C | 47.50% |
| Legal entities | All loans | AAA | 0.22% |
| Legal entities | All loans | AA | 0.35% |
| Legal entities | All loans | A | 0.49% |
| Legal entities | All loans | BBB | 0.61% |
| Legal entities | All loans | BB | 1.71% |
| Legal entities | All loans | B | 3.08% |
| Legal entities | All loans | CCC | 5.15% |
| Legal entities | All loans | CC | 7.42% |
| Legal entities | All loans | C | 11.63% |

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

To calculate the creditworthiness of clients, the Bank carries out the process of objective creditworthiness classification for all legal entities and independent entrepreneurs. For specific client segments (newly established companies, clients with licensed professions, associations and institutions, banks, insurance companies, members of the NLB Group, states, central governments and central banks, municipalities, project financing, and for natural persons, different approaches to determining creditworthiness are used. Creditworthiness enables early identification of possible changes in clients' creditworthiness, i.e. for PD (probability of default). The assessments for all clients are subject to regular review.

Creditworthiness for legal entities and sole proprietors is carried out through the following steps:
1) Preliminary limitations
2) Financial creditworthiness
3) Qualitative creditworthiness
4) Initial creditworthiness
5) Criteria adjustments
6) Final creditworthiness

| | | | | |
|---|---|---|---|---|
| Financial indicators (75% Weight) | + | Qualitative indicators (25% Weight) | = | Initial creditworthiness |

After the determination of the initial creditworthiness, the adjustment and determination of the final creditworthiness of the client is initiated. The adjustment criteria are used to adjust the initial credit rating. It is necessary to assess the criteria for alignment with some caution and restraint, and should be explained in detail in the materials used for decision making.

Creditworthiness for banks is carried out through the following steps:

| | | | | |
|---|---|---|---|---|
| International rating | + | BankScore | = | NLB creditworthiness |
| *Rating of the Banking group is determined based on average international rating determined by international rating agencies (Fitch, Moody's and S&P)* | | *If there is no international rating for Banking group, only NLB rating is used* | | |

According to the NLB methodology, the credit risk of the analyzed bank is set in four process steps:
1) Financial analysis
2) Country analysis
3) Potential external support
4) Qualitative changes

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

A unique rating is obtained based on the analysis of the process steps, in the range from 0 to 9, to the corresponding credit class which is assigned.

For Insurance companies, depending on the existence of an international rating (Fitch, Moody's or S&P) and the existence of SIC (Significantly important client) status, different approaches to credit classification are used: an approach based on international rating and a model-based approach (Calculation of creditworthiness based on quantitative and qualitative assessment of the insurance company).

NLB Bank assigns a creditworthiness to the central level of the state and central banks in accordance with the corresponding rating of the respective country by the international rating agencies Fitch, Moody's or S&P, while the credit rating of municipalities is carried out on the basis of an expert model or on the basis of the credit rating of international credit rating agencies.

In the case of project financing, the Bank relies exclusively on the effects of the project itself and on the ability of the project to generate cash flow sufficient for full and timely repayment of principal and interest.

| | | | | | | |
|---|---|---|---|---|---|---|
| Initial rating (quantitative factors) | + | Qualitative factors | → | Potential Knock-out criteria | = | Final rating |
| 70% weight | | 30% weight | | Potential adjustment | | |

**Impairment losses and provisioning policy**

With the application of standard IFRS 9, the expected credit losses are based on the transfer of assets amongst three (3) stages. The change in credit quality and credit risk from the moment of initial recognition represents one of the basic criteria for the transition/change between the Stages in which the client is classified.

Collective impairment and provisions are calculated for financial assets and contingent liabilities classified in Stage 1 and Stage 2 and non-performing clients that are not part of an individual assessment and are classified in Stage-3.

Individual impairment and provisions are calculated for clients in Stage 3 with exposure over EUR 50 thousand.

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

### Collaterals

For most placements approved to customers, the Bank requires collateral.

Collaterals usually include one or a combination of following items:
- pledge of cash deposits,
- pledge of securities,
- pledge of property, including first line mortgage over property,
- pledge of precious metals,
- pledge of movable assets,
- irrevocable guarantees,
- insurance with an insurance company,
- bills of exchange.

In addition to the above-mentioned, the Bank also uses the following elements for securing placements:
- Co-guarantors,
- Cessions and assignations,
- Administrative order on monthly salary payments, or agreement on confiscation,
- and exceptionally guarantees by retail and legal entities,

The Bank retains the right to request any other type of collateral (or variation of above-mentioned collateral) that it considers necessary.

Assessment of fair value of collateral is based on the value of collaterals evaluated in the moment of borrowing and it is updated periodically in accordance with relevant credit policy.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

Credit exposure and collaterals before discounting for loans to clients and financial assets with other banks:

| | Maximum credit risk exposure (net) | Estimated fair value of collaterals |
|---|---|---|
| **31 December 2023** | | |
| Credit exposure, net | *1.119,351* | *156,714* |
| *Loans to customers at AC* | *1.118,906* | *156,714* |
| *Placements with banks* | *445* | - |
| Off-balance sheet exposure, net | *245,134* | *10,760* |
| **Total** | **1,364,485** | **167,474** |

| | Maximum credit risk exposure (net) | Estimated fair value of collaterals |
|---|---|---|
| **31 December 2022** | | |
| Credit exposure, net | *1,013,407* | 123,364 |
| *Loans to customers at AC* | *1,012,946* | 123,364 |
| *Placements with banks* | *461* | - |
| Off-balance sheet exposure, net | 223,447 | 13,500 |
| **Total** | **1,236,854** | **136,864** |

Out of the total collateral value, as at 31 December 2023, amount of BAM 150,794 thousand relates to business and residential real estates, while the rest of the collaterals relates to deposits.
Estimated fair value of collateral represents estimated fair value reduced by applicable haircuts for different types of collaterals, as a means to account for liquidity risk, on the reporting date. If higher than exposure amount, he estimated fair value is reduced to the exposure amount.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

Fair value of collateral per type of collateral for loans to customers, placements to banks and off-balance exposures total for Stage 1, 2 and 3, and separately for Stage 3 is shown in following tables:

| 31 December 2023 | Gross exposure | Fair value of collateral | | | | | Impairment | Maximal exposure to credit risk |
|---|---|---|---|---|---|---|---|---|
| **Stage 1, 2 and 3** | 1 | Cash deposits | Guarantee | Real estate | Movable assets | Total collateral | 2 | (3=1-2) |
| **Retail loans** | **667,416** | **2,900** | - | **66,128** | - | **69,028** | **(23,851)** | **643,565** |
| Housing loans | 144,888 | 961 | - | 40,957 | - | **41,918** | (2,677) | 142,211 |
| Consumer loans | 421,676 | 63 | - | - | - | | (18,691) | 402,985 |
| Other retail loans | 100,852 | 1,876 | - | 25,171 | - | **27,047** | (2,483) | 98,369 |
| **Corporate loans** | **493,268** | **8,257** | - | **79,429** | - | **87,686** | **(17,927)** | **475,341** |
| Corporate customers | 426,133 | 5,702 | - | 72,102 | - | **77,804** | (12,438) | 413,695 |
| SME | 48,374 | 2,153 | - | 6,700 | - | **8,853** | (4,690) | 43,684 |
| Other customers | 18,761 | 402 | - | 627 | - | **1,029** | (799) | 17,962 |
| **Off-balance sheet exposure** | **248,809** | **5,523** | - | **5,237** | - | **10,760** | **(3,675)** | **245,134** |
| Guarantees | 104,913 | 4,401 | - | - | - | 4,401 | (1,815) | 103,098 |
| Letters of credit | 489 | - | - | **2,052** | - | 2,052 | (6) | 483 |
| Approved undrawn loans | 143,407 | 1,122 | - | 3,185 | - | **4.307** | (1,854) | 141,553 |
| **Total** | **1,409,493** | **16,680** | - | **150,794** | - | **167.474** | **(45,453)** | **1,364,040** |

| 31 December 2023 | Gross exposure | Fair value of collateral | | | | | Impairment | Maximal exposure to credit risk |
|---|---|---|---|---|---|---|---|---|
| **Stage 3** | 1 | Cash deposits | Guarantee | Real estate | Movable assets | Total collateral | 2 | (3=1-2) |
| **Retail loans** | **14,253** | - | - | **115** | - | **115** | **(11,386)** | **2,867** |
| Housing loans | 418 | - | - | 55 | - | 55 | (323) | 95 |
| Consumer loans | 12,981 | - | - | - | - | - | (10,373) | 2,608 |
| Other retail loans | 854 | - | - | 60 | - | 60 | (690) | 164 |
| **Corporate loans** | **10,418** | - | - | **1,810** | - | **1,810** | **(9,112)** | **1,306** |
| Corporate customers | 6,061 | - | - | 757 | - | 757 | (4,833) | 1,228 |
| SME | 3,874 | - | - | 1,016 | - | 1,016 | (3,874) | - |
| Other customers | 483 | - | - | 36 | - | 36 | (405) | 78 |
| **Off-balance sheet exposure** | **49** | **2** | - | **2** | - | **4** | **(30)** | **21** |
| Guarantees | 13 | 2 | - | 2 | - | 4 | (11) | 2 |
| Letters of credit | - | - | - | - | - | - | - | - |
| Approved undrawn loans | 36 | - | - | - | - | - | (19) | 17 |
| **Total** | **24,720** | **2** | - | **1,927** | - | **1,929** | **(20,528)** | **4,192** |

*(All amounts are given in thousand BAM unless otherwise stated)*

# 4. Bank's financial risk management *(continued)*

## 4.2. Credit risk management *(continued)*

| 31 December 2022 | Gross exposure | Fair value of collateral | | | | | Impairment | Maximal exposure to credit risk |
|---|---|---|---|---|---|---|---|---|
| Stage 1, 2 and 3 | 1 | Cash deposits | Guarantee | Real estate | Movable assets | Total collateral | 2 | (3=1-2) |
| **Retail loans** | **605,008** | **1,497** | **-** | **54,593** | **-** | **56,090** | **(24,744)** | **580,264** |
| Housing loans | 135,080 | 370 | - | 37,668 | - | 38,038 | (2,789) | 132,291 |
| Consumer loans | 438,365 | 1,067 | - | 16,707 | - | 17,774 | (20,885) | 417,480 |
| Other retail loans | 31,563 | 60 | - | 218 | - | 279 | (1,070) | 30,493 |
| **Corporate loans** | **448,522** | **8,226** | **-** | **59,048** | **-** | **67,274** | **(15,841)** | **432,681** |
| Corporate customers | 391,686 | 6,014 | - | 53,631 | - | 59,644 | (10,609) | 381,077 |
| SME | 40,312 | 1,875 | - | 4,817 | - | 6,692 | (4,788) | 35,524 |
| Other customers | 16,524 | 337 | - | 600 | - | 938 | (444) | 16,080 |
| **Off-balance sheet exposure** | **226,586** | **4,231** | **-** | **9,269** | **-** | **13,500** | **(3,139)** | **223,447** |
| Guarantees | 98,520 | 3,549 | - | 2,594 | - | 6,143 | (1,508) | 97,012 |
| Letters of credit | 636 | - | - | - | - | - | (6) | 630 |
| Approved undrawn loans | 127,430 | 682 | - | 6,675 | - | 7,357 | (1,625) | 125,805 |
| **Total** | **1,280,117** | **13,954** | **-** | **122,910** | **-** | **136,864** | **(43,724)** | **1,236,393** |

| 31 December 2022 | Gross exposure | Fair value of collateral | | | | | Impairment | Maximal exposure to credit risk |
|---|---|---|---|---|---|---|---|---|
| Stage 3 | 1 | Cash deposits | Guarantee | Real estate | Movable assets | Total collateral | 2 | (3=1-2) |
| **Retail loans** | **17,101** | **-** | **-** | **257** | **-** | **257** | **(15.792)** | **1,309** |
| Housing loans | 866 | - | - | 116 | - | 116 | (764) | 102 |
| Consumer loans | 15,580 | - | - | 142 | - | 142 | (14.418) | 1.162 |
| Other retail loans | 655 | - | - | - | - | - | (610) | 45 |
| **Corporate loans** | **10,071** | **-** | **-** | **1.877** | **-** | **1.877** | **(9.178)** | **893** |
| Corporate customers | 5,311 | - | - | 653 | - | 653 | (4.835) | 476 |
| SME | 4,527 | - | - | 1.224 | - | 1.224 | (4.160) | 367 |
| Other customers | 233 | - | - | - | - | - | (183) | 50 |
| **Off-balance sheet exposure** | **546** | **-** | **-** | **88** | **-** | **88** | **(116)** | **429** |
| Guarantees | 512 | - | - | 88 | - | 88 | (86) | 425 |
| Letters of credit | - | - | - | - | - | - | - | - |
| Approved undrawn loans | 34 | - | - | - | - | - | (30) | 4 |
| **Total** | **27,718** | **-** | **-** | **2.223** | **-** | **2.223** | **(25.087)** | **2,631** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

Overviews of LTV (loan to value) ratios for 2023 and 2022 are presented below:

| LTV ratio 31 December 2023 | 0-30% | 30-60% | 60-90% | 90-100% | 100-120% | 120-% | Amount of uncovered loans | Total |
|---|---|---|---|---|---|---|---|---|
| Housing loans | 3,005 | 25,635 | 58,391 | 17,029 | 858 | 1,803 | 38,167 | 144,888 |
| Consumer loans | 3,157 | 16,668 | 30,258 | 13,414 | 846 | 820 | 421,676 | 421,676 |
| **Total** | **6,162** | **42,303** | **88,649** | **30,443** | **1,705** | **2,623** | **459,843** | **566,564** |

| LTV ratio 31 December 2022 | 0-30% | 30-60% | 60-90% | 90-100% | 100-120% | 120-% | Amount of uncovered loans | Total |
|---|---|---|---|---|---|---|---|---|
| Housing loans | 2,360 | 15,609 | 48,209 | 24,935 | 2,029 | 774 | 41,163 | 135,079 |
| Consumer loans | 1,932 | 11,896 | 17,986 | 9,735 | 454 | 1,708 | 394,655 | 438,365 |
| **Total** | **4,292** | **27,505** | **66,195** | **34,670** | **2,483** | **2,482** | **435,818** | **573,445** |

Loan portfolio per industrial sector is presented in the table below. Calculated interests and fees which increase the balance of loan receivables and bank placements, as well as accrued income, deducted from loan receivables and bank placements, are presented within the separate positions in the table below.

| | **31 December 2023** | | **31 December 2022** | |
|---|---|---|---|---|
| | **BAM** | **%** | **BAM** | **%** |
| Retail | 666,679 | 57.49 | 604,820 | 57.42 |
| Trade | 211,836 | 18.27 | 201,228 | 19.10 |
| Mining and industry | 128,560 | 11.09 | 122,319 | 11.61 |
| Financial institutions | 15,419 | 1.33 | 14,500 | 1.38 |
| Building construction industry | 41,293 | 3.56 | 33,661 | 3.20 |
| Transportation and communications | 25,427 | 2.19 | 32,207 | 3.06 |
| Trading in real estate | 14,079 | 1.21 | 5,944 | 0.56 |
| Services, tourism, catering | 5,824 | 0.50 | 7,238 | 0.69 |
| Agriculture, forestry and fishing | 2,343 | 0.20 | 2,342 | 0.22 |
| Other | 48,266 | 4.16 | 29,081 | 2.76 |
| | **1,159,726** | **100.00** | **1,053,340** | **100.00** |
| Interests and fees | 3,173 | | 2,847 | |
| Deferred fees for loans processing | (2,215) | | (2,194) | |
| | **1,160,684** | | **1,053,993** | |
| Less: Impairment allowance | (41,778) | | (40,586) | |
| | **1,118,906** | | **1,013,407** | |

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

### Non-Performing Loans

Non-Performing Loans (NPL) are the Bank’s loans classified into categories D and E. Management of non-performing portfolio is done in the Department for Collection and NPL Management. For all Corporate and SME customers in Categories D and E whose total exposure to a client or group of related entities is over 1,000 EUR, immediately after the fulfilment of these criteria a procedure is initiated to transfer the customer from the business component to the Department for Collection and NPL Management (corporate collection department/retail collection department).

Sector is divided into two organizational units, the Corporate Collection Department and Retail Collection Department, where the process of early, late and court collection of claims from problematic clients is being run and monitored.
The process of collecting claims for retail is centralized and oversees the Retail Collection Department.

All activities for collecting claims for retail clients are undertaken solely by the Retail Collection Department and start from the first day of the client's delay through early collection and continue through late collection activities and initiation of court proceedings until the claims are closed or the client recovered.

In the collection process for corporate entities, the Corporate Collection Department is involved with collection activity starting from a 31st day of delay, which implies customer interaction, meeting, and defining collection strategy for the client along with the Corporate Sector. With the classification of a client in a credit rating class D and E, the client enters the jurisdiction of the Corporate Collection Department, where the collection strategy is defined individually for each client (restructuring, settlement, and collateral, collection from collaterals, initiation and conducting court proceedings).

If the clients under the jurisdiction of Collection department and NPL management establish the continuity in payment without delays and exit financial difficulties after the recovery period, then they are returned to Performing portfolio under the jurisdiction of corporate department and Retail department.

In the process of collection of receivables, the clients, for which restructuring measures were taken, are included.

Measures for restructuring debt include a "concession" to a debtor which is caused by deterioration in economic and financial situation of the customer and his inability to service the debt under previously agreed terms and conditions. A client with financial difficulties may be performing or non-performing.

Restructured receivables represent the "forborne" exposure of the Bank that needs to be considered in the sectors for PE - performing entities of the Sector for Corporate and the Sector for Retail or NPE - non-performing entities of the Sector for collection and non-performing asset management. "R" represents receivables with granted concessions due to financial difficulties (concessions would not have been approved if client didn't have financial difficulties).

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

The overview of the forborne loans is presented in the table by segment:

| | 31 December 2023 | | |
|---|---|---|---|
| **Segment** | **Performing portfolio** | **Non-performing portfolio** | **Total** |
| Corporate clients | 426 | - | 426 |
| SME clients | 207 | 4,804 | 5,011 |
| Other clients | - | 199 | 199 |
| Retail | 177 | 114 | 291 |
| | **810** | **5,117** | **5,927** |

| | 31 December 2022 | | |
|---|---|---|---|
| **Segment** | **Performing portfolio** | **Non-performing portfolio** | **Total** |
| Corporate clients | 512 | - | 512 |
| SME clients | - | 3,387 | 3,387 |
| Other clients | - | - | - |
| Retail | - | 143 | 143 |
| | **512** | **3,530** | **4,042** |

Impairment allowances for loans with forborne status are presented in the table by segment:

| | 31 December 2023 | | | |
|---|---|---|---|---|
| **Segment** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Corporate clients | - | 54 | - | 54 |
| SME clients | - | 25 | 2,745 | 2,770 |
| Other clients | - | - | 37 | 37 |
| Retail | - | 76 | 71 | 147 |
| | **-** | **155** | **2,853** | **3,008** |

| | 31 December 2022 | | | |
|---|---|---|---|---|
| **Segment** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Corporate clients | - | 66 | - | 66 |
| SME clients | - | - | 3,047 | 3,047 |
| Other clients | - | - | - | - |
| Retail | - | - | 102 | 102 |
| | **-** | **66** | **3,149** | **3,215** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

*Reprograms and restructuring*

The restructuring of liabilities aims to enable the client to repay liabilities in accordance with its realistic capabilities, while ensuring more efficient and secure collection of the Bank's receivables. In that sense, the restructuring of liabilities represents a change in the conditions agreed upon when approving the loan (e.g., extension of repayment terms, reduction of the interest rate, etc.). The purpose of restructuring is to prevent a potential loss to the Bank, so it is important that restructuring is attempted at an early stage of delay (or even before the client begins to be late) if the client is unable to meet its obligations.
However, restructuring may also be possible for clients in the late or court collection phase in cases where restructuring is a better option for the Bank, or the client requires restructuring due to changed circumstances (e.g. employment of the client).

The decision on the restructuring of the client's obligations is made by the competent authority, in accordance with the authorizations determined by the Decision on authorizations in credit operations.

Restructured exposure may be identified as both in the uncollectable (NPL) and in collectable (PL) part of the portfolio.

| | Number of restructured loans (number of transactions) | Gross loan exposures |
|---|---|---|
| **31 December 2023** | | |
| Corporate | 4 | 3,474 |
| Retail and entrepreneurs | 16 | 286 |
| **Total** | **20** | **3,760** |
| **31 December 2022** | | |
| Corporate | 7 | 3,895 |
| Retail and entrepreneurs | 3 | 143 |
| **Total** | **10** | **4,038** |

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

*Watch Loan Committee, Watch List and Intensive Care List*

Watch Loan Committee (hereinafter referred to as WLC) is a body that has the task of defining all activities that the Bank undertakes to collect receivables from performing clients of natural and legal entities where one or more EWS signals (Early Warning Signs) have been recognized. or which, according to the criteria, are or should be on the Watch list (hereinafter: WL) or Intensive care list (hereinafter: ICL), and for clients legal entities refers to the delay of receiving from 8 to 90 days, which are not classified as NPL clients and clients A, B and C creditworthiness), and NPL clients (clients of D creditworthiness) who have been granted restructuring/reprogramming obligations and or an out-of-court settlement, and up to the initiation of court proceedings. For client's natural persons EWS signals as well as WL1/WL 2 refers to clients with 0 days delay. The detailed powers, responsibilities and mode of work of the Committee are prescribed by the Rules of Procedure of the Watch Loan Committee and the Watch Loan Committee and monitoring watch list.

The goal of the WLC is:

- establishing a continuous process of identification of potentially problematic clients based on early warning signals in the Bank,
- stop the delay day counter (according to the local and international methodology for determining the days of delay),
- analysis of submitted proposals for inclusion and exclusion of clients on WL and ICL,
- making decisions on listing and excluding clients on WL and ICL,
- defining measures to be taken towards clients,

all with the aim of mitigating risks and stopping negative trends.

WL1 and WL2 include clients with a delay of 8 to 30 days, and ICL includes clients with a delay of 31 to 90 days, i.e., clients for which WLC has decided to be included in one of the lists.
Clients listed on WL1 retain the existing level of credit risk (stage) in which they are classified at the time of listing on WL1 and the creditworthiness valid at the time of listing on WL1, and clients listed on WL2 are assigned or retained credit risk level 2 (stage 2), depending on the existing classification of the client in the level of credit risk at the time of listing on WL2, and the creditworthiness of the CCC is determined.

**The Intensive care (ICL) list includes:**

- Performing clients - / Corporate / SME / Micro /, who are in default of 31 to 90 days according to the international methodology for determining the days of delay, classified in stage 2 and 3 according to local regulatory regulations,
- NPL clients (D creditworthiness clients) as well as clients who have been approved for restructuring / rescheduling of obligations or out-of-court settlement, until the initiation of court proceedings.

For performing clients assigned to the ICL list credit risk level 2 (stage 2) is assigned or retained and credit rating C is determined, and for non-performing customers credit rating D is assigned and credit risk level 3 (stage 3).

## 4. Bank's financial risk management *(continued)*

### 4.2. Credit risk management *(continued)*

In addition to the criteria for days of delay on the last day of the month, the Bank considers other important factors for the potential inclusion of the client in the WL, i.e., ICL:

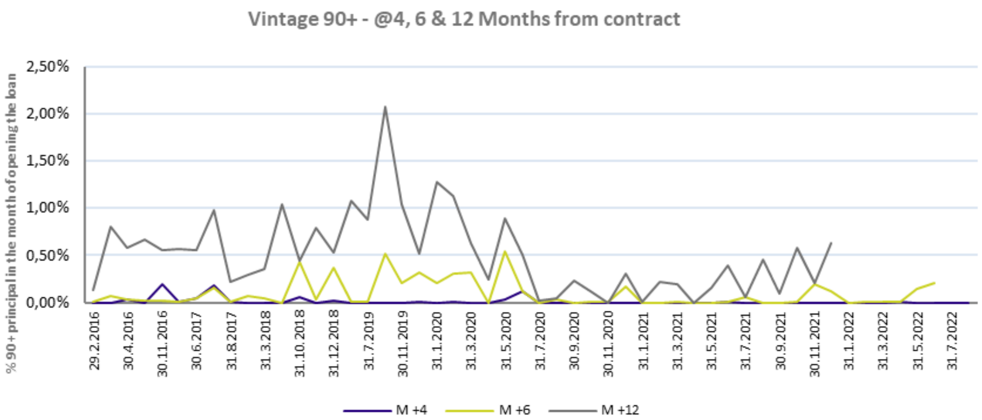
- transaction account blocking (clients whose account is found to be blocked are included in the ICL)
- frequent change of management,
- change of creditworthiness,
- degree of financial security,
- financial debts according to EBITDA ratio,
- poor stage category of debtors in other Banks or poor stage category of co-borrowers,
- bankruptcy or liquidation proceedings with the co-debtor,
- Decision of the Credit Committee on the inclusion of the client in the WL / ICL,
- overdue liabilities over 100 BAM,
- negative information in the media (printed and electronic),
- other reasons why the WLC decides that it can classify clients into WL and ICL.

*Vintage analysis*

The Bank monitors the quality of approved placements and days past due after approval using two types of vintage analysis. Vintage 30+ and Vintage 90+ are used to track the number, value, and percentage of loans that are in delay 30+ or 90+ days as of the month of contract. The Vintage 30+ report starts after at least 2 months have passed since contracting, while the 90+ report records delay after 4 months have elapsed since contracting. Vintage reports are updated on a monthly basis, so that they consistently number all the previous months from the contracting date to the reporting date, and for the purposes of simpler reporting, cross sections 4, 6, 12, 18, 24 and 36 months from the moment of contracting are used, significant changes are also taken into account in other time periods. For a Retail loans segment, it is diversified into 4 types of residential mortgage, consumer, credit card and overdraft facilities, while for corporate loans diversification refers to maturity, i.e., long-term loans, short-term and overdrafts and business cards.

The average percentage of delay of 90+ 12 months after approval is observed on a monthly level of 0.25% as at 31.12.2022 and the significant improvement compared to 2021 is visible (0.45%).

*Vintage 90+ analysis Retail entities*



*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

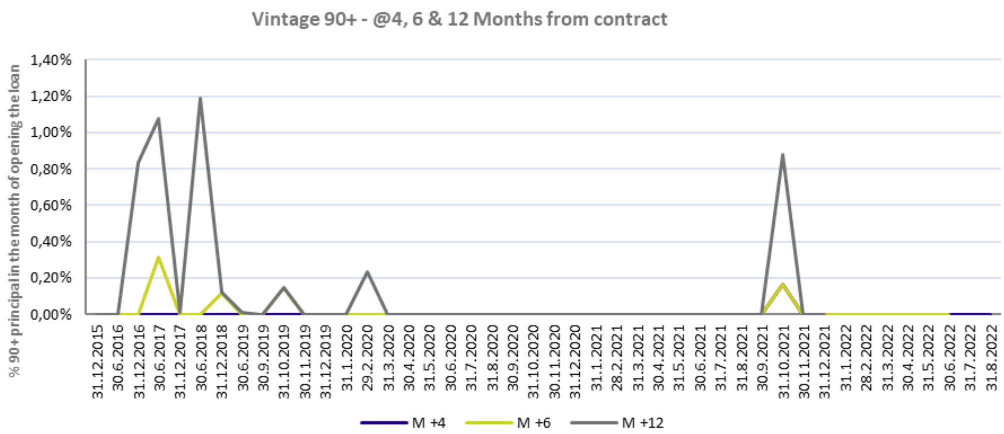
### 4.2. Credit risk management *(continued)*

The table below shows quarterly movements of share of exposures in 90+ days past due, compared to the quarter in which it is contracted, with sections of 12, 18, 24, and 36 months after contracting.

| | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Vintage @12 M | 0,44% | 0,41% | 0,88% | 0,60% | 0,58% | 0,85% | 0,81% | 1,19% | 0,90% | 1,02% | 0,57% | 0,10% | 0,17% | 0,16% | 0,19% | 0,20% | 0,49% | 0,16% | 0,43% | 0,57% | 0,32% |
| Vintage @18 M | 0,80% | 0,65% | 1,46% | 0,91% | 1,49% | 1,61% | 1,57% | 1,58% | 1,59% | 1,42% | 0,75% | 0,39% | 0,43% | 0,20% | 0,33% | 0,31% | 0,69% | 0,44% | 0,58% | 0,00% | 0,00% |
| Vintage @24 M | 0,73% | 1,12% | 1,96% | 1,95% | 1,90% | 1,96% | 2,12% | 2,24% | 1,99% | 1,49% | 1,38% | 0,65% | 0,60% | 0,32% | 0,28% | 0,45% | 0,64% | 0,00% | 0,00% | 0,00% | 0,00% |
| Vintage @36 M | 1,47% | 2,12% | 2,30% | 2,14% | 2,23% | 2,30% | 2,11% | 2,35% | 2,38% | 2,11% | 1,20% | 0,99% | 0,87% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |

Legal entities have a special view of tracking client delays in settling liabilities through WLC so that 90+ delays occur in isolated cases.

*Vintage 90+ analysis Corporate entities*




The table below shows quarterly movements of share of exposure in 90+ delays compared to the quarter in which it is contracted, with sections of 12, 18, 24, and 36 months after contracting. It is not possible to derive legitimacy since the peaks are caused by individual isolated cases.
Loans disbursed in Q$ 2022 have increase in delay12 moths after disbursement. Those relate to replacement short term loans of one client, which is on ICL list and in stage 3.

| | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Vintage @12 M | 0,04% | 0,61% | 0,83% | 0,00% | 0,04% | 0,00% | 3,42% | 0,00% | 0,05% | 0,05% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,18% | 0,15% | 0,18% | 0,21% | 0,49% |
| Vintage @18 M | 0,15% | 0,71% | 0,56% | 0,19% | 0,09% | 0,01% | 4,22% | 0,02% | 0,90% | 0,05% | 0,00% | 0,01% | 0,00% | 0,00% | 0,01% | 0,00% | 0,25% | 0,27% | 0,19% | 0,00% | 0,00% |
| Vintage @24 M | 0,12% | 0,71% | 0,56% | 0,18% | 0,09% | 0,03% | 4,22% | 0,02% | 0,90% | 0,05% | 0,00% | 0,00% | 0,00% | 0,00% | 0,01% | 0,00% | 0,18% | 0,00% | 0,00% | 0,00% | 0,00% |
| Vintage @36 M | 0,10% | 0,68% | 0,56% | 1,33% | 0,08% | 0,67% | 4,21% | 0,00% | 0,85% | 0,00% | 0,00% | 0,02% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |

## 4. Bank's financial risk management *(continued)*

### 4.3 Market risk

*Risk measurement*

The measurement of exposure to market risks is performed in accordance with regulations and the methodology for measuring the quantity of risk exposure on the level of the NLB Group, by using standard approach. The NLB Group's policy for market risk management, includes certain limitations and procedures in policies and other documents of the NLB Group.

*General requirements*

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Market risks, in terms of the Banking Law, are considered to be position risk, currency (foreign exchange) risk and commodity risk, of which currency (foreign exchange) risk is the most significant for the Bank. In addition, equity risk, investment risk, settlement risk and free delivery risk are also considered in the group of market risks.

The Management Board sets limits and guidelines for monitoring and mitigating market risks, which is regularly monitored by the Bank's ALCO Committee.

When it comes to market risk management, the key factor is the separation of responsibilities between the monitoring and management of market risks Non-credit risks are regularly monitored by the Risk department, which analyses whether all positions for certain types of risk are within the defined limits. Open positions are managed by the Asset liability management department of the Bank which maintains them within the given limits.

*Risk mitigation*

The department for trading daily currency conversions maintains the foreign exchange position within legally and internally established limits, and continuously conducts different activities to reduce market risks to the lowest level.

*Risk controlling and monitoring*

Risk controlling is used to monitor compliance with certain legal and internal limits. Market risk controlling, and monitoring is supported by internal methodologies adjusted to Basel Standards. In accordance with the local regulations the Bank provides the necessary level of capital for covering potential unexpected losses due to exposure to currency and other market risks.

### 4.4 Foreign currency risk management

Currency risk is the Bank's exposure to the possible impact of changes in exchange rates and the risk that adverse changes result in losses for the Bank in BAM (local currency). The level of risk represents a function of level and the size of exposure to possible changes of exchange rates for the Bank, depending on the amount of bank's foreign debt and the level of Bank's open balance sheet and off-balance FX positions, i.e. the degree of compliance of its currency flows.
Foreign currency exposure arises from loans, deposits, and investment and trading activities. It is monitored daily in accordance with legislation and internally set limits for each currency and for the total balance sheet denominated or linked to a foreign currency. Throughout the year open currency positions were maintained in accordance with the regulations set by the Banking Agency of FBiH and internal limits defined by the Methodology of the NLB Group, considering the comprehensiveness of the impact on other limits in the event of an increase in foreign exchange risk exposure, primarily capital-related limits.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.4 Foreign currency risk management (continued)

Since BAM has a fixed exchange rate to EUR, in accordance with the Currency Board arrangement, the Bank was not exposed to changes in EUR exchange rate. Fluctuations in other currencies did not have a significant influence on exposure of the Bank to foreign currency risk since the open foreign exchange position was reduced to a minimum.

The following table details the sensitivity of the Bank to a 10% increase and a decrease in BAM relative to the USD calculated on the Bank's net foreign exchange position.

| | **2023** | **2022** |
|---|---|---|
| USD Profit/(loss) | 3/(3) | 2/(2) |

The Bank had the following currency position:

| **31 December 2023** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 93,699 | 9,137 | 5,043 | 107,879 |
| Securities at fair value through the income statement and at fair value through other comprehensive income | 142,583 | - | - | 142,583 |
| Securities at amortized cost | 9,355 | - | - | 9,355 |
| Other financial assets | 1,103 | 1 | - | 1,104 |
| Loans and receivables under financial leases contracted with a foreign exchange clause | 408,890 | - | - | 408,890 |
| Other assets contracted with a foreign exchange clause | 4,737 | - | - | 4,737 |
| | **660,367** | **9,138** | **5,043** | **674,548** |
| **Financial liabilities** | | | | |
| Deposits from banks and other financial institutions | 2,497 | 1 | - | 2,498 |
| Deposits from clients | 293,014 | 8,910 | 4,880 | 306,804 |
| Loans taken | 63,914 | - | - | 63,914 |
| Subordinated debt | 24,448 | - | - | 24,448 |
| Other financial obligations | 20,415 | 229 | 195 | 20,839 |
| Deposits and loans contracted with a foreign exchange clause | 252,431 | - | - | 252,431 |
| | **656,719** | **9,140** | **5,075** | **670,934** |
| **Foreign exchange position, net** | **3,648** | **(2)** | **(32)** | **3,614** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.4. Foreign currency risk management *(continued)*

| **31 December 2023** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 44,143 | 6,557 | 2,822 | 53,522 |
| Securities at fair value through the income statement and at fair value through other comprehensive income | 89,868 | 1,815 | 1,983 | 93,666 |
| Securities at amortized cost | - | - | - | - |
| Other financial assets | 2,442 | - | 2 | 2,444 |
| Loans and receivables under financial leases contracted with a foreign exchange clause | 506,622 | - | - | 506,622 |
| Other assets contracted with a foreign exchange clause | 5,182 | - | - | 5,182 |
| | **648,257** | **8,372** | **4,807** | **661,436** |
| **Financial liabilities** | | | | |
| Deposits from banks and other financial institutions | 42,047 | 1 | - | 42,048 |
| Deposits from clients | 277,445 | 8,166 | 4,544 | 290,155 |
| Loans taken | 61,399 | - | - | 61,399 |
| Subordinated debt | 5,867 | - | - | 5,867 |
| Other financial obligations | 7,568 | 180 | 181 | 7,929 |
| Deposits and loans contracted with a foreign exchange clause | 253,266 | - | - | 253,266 |
| | **647,592** | **8,347** | **4,725** | **660,664** |
| **Foreign exchange position, net** | **665** | **25** | **82** | **772** |

### 4.5. Interest rate risk management

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest-bearing liabilities mature or re-price at different times or in different amounts.

In case of floating rates, the Bank’s assets and liabilities are also exposed to base risk, which is the difference in the re-pricing characteristics of the various floating rate indices, such as savings rates, the six months EURIBOR, and different types of interest. Risk management activities are consistent with the Bank's business strategies, and they are aimed at optimizing net interest income given the market interest rate levels.

The Bank produced Policies and procedures for monitoring of market risk management, whose goal is to manage and limit the potential losses of the Bank, due to changes in foreign and domestic interest rates that affect the economic and market value of the Bank.

To achieve the Policies’ goals for monitoring interest rate risk exposure, the Bank identifies positions that are sensitive to change in interest rates, prepares data for the calculation of interest-sensitive positions, establishes methods for risk measurement, establishes control mechanisms and limits, determines authorizations and responsibilities, and prepares reports.

The purpose of interest rate risk management, as one segment of assets and liabilities management, is to determine the optimal interest rate, and with that, the Bank’s income, considering market conditions and the competitive environment, and to adjust the interest rate in line with the Bank’s assets and liabilities.

## 4. Bank's financial risk management *(continued)*

### 4.5. Interest rate risk management (continued)

Considering this objective, it is extremely important to assess the sensitivity of revenues towards abrupt changes in the market interest rate.

As a protection from interest rate risk exposure, the Bank contracts the variable interest rate, adjusts the structure of interest-bearing assets and liabilities subject to interest payment, and uses other interest rate risk management instruments.
The Bank manages the interest rate risk in the following manner:

- By adequately determining the level of the interest margin, by adjusting the interest rates on positions of interest-sensitive assets and liabilities to be within the same maturity and time intervals within which the re-establishment of the interest rate is being performed; and/or
- By securing maturity alignment of interest-sensitive assets and liabilities (when the fixed interest rate is used), or by adjusting the deadline (time interval for re-establishment of the interest rates in cases where variable interest rate is being used).

The Bank is exposed to risks that affect its financial position and cash flows, through the effects of change in interest rates on the market. The table below shows the Bank's exposure to interest rate risk.

The positions of assets and liabilities with the balance as at 31 December 2023 and 2022 are shown in the table at the book value and in accordance with the agreed interest rate and the date of repricing.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.5. Interest rate risk management *(continued)*

| | up to 1 month | 1 – 3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2023** | | | | | | |
| **Assets** | | | | | | |
| Current accounts | 104,178 | - | - | - | - | **104,178** |
| Term deposits | | - | 153,061 | | - | **153,061** |
| Loans | 126,798 | 198,192 | 563,176 | 144,331 | 81,828 | **1,114,325** |
| Securities | 5,929 | 79,985 | 77,135 | 64,159 | 11,325 | **238,533** |
| **Total assets** | **236,905** | **278,177** | **793,372** | **208,490** | **93,153** | **1,610,097** |
| **Liabilities** | | | | | | |
| Current accounts | 3,227 | - | 997,599 | - | - | **1,000,826** |
| Term deposits | 20,463 | 49,501 | 233,054 | 159,718 | 758 | **463,494** |
| Loans | - | 2,445 | 48,550 | 37,367 | - | **88,362** |
| **Total liabilities** | **23,690** | **51,946** | **1,279,203** | **197,085** | **758** | **1,552,682** |
| **Exposure to interest risk, net** | **213,215** | **226,231** | **(485,831)** | **11,405** | **92,395** | **57,415** |

| | up to 1 month | 1 – 3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2022** | | | | | | |
| **Assets** | | | | | | |
| Current accounts | 215,041 | - | - | - | - | **215,041** |
| Term deposits | - | - | 140,447 | 462 | - | **140,909** |
| Loans | 276,963 | 332,838 | 332,269 | 53,848 | 16,903 | **1,012,821** |
| Securities | 3,912 | 40,113 | 63,728 | 54,970 | 4,000 | **166,723** |
| **Total assets** | **495,916** | **372,951** | **536,444** | **109,280** | **20,903** | **1,535,494** |
| **Liabilities** | | | | | | |
| Current accounts | 11,976 | - | 889,066 | - | - | **901,042** |
| Term deposits | 13,896 | 94,943 | 200,905 | 146,450 | 193 | **456,387** |
| Loans | - | 23,190 | 18,301 | 19,907 | 5,867 | **67,265** |
| **Total liabilities** | **25,872** | **118,133** | **1,108,272** | **166,357** | **6,060** | **1,424,694** |
| **Exposure to interest risk, net** | **470,044** | **254,818** | **(571,828)** | **(57,077)** | **14,843** | **110,800** |

As at 31.12.2023, the Bank is mostly exposed to items with a fixed interest rate (56.55% of the total portfolio), while the rest is with a variable interest rate (43.45% of the portfolio). When it comes to reference rates, they are included in variable interest rates.

In its management of interest rate risk, the Bank uses a simulation of expected and extreme changes in interest rates and the influence of these changes on the profit or loss.

## 4. Bank's financial risk management *(continued)*

### 4.5. Interest rate risk management *(continued)*

The following table presents the impact of expected changes in interest rates to the Bank's profit, while all other variables remain unchanged:

**Profit or loss sensitivity to change in interest rates as at 31 December 2023**

| Increase in interest rates | Impact on profit or loss in BAM | Increase in interest rates | Impact on profit or loss in BAM |
|---|---|---|---|
| +50 bp | 1,741 | -50 bp | (1,741) |

**Profit or loss sensitivity to change in interest rates as at 31 December 2022**

| Increase in interest rates | Impact on profit or loss in BAM | Decrease in interest rates | Impact on profit or loss in BAM |
|---|---|---|---|
| +50 bp | 1,822 | -50 bp | (1,823) |

Interest rate sensitivity as a result of changes in market interest rates affects two categories:
- The amount of net interest income,
- The market value of certain financial instruments (interest-sensitive investments and sources), which consequently affects the market value of the Bank's capital.

The sensitivity of the profit or loss in the table shows how changes in market interest rates, applied to the existing interest sensitive open position, would reflect on the financial result. The limit for the income aspect of credit risk, presented as a decrease in net interest income in case of a parallel change in interest rates by 50 bp, is 3.5% of capital. The effect of the decrease of interest rates by 50 bp on 31 December 2023 amounts to 1.13% of capital.

In line with the Policies and procedures for the monitoring of interest rate risk exposure, the Bank must meet the criteria of impact of a parallel shift in interest rates by 200 basis points, which is applied to the existing open interest rate position in accordance with certain time intervals. In 2022, there were no significant changes in policy and procedures for monitoring interest rate risk exposure. The economic value of Equity (EVE) indicator is 8%.

**Sensitivity of the market value of financial instruments at 31 December 2023**

| Change of interest rates | Effect of simulation in 000 BAM | Effect of simulation in relation to capital |
|---|---|---|
| 200 bp | 6,963 | 4.51% |

**Sensitivity of the market value of financial instruments at 31 December 2022**

| Change of interest rates | Effect of simulation in 000 BAM | Effect of simulation in relation to capital |
|---|---|---|
| 200 bp | 7,285 | 4.81% |

## 4. Bank's financial risk management *(continued)*

### 4.6 Liquidity risk management

*Definition*

Liquidity is the ability of a bank to finance an increase in assets on the one hand and also fulfil maturity obligations on the other hand, but without creating unacceptable costs. Liquidity risk is probability that the Bank will not have sufficient cash assets for the normal course of its business activities in the future.
Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

*General requirements*

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including various types of retail and corporate deposits, borrowings and share capital and through emission of bonds. This enhances funding sources flexibility, limits dependence on one source of funds and generally lowers the cost of funds.
The Bank strives to maintain a balance between the continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, required to meet business goals and targets set in terms of the overall strategy of the Bank. Furthermore, the Bank keeps a portfolio of liquid assets as part of its strategy for liquidity risk management.

The measurement of liquidity risk is performed through reporting on structural liquidity and liquidity gaps that show the long-term aspects of securing the Bank's liquidity (in relation to assets, liabilities, the relationship between assets and liabilities and financing source structure). In accordance with local regulations, the Bank is obliged to maintain a minimum liquidity requirement through the LCR coverage coefficient, which was previously monitored due to the requirements of the NLB Group's Risk Management Standard. Risk exposure is also measured using the Scoring model.
The Bank regularly conducts stress testing in its liquidity risk management process.
The Bank regularly performs the Internal Liquidity Adequacy Assessment Process (ILAAP).
The purpose of ILAAP is to establish a strong liquidity risk management system in the Bank. In accordance with the Risk Management Strategy and Risk Appetite, liquidity risk tolerance is low. ILAAP is included in the day-to-day business process and business decisions in the form of daily monitoring of cash flows, the results of stress tests serve to define the volume of liquid reserves, and the defined indicators in the internal system of limits related to monitoring liquidity risk exposure are used to activate the Contingency Plan or the Bank's Recovery Plan.

## 4. Bank's financial risk management *(continued)*

### 4.6. Liquidity risk management *(continued)*

*Risk controlling*

The Bank adjusts its business activities in compliance with liquidity risk according to legislation and internal policies for the maintenance of liquidity reserves, the matching of liabilities and assets, limits, and preferred liquidity ratios. The Bank's Treasury manages liquidity reserves daily, also ensuring that the Bank satisfies all customer needs.

*Monitoring liquidity risk exposure*

In accordance with Risk Management Standards in the NLB Group, a monthly report is made on structural liquidity, in which the following ratios are monitored:

- Liquidity coverage ratio (LCR) – protective amount of liquidity/total net outflows in the next 30 days,
- Net Stable Funding Ratio (NSFR) - available amount of funds for stable funding / required amount of funds for stable funding,
- Net Loan to Deposit Ratio (NET LTD) – the ratio of net loans (minus impairment) and deposits (net loans to non-banking sector/deposits of non-banking sector),
- The share unmortgaged liquid reserves in total assets (AUAR),
- Share of non-bank deposits in the total liabilities (excluding equity),
- Share of resources of 30 largest non-banking depositors in total balance sheet sum,
- A'vista stability – Stable demand deposits,
- Liquidity stress test – strong combined stress test.

The purpose of the Scoring model is to assess liquidity risk by monitoring various indicators, and to inform the Bank's Management Board about the assessment of current liquidity risks to which the Bank is exposed. The output results of the Scoring model are then used as input data in the decision-making process.

The aim of the Scoring model is to closely monitor the Bank's exposure to liquidity risk, by monitoring various indicators that have an impact on the Bank's liquidity. The scoring model covers a wide range of different indicators, taking into account both Bank-specific indicators as well as systemic indicators, which have an impact on the Bank in a broader sense. The Scoring model provides a clear input for further decision-making, as the Scoring model provides an assessment of the Bank's liquidity risk, numerically, in the form of a number. This number corresponds to one of the five levels of risk, which represent the levels of liquidity risk, and range from low to high liquidity risk. The scoring model enables efficient monitoring of liquidity risk and assesses the current liquidity situation of the Bank.

The indicators included in the Scoring model have been identified as key indicators for assessing the Bank's liquidity risk.

The indicators in the Scoring model were selected based on the following criteria:

- Inclusion of indicators in Risk Appetite
- Inclusion of indicators in the Policy
- Regulatory requirements
- Impact of indicators on liquidity
- Monitoring frequency (monthly, in case of some calculations quarterly calculations)

In addition to the above Bank-specific indicators, the Scoring model includes several systemic risk indicators, which fully cover the systemic risk that affects the bank's liquidity risk.

The scoring model gives the result (number) of risk levels, which represents an assessment of the Bank's liquidity position.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.6. Liquidity risk management *(continued)*

The liquidity risk assessment is described by the following risk levels:

| | | |
|---|---|---|
| 1. | Low liquidity risk | 0% - 15% |
| 2. | Acceptable liquidity risk | 15% - 30% |
| 3. | Moderate liquidity risk | 30% - 45% |
| 4. | High liquidity risk | 45% - 60% |
| 5. | Extremely high liquidity risk | 60% - 100% |

The Bank's exposure to liquidity risk as of 31 December 2023, is at the very threshold between low and acceptable level, because the result of a Scoring model is 17.95% (31 December 2022: 19.23%).

In case of exposure to high liquidity risk, the Bank would activate the Plan for liquidity in unpredictable circumstances.

The following table details the Bank's remaining contractual maturities for financial assets and liabilities. The table has been prepared on the basis of undiscounted cash flows of financial assets and liabilities, including interest on those assets that will be earned, except for assets on which the Bank expects cash flows to occur in another period.

| **31 December 2023** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash, cash equivalents | 390,378 | - | - | - | - | 390,378 |
| Financial assets at FVOCI | 71,364 | 29,189 | 54,326 | 24,104 | 2,000 | 180,983 |
| Loans and receivables from customers | 74,879 | 87,939 | 318,869 | 500,275 | 307,652 | 1,289,614 |
| Securities at amortized cost | - | - | - | 46,641 | 6,929 | 53,570 |
| Other financial assets | 6,269 | 9 | 40 | 561 | 42 | 6,921 |
| **Total** | **542,890** | **117,137** | **373,235** | **571,581** | **316,623** | **1,921,466** |
| | | | | | | |
| ***Financial liabilities*** | | | | | | |
| Deposits from banks and other financial organizations | 13,532 | 1,000 | 20,100 | 20,240 | - | 54,872 |
| Deposits from clients | 1,050,032 | 67,478 | 130,700 | 166,591 | 1,090 | 1,415,891 |
| Borrowings | 32 | 6,000 | 11,262 | 50,635 | - | 67,929 |
| Subordinated debt | 433 | 932 | 1,371 | 10,921 | 36,673 | 50,330 |
| Other liabilities at AC | 37,308 | 1,594 | 2,119 | 4,152 | 1,092 | 46,265 |
| **Total** | **1,101,337** | **77,004** | **165,552** | **252,539** | **38,855** | **1,635,287** |
| **Exposure to liquidity risk, net** | **(558,447)** | **40,133** | **207,683** | **319,042** | **277,768** | **286,179** |

Short position up to 1 month is result of significant amount of deposits with maturity of up to 1 month (current accounts). The Bank is continuously monitoring relevant liquidity ratios, and accordingly can react and manage outflows within 30 calendar days.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.6. Liquidity risk management *(continued)*

| **31 December 2022 (restated)** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash, cash equivalents | 414,529 | - | - | - | - | 414,529 |
| Financial assets at FVOCI | 522 | 47,157 | 36,204 | 78,361 | - | 162,244 |
| Loans and receivables under financial leases | 79,015 | 109,078 | 272,197 | 436,657 | 247,813 | 1,144,760 |
| Securities at amortized cost | - | - | - | - | - | - |
| Other financial assets | 7,770 | 15 | 60 | 646 | 86 | 8,577 |
| **Total** | **501,836** | **156,250** | **308,461** | **515,664** | **247,899** | **1,730,110** |
| ***Financial liabilities*** | | | | | | |
| Deposits from banks and other financial organizations | 11,943 | 50,245 | 24,221 | 24,538 | - | 110,947 |
| Deposits from clients | 901,845 | 29,515 | 141,630 | 177,164 | 455 | 1,250,609 |
| Borrowings | - | 5,696 | 12,398 | 45,640 | - | 63,734 |
| Subordinated debt | 141 | - | 139 | 1,120 | 6,422 | 7,822 |
| Other liabilities at AC | 24,432 | 454 | 1,358 | 1,560 | 139 | 27,943 |
| **Total** | **938,361** | **85,910** | **179,746** | **250,022** | **7,016** | **1,461,055** |
| **Exposure to liquidity risk, net** | **(436,525)** | **70,340** | **128,715** | **265,642** | **240,883** | **269,055** |

### Off-balance sheet items

*(a) Loan liabilities*

The timings of contractual amounts of the Bank's off-balance sheet financial instruments committing it to extend loans to customers are summarized in the table below.

| | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **As of 31 December 2023** | | | | | | |
| Loan liabilities | 143,407 | - | - | 489 | - | **143,896** |
| **As of 31 December 2022** | | | | | | |
| Loan liabilities | 127,430 | - | 147 | 489 | - | **128,066** |

*(b) Other financial liabilities - guarantees*

Other financial liabilities are also included in the table below, based on the contractual maturity date. Potential settlements could be made earlier if the terms of the underlying contract are not honored and the Bank is called upon for settlement.

| | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **As of 31 December 2023** | | | | | | |
| Other financial facilities | 31,326 | 595 | 7,646 | 62,038 | 3,308 | **104,913** |
| **As of 31 December 2022** | | | | | | |
| Other financial facilities | 32,793 | 764 | 18,335 | 45,610 | 1,019 | **98,521** |

## 4. Bank's financial risk management *(continued)*

### 4.7. Fair value of financial assets and liabilities

Fair value is defined as the price that the Bank would obtain to sell a financial asset or to pay for the transfer of a liability in the ordinary course of business between market participants at the measurement date (i.e., an exit price). This emphasizes that fair value is a market-based measure. The standard assumes a fair value hierarchy where level 1 is the preferred method where available:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly obervable from market data.
- Level 3: Inputs that are unobservable. this category includes all instruments for which the valuation technique includes inputs that are not obesrvable and the unobersvable inputs have e a significant effect on the instrument'a valuation. This category includes instruments that are valued based on quoted prices for similar instrumentgs for which significant unobservable adjustments or assumtpions are required to reflect differences between the instruments.

#### 4.7.1. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period

Debt securities and equity securities are carried in the Bank's balance sheet at fair value. The reduction to fair value is performed at the end of each month, and the difference in value in relation to the purchase value is recorded in the benefit / debit of capital.

As at 31 December 2022, all securities are classified as financial assets at fair value through other comprehensive income (FVOCI) at credit risk level 1 (Stage 1) and serve as liquidity reserves. Valuation is performed at fair value in accordance with IFRS. Valuation effects are presented in the Statement of changes in equity within the item Other comprehensive income / loss (fair value reserves). The total market value of securities, including accrued interest, amounts to BAM 111,552 thousand (31.12.2022: BAM 163,399 thousand).

Leveling is done in accordance with regulatory requirements.

The following table presents information on how the fair value of securities at fair value through other comprehensive income (valuation techniques and input data used, in particular).

*(All amounts are given in thousand BAM unless otherwise stated)*

***4.*** **Bank's financial risk management *(continued)***

### 4.7. Fair value of financial assets and liabilities

### 4.7.1. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period (continued)

| Fair value as of 31 December 2023 | Fair value as of 31 December 2022 | Fair value hierarchy |
|---|---|---|
| **Financial assets at fair value, which is measured through other comprehensive income** | | |
| • Republic of Slovenia (long-term bonds) - BAM 3,949 thousand<br>• Kingdom of Belgium (long-term treasury bills) - BAM 2,918 thousand<br>• Ministry of Finance RS (long-term bonds) – BAM 16,162 thousand<br>• Kingdom of Belgium (short-term treasury bills) - BAM 25,440 thousand<br>• Kingdom of Netherlands (short-term bonds) - BAM 21,387 thousand<br>• Republic of Austria (short-term bonds) – BAM 4,874 thousand<br>• Republic of Finland (short-term treasury bills) - BAM 13,619 thousand<br>• Republic of France (short-term treasury bills) - BAM 7,813 thousand<br>• Republic of Germany (short-term treasury bills) - BAM 27,320 thousand<br>• Republic of Slovenia (short-term bonds) - BAM 19,642 thousand | • Republic of Slovenia (long-term bonds) - BAM 29,130 thousand<br>• Republic of France (short-term treasury bills) - BAM 11,670 thousand<br>• Kingdom of Belgium (short-term treasury bills) - BAM 5,835 thousand<br>• Kingdom of Belgium (long-term bonds) - BAM 5,702 thousand<br>• Republic of Slovenia (long-term treasury bills) - BAM 3,530 thousand<br>• Kingdom of Belgium (long-term treasury bills) - BAM 2,656 thousand<br>• French Republic (long-term bonds) - BAM 2,124 thousand<br>• United States (short-term treasury bills) - BAM 1,815 thousand | Level 1 |
| **Financial assets at fair value, which is measured through other comprehensive income** | | |
| • City Banja Luka (long-term bonds) – BAM 485 thousand<br>• Ministry of Finance FBIH (long-term bonds) – BAM 30,229 thousand<br>• Ministry of Finance RS (short-term bonds) – BAM 3,054 thousand<br>• Ministry of Finance BIH (short-term bonds) – BAM 4,928 thousand | • Ministry of Finance FBIH (long-term bonds) – BAM 31,307 thousand<br>• Ministry of Finance RS (short-term bonds) – BAM 27,321 thousand<br>• Ministry of Finance RS (long-term bonds) – BAM 19,034 thousand<br>• Ministry of Finance RS (short-term bonds) – BAM 14,016 thousand<br>• Ministry of Finance FBiH (short-term treasury bills) – BAM 4,998 thousand<br>• Ministry of Finance FBIH (short-term bonds) – BAM 1,441 thousand<br>• City Banja Luka (long-term bonds) – BAM 738 thousand | Level 2 |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.7. Fair value of financial assets and liabilities *(continued)*

#### 4.7.1. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period (continued)

| Fair value as of | | Fair value hierarchy |
|---|---|---|
| **31 December 2023** | **31 December 2022** | |
| **Equity instruments:** | | |
| • SWIFT Belgium – BAM 91 thousand<br>• RVP FBiH – BAM 14 thousand | • SWIFT Belgium – BAM 85 thousand<br>• RVP FBiH – BAM 14 thousand | Level 3 |

#### 4.7.2. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period

The fair value of loans and deposits is calculated by different segments, products and residual maturities. The calculations are based on the net value of the loan increased by future interest. All future cash flows from principal and interest are discounted to present value.

When calculating fair value, the following criteria are taken into account:

1. The calculation is based on data from individual contracts.
2. Performing (loans of ABC creditworthiness clients) and non-performing (loans of DE creditworthiness clients) are especially considered.
3. Segmentation of loans and deposits (government, banks, financial organizations, companies, and households) is taken into account.
4. The calculation of fair value considers the expected cash flows from loans and deposits, from principal and interest, in accordance with repayments plans, whereby the net present value of cash flows from each contract is reduced by credit loss allowance, while accrued interest is not taken into account.

Discount rate used for discounting of future cash flows of loans and deposits in accordance with the net present value methodology, are the average interest rate observable on the market for performing loans and deposits with similar characteristics. For NPL a 20% discount factor is used.

Calculated fair value of financial instruments as at 31 December 2023 is presented below and has no impact on the Bank's existing accounting records:

| | | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|---|
| ***Financial assets*** | **Fair value hierarchy** | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Deposits with other banks | Level 3 | 445 | 382 | 461 | 396 |
| Loans and receivables | Level 3 | 1,118,906 | 1,111,790 | 1,012,946 | 1,006,504 |
| **Total** | | **1,119,351** | **1,112,172** | **1,013,407** | **1,006,900** |
| ***Financial liabilities*** | | | | | |
| Deposits from banks and other financial institutions | Level 3 | 54,922 | 54,911 | 111,070 | 111,047 |
| Deposits from clients | Level 3 | 1,412,767 | 1,408,490 | 1,249,431 | 1,245,649 |
| Loans taken | Level 3 | 89,315 | 83,594 | 67,298 | 59,375 |
| **Total** | | **1,557,004** | **1,546,995** | **1,427,799** | **1,416,071** |

## 4. Bank's financial risk management *(continued)*

### 4.8. Operational risk management

Operational risk management as an important part of the Bank's business activities enables the Bank to operate with its activities successfully and to preserve its reputation.

The Bank performs the following activities with regards to operational risk:
- Permanent identification and risk assessment activities, the identification of all operational risks in business activities in the Bank, in new processes, new products, as well as operating risks related to hiring external suppliers,
- Activities of regular re-identification on an annual basis, review of previously identified operating risks,
- Semi-annual reporting to the Operational risk management board on the maximum limit of risk tolerance, important operational risks of categories A and B (with proposals for their overcoming), as well as important damage events,
- Annual calculation of the Bank's risk profile and comparative overview with risk profile for the previous year and reporting to NLB d.d. and the Operational risk management board,
- Monthly data collection and reporting on negative events,
- Quarterly reporting to the Banking Agency of FBiH,
- Reporting to the Operational Risk Management Committee on the results of monitoring key risk indicators,
- Stress testing in the area of operational risk and reporting to the Operational Risk Management Committee and the FBiH Banking Agency on the results.

In order to improve processes for operational risk management, the Bank performed the following activities:
- Regular activities related to adequate operational risk management for all processes, new projects, outsourcing, and the development of new products, processes, and systems, as well as projects being implemented,
- Continuous activities on the identification of operational risks related to "cyber" crime, inadequate software operations, risks of data incorrectly entered into the software, natural disasters risks, risks of noncompliance with legislation, rules, regulations, agreements, prescribed practices, ethical standards and other operational risks that have a little chance of occurrence but may have a very high financial effect, or they represent a very high risk to the reputation of the Bank, and other specific operational risks to which they would like to draw attention,
- Special emphasis on compliance risk (risk of loss due to legal sanctions), risk of conduct (risk of loss due to deliberate deception of customers in the presentation of products and services, and inadequate treatment of clients in resolving their complaints), risks arising from potential adverse events occurred, and the risk of terrorist attacks,
- Permanent support of audit recommendations in assessing the adequacy of system of controls in certain business areas,
- Preparation of analyses of operational risk within the most important business processes,
- Holding meetings of the Operational risk management board on a monthly basis,
- Continuous education of employees on processes of identification of operational risks and reporting on recorded harmful events, potential harmful events and increasing awareness on the presence of such risks in the working environment of all Bank employees,
- Owners of operational risk processes have been appointed to identify significant / key / systemic risks in individual processes, define specific measures for risk management and centralized monitoring of implementation.
- the analysis of the impact on the Bank's operations was carried out (Business impact analysis) and the testing of the reserve location (Disaster recovery testing) was completed.

## 4. Bank's financial risk management *(continued)*

### 4.9. Capital risk management

In accordance with the Law on Banks of Federation of Bosnian and Herzegovina (Official gazette of FBiH, number: 27/17), the minimum amount of the Bank's subscribed founding capital cannot be less than BAM 15,000 thousand.

The aim of managing of the Bank's capital is to ensure and maintain the optimum volume, structure and sources of capital, to enable:

- Ensure all legal (regulatory) requirements,
- Cover all risks assumed in the Bank's operations,
- Continuous achievement of strategic goals of the Bank and
- Achieving optimal return on equity to shareholders.

The Bank's Management monitors capital adequacy indicators and other business indicators monthly and reports on indicators' actual values are delivered to the FBA quarterly in a prescribed form.

The Bank, in accordance with the Decision on Calculating the Capital of the Bank (FBiH Official Gazette, No. 81/17, 50/19, 37/20 and 81/20) (hereinafter: the Decision), must at all times meet the following minimum capital requirements:

1. regular share capital rate of 7.50% (CET1 rate), as a ratio of common equity (Tier 1) to total risk exposure,
2. Additional Tier 1 capital rate of 9.75% (T1 rate), as a ratio of share capital to total risk exposure, and
3. Tier 2 capital rate of 12.75%, as the ratio of regulatory capital to the total amount of risk exposure.

According to this Decision, the regulatory capital of the Bank represents the sum of core and additional capital, after regulatory adjustments:

1. Common equity (Tier 1) represents sum of regular core capital items (CET 1) after regulatory adjustments and additional Tier 1 capital items (AT1) after regulatory adjustments.
2. Additional capital of Bank (Tier 2) is the sum of capital instruments, subordinated debts, and other items of additional capital after deduction for regulatory compliance, which cannot be more than one-third of the core capital.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 4. Bank's financial risk management *(continued)*

### 4.9. Capital risk management *(continued)*

The Bank calculates total risk exposure as a sum of the following item:
- Exposure weighted with risk for credit risk,
- Capital requirements relating to market risks (foreign exchange risk, settlement risk, commodity risk) and
- Capital requirements for operational risk.

When calculating the total amount of risk exposure, the Bank multiplies capital requirements relating to market risks and operational risk with 8.33.
Also, the Bank must maintain a conservation buffer of capital in the form of regular core capital in the amount of 2.5% of the total amount of risk exposure. The capital conservation buffer represents a part of the ordinary core capital above the prescribed minimum of 6.75% of the total amount of risk exposure and cannot be used to maintain the rate of the core and the total capital rate.
The FBA may determine the rate of capital buffer for a systemically important bank in the amount of 0% to 2% of the total amount of exposure to risk.

The requirement for a combined equity conservation buffer is core capital (expressed as a percentage of the total amount of risk exposure), which is intended to meet the requirements for a capital conservation buffer, plus the following conservation buffers, depending on what is applicable:
1. Countercyclical buffer specific for the bank
2. Buffer for a systemically important bank and
3. Systemic risk buffer.

The application of Countercyclical buffer specific for the bank, buffer for a systemically important bank and systemic risk buffer are not prescribed yet.

Since the beginning of the application of the Decision on the calculation of Bank capital, the Bank maintains a regulatory capital rate above the required minimum of 12% and fulfills requirement for maintenance of capital conservation buffer of 2.5%, as well as an additional requirement for Risk Appetite of the Bank of 0.75%.

The following table presents regulatory capital items, amount of exposure to risk, and capital ratios in accordance with the Decision as of 31 December 2022:

| | **31 December 2023 unaudited** | **31 December 2022 audited** |
|---|---|---|
| **Regulatory capital of the Bank** | **185,763** | **157,287** |
| Exposure weighted with credit risk | 975,789 | 890,927 |
| Risk exposure for valuation risk | - | - |
| Risk exposure for operational risk | 68,589 | 63,634 |
| **Total risk exposure** | **1,044,378** | **954,561** |
| Common Equity Tier 1 ratio | **15.44%** | **15.86%** |
| Additional Tier 1 capital ratio | **15.44%** | **15.86%** |
| Tier 2 capital | **17.79%** | **16.48%** |
| Common Equity Tier 1 ratio – required | 10.0% | 10.0% |
| Additional Tier 1 capital ratio - required | 12.25% | 12.25% |
| Tier 2 capital - required | 15.25% | 15.25% |

### 4. Bank's financial risk management *(continued)*

### 4.9. Capital risk management *(continued)*

The ICAAP is an important part of capital planning. ICAAP defines a set of restrictions for different types of risks (all relevant types of risks to which the Bank may be exposed, not only materially the largest), in terms of their consumption of capital under normal and stressful conditions.

ICAAP's most important goal at the Bank is to ensure adequate capital and sustainability in every moment. The purpose of the ICAAP process is for the Bank to have in place sound, effective and comprehensive strategies and processes for assessing and maintaining current amounts, types and allocation of internal capital that are considered adequate to cover the nature and level of risk to which the Bank may or may be exposed. ICAAP plays a key role in maintaining the continuity of the Bank's operations by ensuring its adequate capitalization.

An economic perspective gives a very comprehensive view of risks. From an economic perspective, the goal is to provide the capital needed internally for the risks that could cause economic loss, based on current quantification and using very high levels of reliability to estimate unexpected losses. Some of these risks, or the risks associated with them, can be partially or fully materialized later under a normative perspective through the adverse impact on the income statement that results in a decrease in equity. Therefore, the Bank is expected to evaluate in a regulatory perspective the extent to which risks identified and quantified in the economic perspective could affect equity and the total amount of risk exposure in the future.

The normative perspective is a multi-year assessment of the Bank's ability to meet all quantitative regulatory and supervisory requirements related to capital. The Bank is expected to manage its capital adequacy from an economic perspective by ensuring that its risks are adequately covered by internal capital. In the normative perspective, the results of stress resistance testing were taken into account for the purpose of possible adjustment of internal capital requirements in accordance with the economic perspective of capital.

During 2023, the Bank continuously maintained capital ratios above the prescribed regulatory / supervisory minimums and in accordance with internally defined limits, which indicates the ability to meet all regulatory and supervisory requirements related to capital adequacy.

Data presented on 31 December 2023, at the time of preparation of these reports have not yet been audited given that the regulatory audit deadline is May 31, 2024.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 5. Net Interest Income and similar income

### *a. Interest Income calculated using the effective interest rate*

| | 2023 | 2022 |
|---|---|---|
| Loans measured at amortized cost | 52,655 | 41,872 |
| Placements with banks | 2,758 | 140 |
| Other interest and similar income | 997 | 197 |
| **Interest Income** | **56,410** | **42,209** |
| **Financial assets at fair value through other comprehensive income** | **4,032** | **1,764** |
| **Total income from interest and similar income at effective interest rate** | **60,442** | **43,973** |

### *b. Interest Expense and similar expenses at effective interest rate*

| | 2023 | 2022 |
|---|---|---|
| Deposits | 5,331 | 3,192 |
| Loan liabilities | 2,369 | 888 |
| Subordinated debt | 1,464 | 280 |
| Discount amount of provision under IAS 19 | 65 | 32 |
| Other interest expenses | 100 | 1,405 |
| **Interest Expense** | **9,329** | **5,797** |
| **Net Interest Income and similar income at effective interest rate** | **51,113** | **38,176** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 6. Net fee and commission income

### *a. Fee and commission income*

| | 2023 | 2022 |
|---|---|---|
| Income from payment transactions | 11,736 | 11,220 |
| Income from card transactions | 10,432 | 9,319 |
| Income from basic accounts | 7,826 | 6,741 |
| Income from fees for exchange transactions | 2,200 | 2,569 |
| Income fees from bank insurance and other | 1,683 | 1,602 |
| Income from fees and commissions from contracts with clients | **33,877** | **31,451** |
| Income from fees and commissions from guarantees and credit obligations | **1,540** | **1,495** |
| **Fee and commission income** | **35,417** | **32,946** |

### *b. Fee and commission expense*

| | 2023 | 2022 |
|---|---|---|
| Payment transactions and other banking services expenses | 1,105 | 1,133 |
| Deposit insurance expenses | 9,731 | 8,330 |
| **Fee and commission expense** | **10,836** | **9,463** |
| **Net fees and commission income** | **24,581** | **23,483** |

The Bank did not disclose the value of any open performance obligations at 31 December 2022, as its contracts with clients generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year.

## 7. Impairment losses and provisions

### *a.* Impairment losses and provisions from financial assets

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | |
| Net credit losses from financial assets at amortised cost | (3,606) | (3,567) | 2,895 | (4,278) | (1,057) |
| Net credit losses from financial assets at FVOCI | 252 | (1) | - | 251 | (216) |
| Allowance for credit losses for loan commitments and financial guarantee contracts (net) (Note 24b) | 163 | (784) | 386 | (235) | (1,280) |
| **Total impairment losses and provisions** | **(3,191)** | **(4,352)** | **3,281** | **(4,262)** | **(2,553)** |

### *b.* Other impairment losses and provisions

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | |
| Net provisions / Provision for court disputes (Note 24b) | 30 | - | - | 30 | 619 |
| Other provisions / net earlier admitted provisions | (254) | - | - | (254) | (634) |
| **Total impairment losses and provisions** | **(224)** | **-** | **-** | **(224)** | **(15)** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 8. Other gains and (losses) from financial assets

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | |
| Net losses on modifications of financial assets which did not result in derecognition | (2,055) | - | - | (2,055) | - |
| Net effects of value changes of financial liabilities at fair value through profit or loss | (135) | - | - | (135) | 45 |
| Other gains from financial assets | 155 | - | - | 155 | 151 |
| | **(2,035)** | **-** | **-** | **(2,035)** | **196** |

## 9. Foreign exchange gains

| | 2023 | 2022 |
|---|---|---|
| Fee income from foreign exchange transactions | 1,016 | 1,037 |
| Fee expense from foreign exchange transactions | (198) | (153) |
| | 818 | 884 |
| Foreign exchange differences, net | 5 | 26 |
| | **823** | **910** |

## 10. Other gains and (losses) from long term non-financial assets

| | 2023 | 2022 |
|---|---|---|
| Net gains and (losses) from rights of use assets | 1,176 | 46 |
| Net gains and (losses) from non-current assets held for sale | 96 | 732 |
| Net gains and (losses) from property, plant and equipment | 82 | 33 |
| Other gains/(losses) from earlier acknowledged from value impairment of long term non-financial assets | (19) | 465 |
| | **1,335** | **1,276** |

## 11. Other income

| | 2023 | 2022 |
|---|---|---|
| Income from lease | 192 | 208 |
| Subsequently determined interest and fee income | 24 | 105 |
| Other income | 129 | 77 |
| | **345** | **390** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 12. Employees' expenses

| | 2023 | 2022 |
|---|---|---|
| Net salaries | 10,895 | 9,585 |
| Taxes and contributions | 6,984 | 6,167 |
| Meal and transport | 1,586 | 1,355 |
| Holiday allowance | 1,022 | 905 |
| Other | 987 | 938 |
| | **21,474** | **18,950** |

The average number of employees by calculated hours in 2023 was 452 (2022: 437).

## 13. Other expenses and costs

| | 2023 | 2022 |
|---|---|---|
| Deposits insurance expenses | 3,050 | 2,440 |
| Maintenance | 2,624 | 2,349 |
| Marketing costs | 1,790 | 1,234 |
| Postal and telecommunications services cost | 1,389 | 1,369 |
| Services | 1,380 | 1,223 |
| Security costs | 1,195 | 1,222 |
| Fees to FBA | 1,058 | 929 |
| Office supplies and small inventory | 677 | 635 |
| Utilities | 624 | 703 |
| Rent | 488 | 586 |
| Legal expenses and other administrative expenses | 261 | 241 |
| Cleaning costs | 196 | 202 |
| Insurance expenses | 130 | 380 |
| Management fee | 100 | 77 |
| Other costs and expenses | 3,557 | 551 |
| | **18,519** | **14,141** |

Other costs and expenses include the costs of the independent external auditor, whose structure is shown below:

| | 2023 | 2022 |
|---|---|---|
| Audit of financial statements | 121 | 126 |
| Other audit services | 11 | 11 |
| Other non-audit services | 39 | - |
| **Ukupno** | **171** | **137** |

In accordance with the contract on the audit of the annual report, group reporting 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 102 thousand excluding VAT and expenses (2022: BAM 107 thousand excluding VAT and expenses, Deloitte d.o.o. Sarajevo).

*(All amounts are given in thousand BAM unless otherwise stated)*

## 14. Income tax

Total tax recognized in the statement of profit or loss and other comprehensive income can be presented as follows:

| | 2023 | 2022 |
|---|---|---|
| Income tax for the year | 2.844 | 2,554 |
| Deferred tax | (775) | (690) |
| | **2.069** | **1,864** |

Reconciliation of the income tax presented in the tax balance and the accounting income tax can be presented as follows:

| | 2023 | 2022 |
|---|---|---|
| Profit before tax | 26,979 | 23,984 |
| Income tax at the statutory rate of 10% | 2,698 | 2,398 |
| Capital gains/losses | - | - |
| Non-taxable income | (97) | (97) |
| Effect of non-deductible expenses | 963 | 739 |
| Tax reliefs | (720) | (485) |
| Effects of temporary tax differences | (775) | (691) |
| **Income tax expense** | **2,069** | **1,864** |
| **Effective income tax rate for the year** | **7.67%** | **7.77%** |

### 14.a Deferred tax assets and liabilities

**Movement in deferred tax assets**

| | 2023 | 2022 |
|---|---|---|
| Balance at 31 December previous year | 1,007 | 92 |
| Deferred tax assets-other provisions | 21 | 55 |
| Deferred tax assets-stage 1 and 2 impairment allowances | 754 | 630 |
| Deferred tax assets-impairment of other assets | - | 5 |
| Deferred tax assets-debt securities at FVOCI | (140) | 225 |
| **Balance at 31 December** | **1,642** | **1,007** |

**Movement in deferred tax liabilities**

| | 2023 | 2022 |
|---|---|---|
| Balance at December 31 previous year | 6 | - |
| Deferred tax liabilities-equity securities | - | 6 |
| Deferred tax liabilities-debt securities | - | - |
| **Balance at 31 December** | **6** | **6** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 14. Income tax (continued)

### 14.a Deferred tax assets and liabilities (continued)

Deferred tax (tax assets or tax liabilities) is recognized for the difference between the carrying amount for tax purposes and the carrying amount for the following items:

| | Deferred tax assets | Deferred tax liabilities | Net deferred tax assets / (liabilities) |
|---|---|---|---|
| **Balance at 31.12.2021** | **93** | **-** | **93** |
| Other provisions for loans and receivables | 54 | | 54 |
| Gain-deferred tax assets IV Stage 1 and 2 | 630 | - | 630 |
| Impairment | 5 | | 5 |
| Changes in fair value of debt securities | 225 | - | 225 |
| Changes in fair value of equity securities | - | 6 | (6) |
| **Balance at 31.12.2022** | **1.007** | **6** | **1.001** |
| Other provisions for loans and receivables from clients through profit or loss | 21 | - | 21 |
| Gain-deferred tax assets Stage 1 and 2 | 754 | - | 754 |
| Changes in fair value of debt securities | (140) | - | (140) |
| **Balance at 31.12.2023** | **1,642** | **6** | **1,636** |

## 15. Cash and cash equivalents

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Cash in hand | 50,042 | 59,041 |
| Balances with banks with maturity until 30 days | 104,284 | 48,639 |
| Liquidity reserves above the required reserve at the Central Bank | 83,180 | 166,627 |
| Calculated interest on assets at banks | 64 | 7 |
| | **237,570** | **274,314** |
| Less: Value adjustment | (188) | (225) |
| | **237,382** | **274,089** |

Cash and cash equivalents include cash in hand and balances on accounts with the Central Bank of BiH, and cash on accounts with other banks without placements to banks with maturity more than 30 days.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 15. Cash and cash equivalents (continued)

The table below presents the gross exposure of the Bank in a form of placements with banks according to the internal rating system (internal classification) and by the level of credit risk (stage classification) at the end of the year:

| ***Gross exposure*** | **31 December 2023** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2022** |
| Cash and cash eqvivalents | 237,570 | - | - | 237,570 | 274,314 |
| | **237,570** | **-** | **-** | **237,570** | **274,314** |

| ***Gross exposure*** | **31 December 2023** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D** | **E** | **Total** | **2022** |
| Cash and cash eqvivalents | 115,848 | 121,722 | - | - | - | 237,570 | 274,314 |
| | **115,848** | **121,722** | **-** | **-** | **-** | **237,570** | **274,314** |

| ***Imapairment*** | **31 December 2023** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2022** |
| Cash and cash eqvivalents | (188) | - | - | (188) | (225) |
| | **(188)** | **-** | **-** | **(188)** | **(225)** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 16. Financial assets at fair value through other comprehensive income

The Bank classifies financial assets according to IFRS 9 as financial assets measured at fair value through other comprehensive income.

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **16.a Investment in equity instruments** | | |
| S.W.I.F.T., Belgium | 91 | 85 |
| Register of securities of the Federation of Bosnia and Herzegovina, Sarajevo | 14 | 14 |
| | **105** | **99** |

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **16.b Debt securities** | | |
| Government F BiH – Federal Ministry of finance | 35,157 | 37,746 |
| Kingdom of Belgium | 28,358 | 14,193 |
| Republic of Germany | 27,320 | - |
| Ministry of finance of Republic of Slovenia | 23,591 | 32,660 |
| Kingdom of the Netherlands | 21,387 | - |
| Republic of Srpska – Ministry of finance | 19,216 | 60,371 |
| Republic of Finland | 13,619 | - |
| Republic of France | 7,813 | 13,794 |
| Republic of Austria | 4,874 | - |
| City of Banja Luka | 485 | 738 |
| Switzerland | - | 1,983 |
| United states of America | - | 1,815 |
| | **181,819** | **163,300** |

The bank had no dividend income in 2023.

*(All amounts are given in thousand BAM unless otherwise stated)*

### 16. Financial assets at fair value through other comprehensive income (continued)

The table below shows the Bank's gross exposure in the form of financial instruments at fair value through other total scoring according to the internal rating system (internal classification) and the level of credit risk (stage classification) at the end of the year:

| 31 December 2023 | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Internal classification*** | | | | | | | |
| A | - | 127,179 | - | - | - | - | 127,179 |
| B | - | 55,366 | - | - | - | - | 55,366 |
| C | - | - | - | - | - | - | - |
| D i E | - | - | - | - | - | - | - |
| | **-** | **182,545** | **-** | **-** | **-** | **-** | **182,545** |

| 31 December 2022 | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Internal classification*** | | | | | | | |
| A | - | 64,610 | - | - | - | - | 64,610 |
| B | - | 99,666 | - | - | - | - | 99,666 |
| C | - | - | - | - | - | - | - |
| D i E | - | - | - | - | - | - | - |
| | **-** | **164,276** | **-** | **-** | **-** | **-** | **164,276** |

Change in gross carrying amount value and related value adjustment for financial assets measured at fair value through other comprehensive income in 2023 are shown below:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Fair value at* 31 December 2022** | - | ***164,276*** | - | - | - | - | ***164,276*** |
| New assets approved or purchased | - | 125,848 | - | - | - | - | 125,848 |
| Asset derecognition/maturity (excluding write-offs) | - | -106,177 | - | - | - | - | -106,177 |
| Changes in fair value | - | -1,402 | - | - | - | - | -1,402 |
| Transfer in Stage 1 | - | | - | - | - | - | - |
| Transfer in Stage 2 | - | | - | - | - | - | - |
| Transfer in Stage 3 | - | | - | - | - | - | - |
| **As at 31 December 2023** | - | **182,545** | - | - | - | - | **182,545** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 16. Financial assets at fair value through other comprehensive income (continued)

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Value adjustments as of 31 December 2022*** | **-** | ***873*** | **-** | **-** | **-** | **-** | ***873*** |
| New assets approved or purchased | - | 166 | - | - | - | - | 166 |
| Asset derecognition/maturity (excluding write-offs) | - | (418) | - | - | - | - | (418) |
| Transfer in Stage 1 | - | - | - | - | - | - | - |
| Transfer in Stage 2 | - | - | - | - | - | - | - |
| Transfer in Stage 3 | - | - | - | - | - | - | - |
| Changes due to non-recognition modifications | - | - | - | - | - | - | - |
| Changes in models/parameters for credit risk assessment | - | - | - | - | - | - | - |
| Improvements | - | - | - | - | - | - | - |
| Change in fair value | - | | - | - | - | - | |
| Write offs | - | - | - | - | - | - | - |
| Exchange rate differences | - | - | - | - | - | - | - |
| **As at 31 December 2023** | **-** | **621** | | | | | **621** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Value adjustments as of 31 December 2021*** | **-** | **668** | **-** | **-** | **-** | **-** | **668** |
| New assets approved or purchased | - | 583 | - | - | - | - | 583 |
| Asset derecognition/maturity (excluding write-offs)) | - | (290) | - | - | - | - | (290) |
| Transfer u Stage 1 | - | - | - | - | - | - | - |
| Transfer u Stage 2 | - | - | - | - | - | - | - |
| Transfer u Stage 3 | - | - | - | - | - | - | - |
| Changes due to non-recognition modifications | - | - | - | - | - | - | - |
| Changes in models/parameters for credit risk assessment | - | - | - | - | - | - | - |
| Improvements | - | - | - | - | - | - | - |
| Change in fair value | - | (88) | - | - | - | - | (88) |
| Write offs | - | - | - | - | - | - | - |
| Exchange rate differences | - | - | - | - | - | - | - |
| **As at 31 December 2022** | **-** | **873** | **-** | **-** | **-** | **-** | **873** |

*(All amounts are given in thousand BAM unless otherwise stated)*

**16. Financial assets at fair value through other comprehensive income (continued)**

**Equity instruments at fair value through other comprehensive income:**

| Structure of equity investments | Activities | Country of business | % of ownership 31 December 2023. | % of Ownership 31 December 2022. |
|---|---|---|---|---|
| The Association of Banks of Bosnia and Herzegovina | Activities of other membership organizations | Bosnia and Herzegovina | 4.35 | 4.35 |
| Register of Securities of FBiH | Registration and maintenance of securities data | Bosnia and Herzegovina | 0.687 | 0.687 |
| S.W.I.F.T. | Payment transactions | Belgium | 0.0055 | 0.0055 |

A review of debt securities at the level of evaluation on the day 31. December 2023.:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Debt securities | 126,961 | 54,858 | - | 181,819 |
| **Total** | **126,961** | **54,858** | **-** | **181,819** |

Overwiev of securities by the level of valuation as of 31. December 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Debt securities | 64,445 | 98,855 | - | **163,300** |
| **Total** | **64,445** | **98,855** | | **163,300** |

The table above presents debt securities classified in different fair value hierarchy levels.

The portfolio of debt securities in level 1 consists of bonds and treasury bills of the Ministry of Finance of the Republic of Slovenia, the Kingdom of Belgium, the Republic of France, the Republic of Germany, the Kingdom of the Netherlands and the Republic of Finland.

The securities portfolio in level 2 consists of long-term bonds and treasury bills of the RS Ministry of Finance, the FBiH Ministry of Finance and the City of Banja Luka.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost

### 17.a Reserve with the central bank of BiH

The reserve requirement is the minimum amount that must be deposited with the Central Bank of Bosnia and Herzegovina. According to the Law on the Central Bank of Bosnia and Herzegovina, as of July 1, 2016, the reserve requirement represents 10% of the average ten-day deposits and borrowed funds, regardless of which currency the funds are expressed in. The reserve requirement is maintained through average account balances with the Central Bank of Bosnia and Herzegovina.

| | **31.12.2023** | **31.12.2022** |
|---|---|---|
| Obligatory reserve at Central Bank BiH | 153,269 | 140,588 |
| Less: Impairment | (153) | (141) |
| | **153,116** | **140,447** |

Central bank in the bank's reserve account in the accounting period:

- on the amount of the reserve required on the basis of the base in domestic currency (KM) – does not charge a fee,
- on funds of compulsory reserves based on the base in foreign currencies and in domestic currency with a currency clause – charges a fee at the rate applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate) reduced by 10 basis points,
- on the amount of funds above the reserve requirement – calculates a fee at the rate applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate) minus 25 basis points.

The Central Bank of Bosnia and Herzegovina (CBBH) has adopted a Decision amending the Decision on determining and maintaining reserve mandatory and determining the fee on the amount of reserves, with the aim of aligning with the policy of the European Central Bank (ECB) and mitigating the impact of the growth of the ECB's reference interest rate on the operations of banks in BiH. The decision entered into force on January 1, 2023.

The Central Bank of BiH, based on this decision, will in the coming period:

- calculate and pay compensation at the rate of 25 basis points on the amount of the required reserve based on the base in domestic currency (KM),
- calculate and pay compensation at the rate of 30 basis points on reserves on the basis of foreign currencies and in domestic currency with a currency clause
- will not charge compensation on funds above the required reserve.

(All amounts are given in thousand BAM unless otherwise stated)

## 17. Financial assets at amortized cost (continued)

### 17.a Reserve with the CB of BiH

The tables below show the Bank's gross exposure in the form of a mandatory reserve with the CBBH, and the calculated impairment according to the levels of credit risk (stage classification) at the end of the year:

| ***Gross exposure*** | 31.12.2023 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2022.** |
| *Obligatotiry reserve with the CB of BiH* | 153,269 | - | - | 153,269 | 140,588 |
| | **153,269** | | | **153,269** | **140,588** |

| ***Gross exposure*** | 31.12.2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D** | **E** | **Total** | **2021.** |
| *Obligatory reserve with the CB of BiH* | - | 153,269 | - | - | - | 153,269 | 140,588 |
| | **-** | **153,269** | **-** | **-** | **-** | **153,269** | **140,588** |

| ***Impairment*** | 31.12.2023 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2021.** |
| *Obligatory reserve with the CB of BiH* | (153) | - | - | (153) | (141) |
| | **(153)** | - | - | **(153)** | **(141)** |

### 17.b Deposits with other banks

| | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Deposits with other banks | 446 | 462 |
| Less: Impairment | (1) | (1) |
| | **445** | **461** |

The tables below show the Bank's gross exposure in the form of deposits with other banks, and the calculated impairment according to credit risk levels (stage classification) at the end of the year:

| ***Gross exposure on 31.12.2022*** | 31.12.2023 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2022** |
| Deposits with other banks | 446 | - | - | 446 | 462 |
| | **446** | - | - | **446** | **462** |

| ***Gross exposure on 31.12.2023*** | 31.12.2023. | | | | | | |
|---|---|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D** | **E** | **Total** | **2022** |
| Deposits with other banks | 446 | - | - | - | - | 446 | 462 |
| | **446** | - | - | - | - | **446** | **462** |

| ***Impairment on 31. december 2023*** | 31.12.2023 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **2022** |
| Deposits with other banks | (1) | - | - | (1) | (1) |
| | **(1)** | - | - | **(1)** | **(1)** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients

| | Short-term loans on 31 December | | Long-term loans on 31 December | | Total on 31 December | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| Retail loans | 32,300 | 31,119 | 635,112 | 573,890 | 667,412 | 605,009 |
| Corporate loans | 261,171 | 258,432 | 232,101 | 190,090 | 493,272 | 448,522 |
| | **293,471** | **289,551** | **867,213** | **763,980** | **1,160,684** | **1,053,531** |
| Less: impairment | (10,085) | (9,800) | (31,693) | (30,785) | (41,778) | (40,585) |
| | **283,386** | **279,751** | **835,520** | **733,195** | **1,118,906** | **1,012,946** |

The table below shows the Bank's gross exposure in the form of loans to clients according to the internal credit rating system (internal classification) and according to credit risk levels (stage classification) at the end of the year:

| | **31 December 2023** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** |
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | |
| ***Internal classifications*** | | | | | | | |
| A | - | 692,537 | - | 2,975 | - | - | 695,512 |
| B | - | 380,443 | - | 11,022 | - | - | 391,465 |
| C | - | 31,894 | - | 17,141 | - | - | 49,036 |
| D i E | - | | | | 10,085 | 14,586 | 24,672 |
| | **-** | **1,104,875** | **-** | **31,138** | **10,085** | **14,586** | **1,160,684** |

| | **31 December 2022** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** |
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | |
| ***Internal classifications*** | | | | | | | |
| A | - | 619,964 | - | 3,517 | - | - | 623,481 |
| B | - | 350,304 | - | 10,638 | - | - | 360,942 |
| C | - | 34,787 | - | 7,214 | - | - | 42,001 |
| D i E | - | - | - | - | 10,079 | 17,028 | 27,107 |
| | **-** | **1,005,055** | **-** | **21,369** | **10,079** | **17,028** | **1,053,531** |

The movement of loan impairment in 2023 and 2022 is shown in the following table:

| | **2023** | **2022** |
|---|---|---|
| **1 January** | **40,585** | **39,724** |
| Increase in impairment for the year | 18,931 | 27,848 |
| Decrease in impairment | (12,409) | (22,195) |
| Increase by year, net | 6,522 | 5,653 |
| Decrease in impairment based on unwinding | (6) | (17) |
| Net cost of interest impairment | (69) | 56 |
| Accounting write-offs during the year | (4,982) | (4,738) |
| Permanent write-off | (272) | (93) |
| **31 December** | **41,778** | **40,585** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

Below is an overview of loans given to customers by segments and by credit risk levels as of 31 December 2023, and 31 December 2022:

| | 31 December 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Stage 1** | | **Stage 2** | | **Stage 3** | | |
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Total** |
| *Retail loans* | | | | | | | |
| Housing loans | - | 142,904 | - | 1,566 | 98 | 320 | 144,888 |
| Consumer loans | - | 402,309 | - | 6,386 | - | 12,981 | 421,676 |
| Other retail loans | - | 98,801 | - | 1,196 | 2 | 853 | 100,852 |
| | **-** | **644,015** | **-** | **9,148** | **99** | **14,154** | **667,416** |
| *Corporate loans* | | | | | | | |
| Corporate clients | - | 400,536 | - | 19,536 | 6,061 | - | 426,133 |
| SME clients | - | 43,052 | - | 1,447 | 3,824 | 50 | 48,374 |
| Other clients | - | 17,271 | - | 1,007 | 101 | 382 | 18,761 |
| | **-** | **460,860** | **-** | **21,990** | **9,986** | **432** | **493,268** |
| | | **1,104,875** | **-** | **31,138** | **10,085** | **14,586** | **1,160,684** |
| Less: Impairment | - | (17,095) | | (4,184) | (8,810) | (11,689) | (41,778) |
| **Total loans (net)** | **-** | **1,087,780** | **-** | **26,954** | **1,275** | **2,897** | **1,118,906** |

| | 31 December 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Stage 1** | | **Stage 2** | | **Stage 3** | | |
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Total** |
| *Retail loans* | | | | | | | |
| Housing loans | - | 133,022 | - | 1,192 | 74 | 792 | 135,080 |
| Consumer loans | - | 416,027 | - | 6,823 | 61 | 15,454 | 438,365 |
| Other retail loans | - | 30,518 | - | 391 | 5 | 650 | 31,564 |
| | **-** | **579,567** | **-** | **8,406** | **140** | **16,896** | **605,009** |
| *Corporate loans* | - | 375,521 | - | 10,854 | 5,311 | - | 391,686 |
| Corporate clients | - | 34,030 | - | 1,755 | 4,527 | - | 40,312 |
| SME clients | - | 15,937 | - | 354 | 101 | 132 | 16,524 |
| Other clients | **-** | **425,488** | **-** | **12,963** | **9,939** | **132** | **448,522** |
| | **-** | **1,005,055** | **-** | **21,369** | **10,079** | **17,028** | **1,053,531** |
| Less: Impairment | - | (12,820) | - | (2,794) | (9,215) | (15,756) | (40,585) |
| **Total loans (net)** | **-** | **992,235** | **-** | **18,575** | **864** | **1,272** | **1,012,946** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

Changes in the gross carrying amount and the related value adjustments for retail loans in 2023 are, as follows:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Total** |
| ***Gross carrying amount as at 31 December 2022*** | **-** | **579,568** | **-** | **8,406** | **140** | **16,896** | **605,010** |
| New assets originated or purchased | - | 292,454 | - | 1,696 | - | 972 | **295,122** |
| Assets derecognized or matured (excluding write-offs) | - | (221,625) | - | (3,335) | (107) | (2,397) | **(227,464)** |
| Transfers to Stage 1 | - | 2,922 | - | (2,167) | - | (755) | **-** |
| Transfers to Stage 2 | - | (5,198) | - | 5,808 | - | (610) | **-** |
| Transfers to Stage 3 | - | (3,553) | - | (1,260) | 103 | 4,710 | **-** |
| Changes to contractual cash flows due to modification not resulting in derecognition | - | (553) | - | - | - | - | **(553)** |
| Accounting write-off | | | | | (37) | (4,385) | **(4,422)** |
| Write-offs | - | - | - | - | - | (277) | **(277)** |
| **At *31 December 2023*** | **-** | **644,015** | **-** | **9,148** | **99** | **14,154** | **667,416** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Individual assessment** | **Collective assessment** | **Total** |
| ***ECL Allowance as 31 December 2022*** | **-** | **7,496** | **-** | **1,457** | **167** | **15,624** | **24,744** |
| New assets originated or purchased | - | 5,912 | - | 499 | - | 899 | **7,310** |
| Assets derecognized or matured (excluding write-offs) | - | (2,871) | - | (326) | (130) | (2,429) | **(5,756)** |
| Transfers to Stage 1 | - | 941 | - | (332) | - | (609) | **-** |
| Transfers to Stage 2 | - | (89) | - | 595 | - | (506) | **-** |
| Transfers to Stage 3 | - | (39) | - | (299) | 8 | 330 | **-** |
| Decrease in CLA due to improvement | - | (890) | - | (407) | - | (25) | **(1,322)** |
| Increase in CLA due to worsening | - | - | - | 817 | 44 | 2,700 | **3,561** |
| Changes to contractual cash flows due to modification not resulting in de-recognition | - | - | - | - | - | | **-** |
| Accounting write-off | - | - | - | - | (37) | (4,385) | **(4,422)** |
| Write-offs | - | - | - | - | - | **(264)** | **(264)** |
| **At *31 December 2023*** | **-** | **10,460** | **-** | **2,004** | **52** | **11,335** | **23,851** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c. Loans and trade receivables *(continued)*

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Gross carrying amount as at 31 December 2021*** | **-** | **476,718** | **-** | **13,247** | **351** | **20,830** | **511,146** |
| New assets originated or purchased | - | 107,793 | - | 330 | (63) | (1,382) | 173,678 |
| Assets derecognized or matured (excluding write-offs) | - | (72,989) | - | (1,530) | (75) | (965) | (75,559) |
| Transfers to Stage 1 | - | 8,953 | - | (7,624) | | (1,329) | - |
| Transfers to Stage 2 | - | (4,846) | - | 5,523 | | (677) | - |
| Transfers to Stage 3 | - | (3,061) | - | (1,540) | (73) | 4,674 | - |
| Changes to contractual cash flows due to modification not resulting in derecognition | - | - | - | - | - | - | - |
| Accounting write-off | - | - | - | - | - | (4,163) | (4,163) |
| Write-offs | - | - | - | - | - | (93) | (93) |
| **At *31 December 2022*** | **-** | **579,568** | **-** | **8,406** | **140** | **16,895** | **605,009** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***ECL Allowance as at 31 December 2021*** | **-** | **3,705** | **-** | **2,012** | **307** | **19,528** | **25,552** |
| New assets originated or purchased | - | 3,547 | - | 234 | - | 327 | 4,108 |
| Assets derecognized or matured (excluding write-offs) | - | (572) | - | (205) | (102) | (892) | (1,771) |
| Transfers to Stage 1 | - | 2,136 | - | (992) | - | (1,144) | - |
| Transfers to Stage 2 | - | (33) | - | 644 | - | (608) | - |
| Transfers to Stage 3 | - | (21) | - | (456) | (64) | 541 | - |
| Decrease in CLA due to improvement | - | (2,380) | - | (635) | (11) | (1,337) | **(4,363)** |
| Increase in CLA due to worsening | - | 1,114 | - | 858 | 10 | 3,492 | **5,474** |
| Changes to contractual cash flows due to modification not resulting in de-recognition | - | - | - | - | - | - | - |
| Accounting write-off | - | - | - | - | - | (4,163) | **(4,163)** |
| Write-offs | - | **-** | **-** | **-** | **-** | **(93)** | **(93)** |
| **At *31 December 2022*** | **-** | **7,496** | **-** | **1,457** | **140** | **15,651** | **24,744** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

Changes in the gross carrying amount and the related value adjustments for corporate loans in 2023 are, as follows:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Gross carrying amount as at 31 December 2022*** | **-** | **425,480** | **-** | **12,965** | **9,939** | **132** | **448,516** |
| New assets originated or purchased | - | 364,300 | - | 10,644 | 472 | 82 | **375,498** |
| Assets derecognized or matured (excluding write-offs) | - | (317,045) | - | (6,172) | (575) | (39) | **(323,831)** |
| Transfers to Stage 1 | - | 1,506 | - | (1,506) | - | - | - |
| Transfers to Stage 2 | - | (11,206) | - | 11,206 | - | - | - |
| Transfers to Stage 3 | - | (286) | - | (868) | 810 | 344 | - |
| Changes to contractual cash flows due to modification not resulting in de-recognition | - | (1,298) | - | - | - | - | **(1,298)** |
| Accounting write-off | - | - | - | - | (516) | (44) | **(560)** |
| Write-offs | **-** | **-** | **-** | **(102)** | **-** | **-** | **(102)** |
| **At *31 December 2023*** | **-** | **460,860** | **-** | **21,990** | **9,986** | **432** | **493,268** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***ECL Allowance as at 31 December 2022*** | **-** | **5,326** | **-** | **1,337** | **9,046** | **132** | **15,841** |
| New assets originated or purchased | - | 5,255 | - | 934 | 642 | 37 | **6,868** |
| Assets derecognized or matured (excluding write-offs) | - | (3,766) | - | (708) | (754) | (40) | **(5,268)** |
| Transfers to Stage 1 | - | 152 | - | (152) | - | - | - |
| Transfers to Stage 2 | - | (189) | - | 189 | - | - | - |
| Transfers to Stage 3 | - | (5) | - | (70) | 65 | 10 | - |
| Decrease in CLA due to improvement | - | (138) | - | - | - | - | **(138)** |
| Increase in CLA due to worsening | - | - | - | 658 | 275 | 259 | **1,192** |
| Changes to contractual cash flows due to modification not resulting in derecognition | - | - | - | - | - | - | - |
| Accounting write-off | - | - | - | - | (516) | (44) | **(560)** |
| Write-offs | - | - | - | **(8)** | - | - | **(8)** |
| **At *31 December 2022*** | - | **6,635** | - | **2,180** | **8,758** | **354** | **17,927** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Gross carrying amount as at 31 December 2021*** | - | **368,418** | **-** | **29,234** | **9,814** | **374** | **407,840** |
| New assets originated or purchased | - | 259,028 | - | 6,063 | 487 | (65) | **265,513** |
| Assets derecognized or matured (excluding write-offs) | - | (202,227) | - | (21,981) | (362) | (50) | **(224,620)** |
| Transfers to Stage 1 | - | 4,986 | - | (4,984) | - | (4) | - |
| Transfers to Stage 2 | - | (4,675) | - | 4,675 | - | | - |
| Transfers to Stage 3 | - | (42 | - | (44) | - | 86 | - |
| Changes to contractual cash flows due to modification not resulting in de-recognition | - | - | - | - | - | - | - |
| Accounting write-offs | - | - | - | - | - | (209) | **(209)** |
| Write-offs | - | - | - | - | - | - | - |
| **At *31 December 2022*** | **-** | **425,488** | **-** | **12,963** | **9,939** | **132** | **448,522** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***ECL allowance as at 31 December 2021*** | **-** | **2,935** | **-** | **1,803** | **9,063** | **374** | **14,175** |
| New assets originated or purchased | - | 4,183 | | 743 | 224 | | 5,150 |
| Assets derecognized or matured (excluding write-offs) | - | (1.,70) | | (755) | (362) | (87) | (2,574) |
| Transfers to Stage 1 | - | 308 | | (305) | | (3) | - |
| Transfers to Stage 2 | - | (41) | | 41 | | | - |
| Transfers to Stage 3 | - | (1) | | (38) | | 39 | - |
| Decrease in CLA due to improvement | | (865) | | (430) | (219) | (34) | (1,548) |
| Increase in CLA due to worsening | | 177 | | 278 | 340 | 52 | 847 |
| Changes to contractual cash flows due to modification not resulting in derecognition | - | | | | | | - |
| Accounting write-offs | - | | | | | | |
| Write-offs | - | | | | | | - |
| **At *31 December 2022*** | **-** | **5,326** | **-** | **1,337** | **9,046** | **132** | **15,841** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

### Loans and receivables from clients – Stage 1

| At 31 December 2023 | Not due | Due in less than 30 days | Due in 31 - 60 days | Due in 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 139,854 | 3,051 | - | - | - | 142,904 |
| Consumer loans | 382,557 | 19,752 | - | - | - | 402,309 |
| Other retail loans | 95,284 | 3,517 | - | - | - | 98,801 |
| **Total Retail loans** | **617,695** | **26,320** | **-** | **-** | **-** | **644,015** |
| Corporate lending | 396,561 | 3,976 | - | - | - | 400,536 |
| SME lending | 41,544 | 1,508 | - | - | - | 43,052 |
| Other loans | 16,218 | 1,053 | - | - | - | 17,271 |
| **Total Corporate loans** | **454,323** | **6,537** | - | - | - | **460,860** |
| **Total Loans to customers** | **1,072,018** | **32,857** | - | - | - | **1,104,875** |
| ***of which: restructured*** | 29 | | | | | 29 |

| At 31 December 2022 | Not due | Due in less than 30 days | Due in 31 - 60 days | Due in 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 131,349 | 1,673 | - | - | - | 133,022 |
| Consumer loans | 396,452 | 19,564 | - | - | 11 | 416,027 |
| Other retail loans | 28,767 | 1,750 | - | - | 1 | 30,518 |
| **Total Retail loans** | **556,568** | **22,987** | **-** | **-** | **12** | **579,567** |
| Corporate lending | 371,224 | 4,289 | - | - | 8 | 375,521 |
| SME lending | 33,901 | 129 | - | - | - | 34,030 |
| Other loans | 15,010 | 927 | - | - | - | 15,937 |
| **Total Corporate loans** | **420,135** | **5,345** | **-** | **-** | **8** | **425,488** |
| **Total Loans to customers** | **976,703** | **28,332** | **-** | **-** | **20** | **1,005,055** |
| ***of which: restructured*** | - | - | - | - | - | - |

By methodology for group impairment and provisions calculation in NLB Banka d.d., Sarajevo defines the levels of material overdue for corporate and retail, which will result in clients being transferred to Stage 2. Accordingly, Stage 1 contains clients overdue for 30 days, but their delay is not materially significant to be transferred to Stage 2.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

### Loans and receivables from clients – Stage 2

| At 31 December 2023 | Not due | Due 30 days | Due 31 - 60 days | Due 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 1,153 | 261 | 18 | 134 | - | 1,566 |
| Consumer loans | 2,926 | 1,114 | 1,662 | 683 | - | 6,386 |
| Other retail loans | 884 | 46 | 122 | 144 | - | 1,196 |
| **Total Retail loans** | **4,964** | **1,420** | **1,802** | **961** | **-** | **9,148** |
| Corporate lending | 18,353 | 1,182 | - | - | - | 19,536 |
| SME lending | 1,447 | - | - | - | - | 1,447 |
| Other loans | 1,007 | - | - | - | - | 1,007 |
| **Total Corporate loans** | **20,808** | **1,182** | **-** | **-** | **-** | **21,990** |
| **Total Loans to customers** | **25,772** | **2,602** | **1,802** | **961** | **-** | **31,138** |
| ***of which: restructured*** | 342 | - | - | - | - | 342 |

| At 31 December 2022 | Not due | Due 30 days | Due 31 - 60 days | Due 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 956 | 200 | 24 | 12 | - | 1,192 |
| Consumer loans | 3,216 | 1,850 | 1,057 | 700 | - | 6,823 |
| Other retail loans | 192 | 70 | 78 | 51 | - | 391 |
| **Total Retail loans** | **4,364** | **2,120** | **1,159** | **763** | **-** | **8,406** |
| Corporate lending | 10,182 | 570 | - | 102 | - | 10,854 |
| SME lending | 1,755 | - | - | - | - | 1,755 |
| Other loans | 208 | 88 | 58 | - | - | 354 |
| **Total Corporate loans** | **12,145** | **658** | **58** | **102** | **-** | **12,963** |
| **Total Loans to customers** | **16,509** | **2,778** | **1,217** | **865** | **-** | **21,369** |
| ***of which: restructured*** | - | 512 | - | - | - | 512 |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 17. Financial assets at amortized cost (continued)

### 17.c Loans and receivables from clients (continued)

### Loans and receivables from clients – Stage 3

| At 31 December 2023 | Not due | Due 30 days | Due 31 - 60 days | Due 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 22 | 39 | 15 | 11 | 331 | 418 |
| Consumer loans | 1.566 | 769 | 50 | 100 | 10.496 | 12.981 |
| Other retail loans | 139 | 19 | 6 | - | 690 | 854 |
| **Total Retail loans** | **1.727** | **827** | **71** | **111** | **11.517** | **14.253** |
| Corporate lending | - | - | - | - | 6.061 | 6.061 |
| SME lending | - | - | - | - | 3.874 | 3.874 |
| Other loans | 83 | - | - | - | 400 | 483 |
| **Total Corporate loans** | **83** | **-** | **-** | **-** | **10.335** | **10.418** |
| **Total Loans to customers** | **1.810** | **827** | **71** | **111** | **21.852** | **24.671** |
| ***of which: restructured*** | 135 | 31 | 6 | - | 2.758 | 2.931 |

| At 31 December 2022 | Not due | Due 30 days | Due 31 - 60 days | Due 61 - 90 days | Due over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 176 | 132 | 1 | - | 557 | 866 |
| Consumer loans | 2,253 | 665 | 54 | 159 | 12,384 | 15,515 |
| Other retail loans | 8 | 1 | - | 3 | 643 | 655 |
| **Total Retail loans** | **2,437** | **798** | **55** | **162** | **13,584** | **17,036** |
| Corporate lending | - | 171 | - | 270 | 4,870 | 5,311 |
| SME lending | - | - | - | - | 4,527 | 4,527 |
| Other loans | 40 | - | - | - | 193 | 233 |
| **Total Corporate loans** | **40** | **171** | **-** | **270** | **9,590** | **10,071** |
| **Total Loans to customers** | **2,477** | **969** | **55** | **432** | **23,174** | **27,107** |
| ***of which: restructured*** | 120 | - | - | - | 3,410 | 3,530 |

### 17.d Other financial assets at amortized cost

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| ***Other financial assets at amortized cost*** | | |
| Receivables from the card transactions | 1.696 | 3,194 |
| Calculated service fees receivables | 789 | 508 |
| Other financial assets | 54,524 | 698 |
| | 57,009 | 4,400 |
| Less: Impairment | (852) | (554) |
| ***Other financial assets at amortized cost*** | **56,157** | **3,846** |

Other financial assets consists mainly of debt securities that are measured at amortized cost.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 18. Property, plant and equipment

### 18.a. Property, plant and equipment

| | Plant and equipment | Vehicles | Computer equipment | Other equipment | Investment in right of use property | Assets in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| *At 1 January 2022* | 36,118 | 749 | 9,492 | 5,668 | 1,883 | 1,051 | 54,961 |
| Additions | - | - | - | - | - | 2,631 | 2,631 |
| Transfer | 1,432 | 273 | 901 | 569 | 65 | (3,240) | - |
| Transfer from intangible assets | | | 194 | - | - | - | 194 |
| Disposals: | - | - | - | - | - | - | - |
| - write offs | - | - | (647) | (97) | (15) | - | (759) |
| - disposal on IAS 36 | (55) | - | - | - | - | - | (55) |
| - sale of assets | (143) | - | - | - | - | - | (143) |
| **At 31 December 2022** | **37,352** | **1,022** | **9,940** | **6,140** | **1,933** | **442** | **56,829** |
| Additions | - | - | - | - | - | 3,576 | 3,576 |
| Transfer | 29 | 761 | 1,514 | 240 | 48 | (2,592) | - |
| Transfer from intangible assets | - | - | 339 | - | - | - | 339 |
| Disposals | - | - | - | - | - | - | - |
| - write offs | - | - | (1,378) | (111) | - | - | (1,489) |
| - sale of assets | - | (188) | - | - | - | - | (188) |
| **At 31 December 2023** | **37,381** | **1,595** | **10,415** | **6,269** | **1,981** | **1,426** | **59,067** |
| **Accumulated depreciation and impairment** | | | | | | | |
| *At 1 January 2022* | 14,322 | 515 | 5,561 | 3,599 | 1,142 | - | 25,139 |
| Derecognition of the period | 732 | 109 | 1,086 | 444 | 238 | - | 2,609 |
| - write offs | - | - | (644) | (97) | (14) | - | (755) |
| - Disposals on IAS 36 | (1) | - | - | - | - | - | (1) |
| - sale of assets | (23) | - | (1) | - | - | - | (24) |
| **At 31 December 2022** | **15,030** | **624** | **6,002** | **3,946** | **1,366** | **-** | **26,968** |
| Derecognition of the period | 747 | 168 | 1,230 | 444 | 235 | - | 2,824 |
| - write offs | - | - | (1,378) | (105) | - | - | (1,483) |
| - sale of assets | - | (188) | - | - | - | - | (188) |
| **At 31 December 2023** | **15,777** | **604** | **5,854** | **4,285** | **1,601** | **-** | **28,121** |
| **Net book value 31 December 2023** | **21,604** | **991** | **4,561** | **1,984** | **380** | **1,426** | **30,946** |
| **Net book value at 31 December 2022** | **22,322** | **398** | **3,938** | **2,194** | **567** | **442** | **29,861** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 18. Property, plant and equipment (continued)

### 18. b. Rights of use assets

| | |
|---|---|
| **Cost** | |
| *At 1 January 2022* | **8,383** |
| Additions | |
| - write-offs | (340) |
| **At 31 December 2022** | **8,043** |
| - write-offs | (3,084) |
| **At 31 December 2023** | **4,959** |
| | |
| **Accumulated depreciation** | |
| **At January 1, 2022** | **3,510** |
| Depreciation of period | 1,643 |
| Write-offs | (216) |
| **At 31 December 2022** | **4,937** |
| Depreciation of period | 1,309 |
| Write-offs | (5,978) |
| **At 31 December 2023** | **268** |
| **Net book value at 31 December 2023** | **4,691** |
| **Net book value at 31 December 2022** | **3,106** |

During 2023 and 2022, property and equipment did not serve as collateral for the Bank's liabilities. The total purchased value of tangible assets, which have been fully depreciated and are still in use, amounted to BAM 5,319 thousand as of 31 December 2023 while as of 31 December 2022 it amounted to BAM 6,841 thousand.

### Leases

### a) Lease as lessee

| **Right of use assets** | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Property | 3,840 | 6,593 |
| Equipment | 1,119 | 1,450 |
| **Total** | **4,959** | **8,043** |

The increase in the right to use property in 2023 amounted to 4,959 thousand KM.

In the statement of financial position, the right-of-use assets are shown as a separate item within the Tangible Assets, and the liabilities based on leases are stated as a separate item Lease Obligations.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 18. Property, plant and equipment (continued)

### 18. b. Assets with the right of use (continued)

In Statement of profit and loss the following typse of expenses relate to leases:

| **Depreciation expense** | **2023** | **2022** |
|---|---|---|
| Property | 1,109 | 1,353 |
| Equipment | 200 | 290 |
| **Total** | **1,309** | **1,643** |

| **Other expenses** | **2023** | **2022** |
|---|---|---|
| Short term lease expenses (Note 13) | 267 | 263 |
| Expenses for leases of low value (Note 13) | 221 | 323 |
| Interest expenses | 78 | 51 |
| Expenses on VAT based on leases treated under IFRS 16 (Note 13) | - | - |
| **Total** | **566** | **637** |

A total of BAM 1,909 thousand was paid to suppliers from the lease basis in 2023. Out of these, the amount of BAM 1,439 thousand refers to leases treated under IFRS 16.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 19. Intangible assets

The total cost of fully depreciated intangible assets still in use amounts to BAM 1,997 thousand as at 31 December 2023 while as at 31 December 2022 it was BAM 2,193 thousand.

| | Licenses and software | Assets in progress | TOTAL |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | **5,259** | **1,177** | **6,436** |
| Additions | - | 372 | 372 |
| Write-offs | - | - | - |
| **At 31 December 2022** | **7,142** | **1,176** | **8,318** |
| Additions | - | 725 | 725 |
| Transfers | 146 | (146) | - |
| Transfer to tangible assets | - | (339) | (339) |
| Write offs | (117) | - | (117) |
| **At 31 December 2023** | **6,454** | **429** | **6,883** |
| **Accumulated depreciation** | | | |
| **At January . 2022** | **4,136** | **-** | **4,136** |
| Deprecation | 537 | - | 537 |
| Write-offs | - | - | - |
| **At 31 December 2022** | **4,673** | **-** | **4,673** |
| Deprecation | 571 | - | 571 |
| Write-offs | (116) | - | (116) |
| **At 31 December 2023** | **5,128** | **-** | **5,128** |
| **Net book value at 31 December 2023** | **1,326** | **429** | **1,755** |
| **Net book value at 31 December 2022** | **1,752** | **189** | **1,941** |

## 20. Non-current assets held for sale

Long-term assets available for sale relate to acquired tangible assets in the amount of BAM 12 thousand as of 31 December 2023 (2022: BAM 13 thousand), that relates to property taken over for unpaid receivables. During 2023, the Bank took over four properties for unpaid loans (2022: three properties).As of 31 December 2023 the bank holds 11 repossessed assets.

All acquired tangible property is located on the territory of Bosnia and Herzegovina. The bank plans to sell the acquired assets for unpaid receivables within a period of up to one year from the date of acquisition. For assets that are not sold within one year, an evaluation of the value is carried out and an appropriate impairment is recognized.

Valuations for three (5) properties were made in 2023, for two (2) properties valuations were made in 2022 while for the period from 2018 to 2021 there were four (4) valuations, and reassessments will be made in 2024. Annually, the value is checked by internal appraisers, who have the title of expert in the architectural/construction profession.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 21. Other assets and receivables

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| *Other assets and receivables* | | |
| Prepaid costs and | 790 | 1,214 |
| Small inventory | 23 | 22 |
| | 813 | 1,236 |
| Less (impairment/value adjustment): | (60) | (26) |
| **Other assets and receivables** | **753** | **1,210** |

## 22. Financial liabilities at fair value through PL

Financial liabilities at fair value through the balance of success refer to bonuses to the management board, which are paid in the value of financial instruments (shares) and which are revalued at each reporting date.

In June 2022, the Bank for the first time determined the number of instruments for 2021 and 2019 in the amount of 2,289 shares and on that basis booked BAM 332 thousand of financial liabilities.

The value of financial liabilities on this basis is determined on a monthly basis.
On 31 December 2022, a decrease in the value of shares was determined in the amount of BAM 45 thousand, and on this basis, the effect of the change in the value of financial assets at fair value through the income statement was realized in the same amount and the effects were shown within the position of other gains / losses from financial assets.

## 23. Financial liabilities at amortized cost

### 23. a. Banks' deposits and other financial institutions and other customers

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Deposits a vista** | **13,532** | **11,975** |
| Banks | 1,322 | 3,047 |
| Other financial institutions | 12,210 | 8,928 |
| **Other deposits** | **41,339** | **98,930** |
| Banks | - | 40,241 |
| Other financial institutions | 41,339 | 58,689 |
| Interest accrued and reserved | 51 | 165 |
| **Total banks and other financial institutions** | **54,922** | **111,070** |

*(All amounts are given in thousand BAM unless otherwise stated)*

### 23. Financial liabilities at amortized cost (continued)

### 23. b. Customers' deposits

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Deposits avista** | **1,025,480** | **889,070** |
| Government | 269,751 | 263,447 |
| Public companies | 30,925 | 40,840 |
| Private companies | 250,491 | 177,930 |
| Non-profit organization | 20,274 | 18,348 |
| Retail | 454,039 | 388,505 |
| **Other deposits** | **383,969** | **357,453** |
| Government | 5,600 | 4,787 |
| Public companies | 23,480 | 19,700 |
| Private companies | 84,363 | 59,707 |
| Non-profit organization | 1,742 | 2,738 |
| Retail | 268,784 | 270,521 |
| Interest accrued and reserved | 3,318 | 2,908 |
| **Total customer's deposits** | **1,412,767** | **1,249,431** |

### 23. c Borrowings

Liabilities for taken loans refer to liabilities based on long-term and subordinated loans from banks and non-banking financial organizations.

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Loans** | | |
| Nova Ljubljanska bank d.d. Ljubljana | 34,733 | 51,704 |
| European Fund for South-East Europe (EFSE) | 29,170 | 9,588 |
| **Subordinated loans** | | |
| Nova Ljubljanska bank d.d. Ljubljana | 25,412 | 6,006 |
| | **89,315** | **67,298** |

Interest rates on the entire portfolio of long-term credit lines from banks and non-banking financial institutions for the year ended 31 December 2023, were in the range: fixed interest rates from 1.15% to 1.97% per annum, while variable interest rates ranged from 6M EURIBOR +0.85% to 6M EURIBOR + 3.5%. The Bank has agreed loans with the European Fund for South-East Europe (EFSE) with the character of MREL acceptable obligations.

In 2023, the Bank concluded two new subordinated debt contracts with NLB d.d. Ljubljana in the amount of EUR 9.5 million. The contracted interest rates for individual subordinated contracts by type of rate are fixed and variable related to 6M EURIBOR, the range of the total interest rate achieved ranges from 4.70% to 15.75%, with a maturity of 10 years

*(All amounts are given in thousand BAM unless otherwise stated)*

**23. Financial liabilities at amortized cost (continued)**

**23. c Borrowings (continued)**

Analysis of changes in financing during the year, reconciliation of movements of borrowings to cash flows arising from financing activities:

| | 2023 | |
|---|---|---|
| | **Borrowings** | **Subordinated debt** |
| **Balance at 1 January 2023** | **61.292** | **6.006** |
| Repayment of borrowings | (17.044) | 00 |
| Proceeds from borrowings | 19.558 | 18.580 |
| **Total changes from financing cashflows** | **63.806** | **24.586** |
| **Borrowings-related:** | **(14)** | **937** |
| Interest expense | 2.369 | 1.464 |
| Paid interest | (2.383) | (527) |
| **Balance at 31 December 2023** | **63.792** | **25.523** |

| | 2022 | |
|---|---|---|
| | **Borrowings** | **Subordinated debt** |
| **Balance at 1 January 2022** | 24.681 | 6.006 |
| Repayment of borrowings | (16.101) | 00 |
| Proceeds from borrowings | 52.807 | 00 |
| **Total changes from financing cashflows** | **61.387** | **6.006** |
| **Borrowings-related:** | **(197)** | **102** |
| Interest expense | 888 | 280 |
| Paid interest | (1.085) | (178) |
| **Balance at 31 December 2022** | **61.190** | **6.108** |

*(All amounts are given in thousand BAM unless otherwise stated)*

**23. Financial liabilities at amortized cost (continued)**

**23. c Loans liabilities**

The subordinated debt was used as an additional capital increase for regulatory purposes, with prior approval from regulators. In the event of liquidation or bankruptcy of the Bank, liabilities arising from the subordinated debt are subordinated to the Bank's other liabilities.

Credit and subordinated liabilities under this basis are not additionally secured, nor subject to their own warranty or warranty, mortgage, or any other type or form of collateral issued, and also no other form of arrangement may be made that would increase the superiority of claims under this loan and subordinate liabilities of the party to any of the following:

The borrower or its subsidiaries; its parent undertaking or its subsidiaries, the parent financial holding company or its subsidiaries, the mixed holding company or its subsidiaries, the mixed financial holding company, or its subsidiaries; or any company that has close ties to the entities listed above.

Early repayment of the loan is possible after the expiration of 5 years and 1 day after the date of withdrawal of funds, but with the prior consent of the Banking Agency of the FBiH

**23. d Other financial liabilities at amortized cost**

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Liabilities to individuals based on inactive accounts | 3,068 | 6,481 |
| Fund received for undue loan receivables | 12,446 | 9,826 |
| Unallocated inflows | 15,376 | 2,937 |
| Liabilities to suppliers | 1,305 | 1,326 |
| Dividend liability | 493 | 427 |
| Commission liabilities | - | - |
| Other financial liabilities | 3,892 | 2,515 |
| | **36,580** | **23,512** |

In accordance with the Procedure for Handling Inactive Accounts, the Bank may terminate the contract with clients for whom it assesses that they do not intend to continue their business relationship. After the expiration of the 30-day notice period, the Bank transfers funds from the client's account to the account of other liabilities on the basis of funds on inactive accounts, if the client has not activated the account or withdrawn funds. The Bank remains obliged to pay the transferred funds at the client's request.

**The management of assets in the name of and on behalf of clients**

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Corporate | 10,685 | 11,887 |
| Retail | 4,959 | 5,728 |
| **Total placements** | **15,644** | **17,615** |
| | | |
| Government of Tuzla Canton | 10,955 | 12,232 |
| Government of Sarajevo Canton | 3,604 | 4,098 |
| Other non-banking financial institutions | 1,085 | 1,285 |
| **Total sources (liabilities)** | **15,644** | **17,615** |
| **Differences** | **-** | **-** |

Funds managed by the Bank as an agent for and on behalf of third parties do not represent Bank assets in the Bank's balance sheet. The Bank manages certain assets on behalf of third parties by investing the funds in long-term loans granted to companies and individuals. The Bank does not bear the risk for these placements and charges a fee for its services.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 24. Provisions

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Credit risk of commitments and guarantees (Note 28) | 3,675 | 3,139 |
| Litigation | 2 | 42 |
| Other provisions | 2,324 | 2,093 |
| | **6,001** | **5,274** |

| **a. Credit risk of commitments and guarantees** | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Opening balance as of January 1 | 3,139 | 1,859 |
| Decrease/ increase for the year, net (Note 7a) | 235 | 1,280 |
| Other adjustments | 301 | - |
| | **3,675** | **3,139** |

### b. Litigation

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Opening balance as of January 1 | 42 | 696 |
| Decrease/ increase for the year, net (Note 7b) | (30) | (619) |
| Utilization | (10) | (35) |
| | **2** | **42** |

### c. Other provisions

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Opening balance as of January 1 | 2,093 | 2,009 |
| Increase for the year, net (Note 7b) | 254 | 634 |
| Discount amount of provisions according to IAS 19 (Note 5b) | 65 | 32 |
| Release via OCI/additional booking via OCI | 90 | (461) |
| Utilization | (178) | (121) |
| | **2,324** | **2,093** |

## 25. Other liabilities

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Other liabilities to employees | 719 | 513 |
| Liabilities for taxes and membership fees | 169 | 123 |
| Prepaid fees | 129 | 108 |
| Other liabilities | - | 44 |
| | **1,017** | **788** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 26. Share capital

| | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Number of shares | **382,894** | **382,894** |
| -Ordinary shares | 382,712 | 382,712 |
| -Preference shares | 182 | 182 |

Preference shares were issued in 1991 bearing a dividend in an amount equal to the interest rate on retail term deposits with a maturity of over 3 years, applicable from the date on which the Shareholders' Assembly is held.

Ownership structure is presented within the Note 1.

### Earnings per share

Bank shares are traded on the Stock Market - SASE. The Bank calculates and discloses earnings per share in accordance with IAS 33. Basic earnings per share are calculated by dividing net profit attributable to ordinary shareholders by the weighted average number of ordinary shares for the period (amounts in absolute values). The Bank does not have instruments, such as convertible debt or share options, for which there could be diluted earnings per share. For this reason, the Bank does not calculate diluted earnings per share, meaning it is the same as the basic earnings per share.

| | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Net profit of the Bank after tax (in BAM) | 24.134.964 | 21,430,216 |
| Weighted number of shares | 382.712 | 382,712 |
| Basic earnings per Share (in BAM) | 63.06 | 56.00 |

In July 2023, by the Decision of the Assembly of the Bank, no. I-100-56-6/23, dated 25.05.2023 , the payment of dividends from the accumulated (retained) earnings for 2022 was made.

For 2022, the amount of dividend for one ordinary share amounted to BAM 39.19, a total of BAM 14,999 thousand of dividends was calculated.

## 27. Transactions with related parties

Parties are considered to be related when one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions with the Bank management and members of their families have likewise been considered transactions with related parties in 2023 and 2022.

Transactions with related parties are a part of everyday operations. These transactions include loans, deposits, and borrowings, received and issued guarantees and other potential liabilities.

Memberships of members of the Supervisory Board and Bank Management in other affiliates and non- affiliates are specified in the Annual report.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 27. Transactions with related parties (continued)

The volume of transactions with the related party and the balance at the end of 31 December 2023 2are presented in the next table:

| Related party | Business activity / role of individuals | Relationship of related party with NLB Banka d.d.. Sarajevo | Liabilities | Receivables | Off-balance Receivables (Contingent liabilities) | Revenue | Expense |
|---|---|---|---|---|---|---|---|
| | | | NLB Banka d.d.. Sarajevo at 31.12.2023 toward related party | | | NLB Banka d.d. Sarajevo in 2023 Toward related party | |
| NOVA LJUBLJANSKA BANKA DD. LJUBLJANA | BANK ACTIVITIES | SIGNIFICANT OWNERSHIP INTEREST IN BANK | 61,567 | 30,136 | 5,000 | 762 | 3.579 |
| NLB BANKA AD. BANJA LUKA | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 139 | 677 | - | 285 | 349 |
| NLB BANKA AD. PODGORICA | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 38 | 202 | - | - | - |
| NLB BANKA AD. SKOPJE | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 282 | 179 | - | - | 26 |
| NLB KOMERCIJALNA BANKA AD BANJA LUKA | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 99 | 203 | - | - | - |
| REAM D.O.O. PODGORICA | REAL ESTATE | COMMON OWNER | - | - | - | - | 9 |
| REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE | OTHER ACTIVITIES | SHAREHOLDER OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK | - | 32,826 | - | 1171 | 214 |
| NLB DIGIT D.O.O. BEOGRAD | MANAGEMENT OF COMPUTER DEVICES | PART OF THE SAME BANKING GROUP | 184 | - | - | - | 374 |
| INDIVIDUALS | MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES | | 1,242 | 1,800 | 166 | 78 | 7 |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 27. Transactions with related parties (continued)

The volume of transactions with the related party and the balance at the end of 31 December 2022 are presented in the next table:

| Related party | Business activity / role of individuals | Relationship of related party with NLB Banka d.d.. Sarajevo | Liabilities | Receivables | Off-balance Receivables (Contingent liabilities) | Revenue | Expense |
|---|---|---|---|---|---|---|---|
| | | | NLB Banka d.d.. Sarajevo at 31.12.2022 toward related party | | | NLB Banka d.d.. Sarajevo in 2022 toward related party | |
| NOVA LJUBLJANSKA BANKA DD. LJUBLJANA | BANK ACTIVITIES | SIGNIFICANT OWNERSHIP INTEREST IN BANK | 101,074 | 16,861 | 2,000 | 28 | 1.312 |
| NLB BANKA AD. BANJA LUKA | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 57 | 795 | - | 310 | 258 |
| NLB BANKA AD. PODGORICA | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 40 | 143 | - | - | - |
| NLB BANKA AD. SKOPJE | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 55 | 109 | - | - | - |
| NLB BANKA AD BEOGRAD | BANK ACTIVITIES | RELATED BANK (COMMON OWNER) | 99 | 203 | - | - | - |
| REAM D.O.O. PODGORICA | REAL ESTATE | COMMON OWNER | - | - | - | - | 10 |
| REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE | OTHER ACTIVITIES | SHAREHOLDER OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK | - | 32,695 | - | 240 | 392 |
| INDIVIDUALS | MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES | | 1.054 | 1,118 | 126 | 56 | 5 |

*(All amounts are given in thousand BAM unless otherwise stated)*

**27. Transaction with related parties (*continued*)**

**Management Board remuneration**

| | 2023 | 2022 |
|---|---|---|
| **Short-term employee benefits** | | |
| Net salaries | 657 | 724 |
| Taxes and contributions on net salaries | 515 | 570 |
| Other remunerations | 145 | 142 |
| Taxes and contributions on other income | 109 | 106 |
| | **1.426** | **1,542** |

Net salaries, taxes and contributions are slightly lower in 2023 compared to 2022, which is caused by the five-year delay in the payment of the variable part for 2019,2021 and 2022.

**Remunerations of Bank's Supervisory Board and Audit Committees' members**

| | 2023 | 2022 |
|---|---|---|
| Fees paid to SB an AC members | 34 | 34 |
| Taxes and contributions | 8 | 8 |
| | **42** | **42** |

During 2022 the fee was paid to two members of the Supervisory Board of the Bank and to one member of the Audit Committee of the Bank, who are not connected with the majority owner of the Bank.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 28. Contingencies

The following table presents contractual amounts which refer to contingent and assumed liabilities of the Bank:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | 2022 |
|---|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | | |
| Guarantees | - | 102,314 | - | 2,586 | 9 | 4 | 104,913 | 98,520 |
| Letters of credit | - | 489 | - | - | - | - | 489 | 635 |
| Granted loans not withdrawn | - | 142,914 | - | 457 | - | 36 | 143,407 | 127,430 |
| | **-** | **245,717** | | **3,043** | **9** | **40** | **248,809** | **226,585** |
| Less: Provisions for potential losses | - | **(3,380)** | - | **(266)** | **(9)** | **(20)** | **(3,675)** | **(3,139)** |
| | **-** | **242,337** | **-** | **2,777** | **-** | **20** | **245,134** | **223,446** |

The table below shows the gross exposure of the Bank in the form of contingencies and commitments to the internal rating system (internal classification) and to the level of credit risk (stage classification) at the end of the year:

| | 2023 | | | | | | | 2022 |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | | |
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Total | |
| ***Internal classification*** | | | | | | | | |
| A | - | 120,092 | - | 99 | - | - | 120,192 | 100,137 |
| B | - | 116,143 | - | 242 | - | - | 116,385 | 110,783 |
| C | - | 9,481 | - | 2,702 | - | - | 12,183 | 15,119 |
| D and E | - | - | - | - | 9 | 40 | 49 | 546 |
| | **-** | **245,717** | **-** | **3,043** | **9** | **40** | **248,809** | **226,585** |

Change in gross carrying value and related provisions for potential losses in 2023 are presented below:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Amount of exposure at 31 December 2021*** | ***-*** | ***223.663*** | ***-*** | ***2.376*** | ***503*** | ***43*** | ***226.585*** |
| New exposure | - | 131.822 | - | 1.656 | - | 6 | 133.484 |
| Exposures derecognized or matured (excluding write off)) | - | (108.793) | - | (1.938) | (494) | (35) | (111.260) |
| Transfer to Stage 1 | - | 78 | - | (71) | - | (7) | - |
| Transfer to Stage 2 | - | (1.024) | - | 1.026 | - | (2) | - |
| Transfer to Stage 3 | - | (29) | - | (6) | - | 35 | - |
| **Balance at 31 December. 2022** | **-** | **245.717** | **-** | **3.043** | **9** | **40** | **248.809** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 28. Contingencies *(continued)*

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Amount of exposure at 31 December 2021*** | **-** | **155,545** | **-** | **6,807** | **-** | **48** | **162,400** |
| New exposure | - | 146,694 | - | 1,911 | 12 | 5 | 148,622 |
| Exposures derecognized or matured (excluding write off) | - | (75,780) | - | (6,606) | - | (35) | (82,421) |
| Transfer to Stage 1 | - | (5,296) | - | 254 | - | 23 | (5,019) |
| Transfer to Stage 2 | - | 2,488 | - | 7 | 491 | 1 | 2,987 |
| Transfer to Stage 3 | - | 12 | - | 3 | - | 1 | 16 |
| Changes due to modifications not resulting in derecognition | - | - | - | - | - | - | - |
| Write offs | - | - | - | - | - | - | - |
| Foreign exchange adjustments | - | - | - | - | - | - | - |
| **Balance at 31 December 2022** | | **223,663** | | **2,376** | **503** | **43** | **226,585** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***Amount of exposure at 31 December 2022*** | **-** | ***2,833*** | **-** | ***190*** | ***86*** | ***30*** | ***3,139*** |
| New exposure | - | 1,973 | - | 132 | - | 3 | 2,108 |
| Exposures derecognized or matured (excluding write off) | - | (1,136) | - | (148) | (76) | (19) | (1,379) |
| Transfer to Stage 1 | - | 4 | - | (3) | - | (1) | - |
| Transfer to Stage 2 | - | (13) | - | 14 | - | (1) | - |
| Transfer to Stage 3 | - | - | - | (1) | - | 1 | - |
| Increase in CLA due to improvement | - | 284 | - | 83 | - | 10 | 377 |
| Decrease in CLA due to improvement | - | (565) | - | (1) | (1) | (3) | (570) |
| Changes due to modifications not resulting in derecognition | - | - | - | - | - | - | - |
| Write offs | - | - | - | - | - | - | - |
| Foreign exchange adjustments | - | - | - | - | - | - | - |
| **Balance at 31 December 2023** | **-** | **3,380** | **-** | **266** | **9** | **20** | **3,675** |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 28. Contingencies (continued)

| | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|
| | Individual assessment | Collective assessment | Individual assessment | Collective assessment | Individual assessment | Collective assessment | |
| ***ECL at 31 December 2021*** | **-** | **1,278** | **-** | **533** | - | **48** | **1,859** |
| New exposure | - | 1,957 | - | 145 | 12 | 2 | 2,116 |
| Exposures derecognized or matured (excluding write off) | - | (530) | - | (521) | - | (37) | (1,088) |
| Transfer to Stage 1 | - | 65 | - | 28 | - | 21 | 114 |
| Transfer to Stage 2 | - | 63 | - | 5 | 74 | 3 | 145 |
| Transfer to Stage 3 | - | - | - | - | - | (7) | (7) |
| **Balance at 31 December 2022** | **-** | **2,833** | **-** | **190** | **86** | **30** | **3,139** |

*Litigation in progress*

As of 31 December 2023, 42 legal proceedings are pending against the Bank for which legal risk is assessed. The total value of these court proceedings as of 31 December, 2023, amounts to BAM 11,355 thousand; CHF 5 thousand and $ 50.

During 2022, the Bank received 3 new lawsuits.

Between 1 January, and 31 December 2023, 10 court proceedings were closed.

The Bank continually monitors legal risk and evaluates expected costs on the basis of legal risk, with the formation of adequate provisions on this basis. The number of provisions is disclosed in Note 24b.

*(All amounts are given in thousand BAM unless otherwise stated)*

## 29. Segment reporting

Reporting by bank segments is based on IFRS 8 Business Segments, which is based on a management approach. Segment reporting represents the results of business segments, prepared on the basis of internal reports, that the Management Board uses to assess the performance of segments and used as a source for decision-making. Business segments of the Bank are organizational units that communicate directly on the market with clients and contract and / or realize the Bank's services and thus generate revenues for the Bank. These are: Sector with business with economy with business centres Tuzla, Sarajevo, and Mostar (Corporate and SME), Sector for retail business with branches (Micro and Citizens), Sector for asset management (Financial markets) and Sector for collection and management of non-quality assets (Collection). The Other segment includes categories that are not allocated to any business segment, such as: overheads, service costs, other revenues and expenses.

Statement of financial position per segments as of 31 December 2023:

| | **Corporate and SME** | **Micro and population** | **Financial market** | **Collection** | **Total reportable segments** | **Unallocated** | **Bank** |
|---|---|---|---|---|---|---|---|
| Interest income | 16,193 | 35,780 | 7,700 | 717 | 60,390 | 52 | 60,442 |
| Interest expense | (1,849) | (3,193) | (4,187) | (1) | (9,230) | (99) | (9,329) |
| Net income interest | 14,344 | 32,587 | 3,513 | 716 | 51,160 | (47) | 51,113 |
| Income from fees and commissions from contracts with clients of which: | 3,431 | 28,217 | 1,782 | 27 | 33,457 | 420 | 33,877 |
| *Income from payment transactions* | *1,910* | *8,166* | *1,650* | *8* | *11,734* | *2* | *11,736* |
| *Income from card transactions* | *1,133* | *8,898* | *90* | *2* | *10,123* | *309* | *10,432* |
| *Income from basic accounts* | *33* | *7,738* | *41* | *14* | *7,826* | *-* | *7,826* |
| *Income from fees and commissions from guarantees and credit obligations* | 1,405 | 127 | - | 8 | 1,540 | - | 1,540 |
| Income from fees and commissions | 4,836 | 28,344 | 1,782 | 35 | 34,997 | 420 | 35,417 |
| Expenses from fees and commissions | (587) | (7,806) | (1,406) | (9) | (9,808) | (1,028) | (10,836) |
| Net income from fees and commissions | 4,249 | 20,538 | 376 | 26 | 25,189 | (608) | 24,581 |
| Other net non-interest income | (547) | 242 | (8) | 142 | (171) | 639 | 468 |
| **Total operating income** | 18,046 | 53,367 | 3,881 | 884 | 76,178 | (16) | 76,162 |
| **Total costs** | (1,936) | (15,577) | (637) | (1,199) | (19,349) | (25,348) | (44,697) |
| **Profit / (Loss) before impairment and provisions** | 16,110 | 37,790 | 3,244 | (315) | 56,829 | (25,364) | 31,465 |
| Impairment losses (net) | (2,942) | (7,355) | (293) | 6,312 | (4,278) | (208) | (4,486) |
| **Profit / (Loss) from regular operations before taxation** | **13,168** | **30,435** | **2,951** | **5,997** | **52,551** | **(25,572)** | **26,979** |
| Loans and receivables | 457,176 | 658,308 | 445 | 4,525 | 1,120,454 | (1,103) | 1,119,351 |
| of which gross client loans | 465,588 | 671,265 | - | 24,933 | 1,161,786 | (1,103) | 1,160,683 |
| Financial liabilities valued at amortized cost | 516,789 | 963,963 | 93,337 | 450 | 1,574,539 | 23,754 | 1,598,293 |

*(All amounts are given in thousand BAM unless otherwise stated)*

## 29. Segment reporting *(continued)*

Statement of financial position per segments as of 31 December 2022:

| | Corporate and SME | Micro and population | Financial market | Collection | Total reportable segments | Unallocated | Bank |
|---|---|---|---|---|---|---|---|
| Interest income | 10,765 | 30,442 | 1,905 | 813 | 43,925 | 48 | 43,973 |
| Interest expense | (1,121) | (2,061) | (2,568) | (2) | (5,752) | (45) | (5,797) |
| Net income interest | 9,644 | 28,381 | (663) | 811 | 38,173 | 3 | 38,176 |
| Income from fees and commissions from contracts with clients of which: | 2,769 | 26,833 | 1,502 | 31 | 31,135 | 316 | 31,451 |
| *Income from payment transactions* | *1,540* | *8,187* | *1,466* | *8* | *11,201* | *19* | *11,220* |
| *Income from card transactions* | *743* | *8,371* | *-* | *4* | *9,118* | *201* | *9,319* |
| *Income from basic accounts* | *21* | *6,667* | *35* | *18* | *6,741* | *-* | *6,741* |
| Income from fees and commissions from guarantees and credit obligations | 1,329 | 153 | 12 | 1 | 1,495 | - | 1,495 |
| Income from fees and commissions | 4,098 | 26,986 | 1,514 | 32 | 32,630 | 316 | 32,946 |
| Expenses from fees and commissions | (531) | (7,014) | (1,610) | (11) | (9,166) | (297) | (9,463) |
| Net income from fees and commissions | 3,567 | 19,972 | (96) | 21 | 23,464 | 19 | 23,483 |
| Other net non-interest income | 54 | 305 | 656 | 1,194 | 2,209 | 563 | 2,772 |
| **Total operating income** | 13,265 | 48,658 | (103) | 2,026 | 63,846 | 585 | 64,431 |
| **Total costs** | (1,710) | (15,289) | (550) | (1,215) | (18,764) | (19,115) | (37,879) |
| **Profit / (Loss) before impairment and provisions** | 11,555 | 33,369 | (653) | 811 | 45,082 | (18,530) | 26,552 |
| Impairment losses (net) | (2,831) | (5,513) | (257) | 6,090 | (2,511) | (57) | (2,568) |
| **Profit / (Loss) from regular operations before taxation** | **8,724** | **27,856** | **(910)** | **6,901** | **42,571** | **(18,587)** | **23,984** |
| Loans and receivables | 416,325 | 594,205 | 459 | 2,876 | 1,013,865 | (458) | 1,013,407 |
| of which gross client loans | 422,898 | 603,975 | (2) | 27,116 | 1,053,987 | (258) | 1,053,729 |
| Financial liabilities valued at amortized cost | 472,304 | 856,200 | 113,188 | 929 | 1,442,621 | 13,039 | 1,455,660 |

## 30. Events after the date of reporting

There were no significant events between the balance sheet date and the date of approval of these financial statements that require disclosure.

## 31. 31. Approval of the financial statements

The financial statements were approved by the Bank Management and authorised for issue on 19 April 2024.

| | | |
|---|---|---|
| Jure Peljhan | Denis Hasanić | Lidija Žigić |
| Member of the Board | Member of the Board | President of the Board |