NLB Banka d.d., Sarajevo

Annual report for 2022

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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 alongside 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 primary 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 and is now in the top three leading banks in six of the seven markets in which it operates. In 2022, the NLB Group and all its members, despite all market challenges, achieved good business results and thus confirmed that the NLB Group continues to operate in a successful and sustainable manner. These results speak in favour of the strengthened trust that clients, businesspeople, and citizens have placed in NLB banks in all business markets.

Clients and their satisfaction are the focus of the Group's business, which strives to provide an adequate response to the real needs of clients in the region where it operates and in their best interests. NLB Banka d.d., Sarajevo (NLB Banka) is guided in its business by a strategy focused on user 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 with:

- Complete set of financial services
- Offer tailored to customer needs
- High level of service quality
- Extensive network of 35 business units in the Federation of BiH
- Modern distribution channels for their services
- Individual approach and commitment 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 improve and develop it together for present and future generations.

NLB Group's strategic focus

- Become a regional champion
- Put customers first
- Defend our market position
- Take advantage of opportunities and synergies

Our goal

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

Core values

The core values on which NLB Banka bases its operations are: transparency, trust, stability, simplicity and responsibility, which is recognized by our clients who have been trusting us for many years.

Sustainable banking

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

Employee care is important for NLB Banka, and in 2022 it was named the second most desirable employer in the financial sector in Bosnia and Herzegovina.

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

Message from the Board

Dear clients, shareholders and business partners,

It is my pleasure, on behalf of the Board, to present to you the business results that NLB Banka d.d., Sarajevo achieved in 2022. Despite the effects of the pandemic that were still noticeable in the previous year in all spheres of life and business globally, we are extremely proud of the commitment and efforts of our employees and our achievements in the previous year.

NLB Banka is the sixth largest bank in the Federation of Bosnia and Herzegovina with an asset growth of 0.3% and a market share of 5.8% as of September 30, 2022, (latest available data).

Despite the negative effects of the pandemic on the economy, the Bank maintained satisfactory liquidity, capital adequacy ratio, and other regulatory prescribed limits and made a profit after tax on December 31, 2022. in the amount of BAM 22.1 million (2021: BAM 21.1 million) and profit before impairment and provisions in the amount of BAM 31.5 million (2021: BAM 26.1 million). The Bank recorded a growth of net non-interest income of 20% compared to 2021. The Bank's total assets increased by 15%, with deposits and net loans to the non-banking sector growing by 11%, with net loans to households increasing by 15%

As the Bank's strategic decision is to invest in various digitization and process optimization initiatives, it is expected to increase productivity and support a strong ambition to achieve greater market share, especially when it comes to non-banking sector loans. The greatest emphasis on planned credit growth is on retail loans, especially housing loans where market share is expected to increase, while corporate are expected a mild growth in market participation with a focus on the SME and key clients with good results.

The Bank provides a wide range of services and products to clients, through a developed business network of 34 branches located throughout the Federation of Bosnia and Herzegovina. The modernization of the Bank's business network has been applied to several branches of the Bank - including 3 existing branches that have been adapted to the corporate standards of the open-space concept, and the ATM network has been improved.

Customer care and employee commitment and responsible risk management are key items on the road to success. Research conducted by the renowned company showed that the perception of NLB Bank in the market has grown and that we are among the top three banks in terms of brand recognition. During 2022, the Bank was selected as the second most desirable employer in the financial sector in BiH, which further confirmed our efforts to promote the values put people in the first plan, the development of human potential and prosperity, as well as continued learning and trust.

Following the past years, one of the key goals in 2022. was the development of digital products and services. Customers have been allowed to applicating for loan, credit card and cross racing on the ongoing account via mobile and electronic services. Improving digital services monitored our clients new living needs, and worked to improve the Bank's customers experience and availability of the Bank.

We implemented the E-commerce solution, and through a project of support companies for E-commerce services, in co-operation with our partners, we have allowed companies free support in drafting own web shop, integration of solutions, market support, education for use and benefit of E-commerce services, as well as staling support all stages of integration and use of these services, to eventually improve their business results and use the benefits of online sales.

For individuals and legal entities, we have created new product packages that are tailored to the real needs of clients, thus improving the experience of clients in performing banking operations. During the past year, we have organized several promotional campaigns with the aim of increasing NLB bank payment card users and transactions in cooperation with partners from several industries, with discounts enabled.

We are particularly proud that in 2022 the Bank received the "Golden BAM" award as the most successful bank in the category "Growth of market share of loans", which is certainly a confirmation of the quality of NLB Bank's work, bearing in mind all opportunities and challenges on the market, as well as a confirmation of the policy of commitment and business consulting of clients. The Bank's ambition and strategic commitment will be on the growth of market share.

In the year behind us, we continued our last year's initiative, the #OkvirPomoći project, a program in which knowledge and understanding of the economic environment and macroeconomic trends meet professionalism and sustainability. We have dedicated our third Assistance Framework to supporting innovative ideas that will bring progress and opportunity for development and a better life. The project provided an opportunity for unique and innovative ideas addressing sustainability challenges, projects that support and contribute to the achievement of at least one of the Seventeen Sustainable Development Goals of the United Nations and follow the directives of the NLB Group's Sustainability Framework.

As stated in our vision and mission, this region is our home, and we love our home and in addition to caring for 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, through support to a range of initiatives in the field of sustainable finance and projects supporting the UN Sustainable Development Goals. NLB Bank's support to the local community was recognized and awarded the title of "Best Business Move in Tourism" by the portal indikator.ba, for the project of winter tourism development in Bjelašnica and Igman through support to the local tourist destination.

In the segment of employer branding and brand recognition, the Bank will actively work on improving the Bank's perception in the market by maintaining its position among the top 3 most desirable employers in the financial sector. Also, the annual plan envisages marketing activities that will continue to position the Bank among the top 3 banks in the category of bank recognition.

Through socially responsible activities, we will support wider socio-economic development, and we will fully harmonize our operations with the UN principles of responsible banking.

On behalf of the Management Board of NLB Banka d.d., Sarajevo, I would like to express my special thanks to all clients and business partners for the trust they have placed in us. We are also grateful to the staff of NLB Bank, a team of dedicated professionals who improve every segment of the Bank's business daily. We believe that the best is yet to come, and we 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 are ready for whatever is to come.

Management Bodies as at December 31, 2022

Management Board of NLB Banka

Lidija Žigić
President of the Board
Denis Hasanić
Member of the Board
Jure Peljhan
Member of the Board

Supervisory Board
- Peter Andreas Burkhardt, President
- Damir Kuder, Vice President
- Ayda Šebić, Independent Member
- Dino Osmanbegović, Independent Member
- Andrej Lasič, Member

Audit Committee
- Andreja Golubić, President
- Polona Kurtevski, Member
- Mirko Ilić, Member

Risk Committee
- Dino Osmanbegović, President
- Peter Andreas Burkhardt, Member
- Damir Kuder, Member

Appointment Committee:
- Damir Kuder, President
- Peter Andreas Burkhardt, Member
- Ayda Šebić, Member

Remuneration Committee:
- Ayda Šebić, President
- Damir Kuder, Member
- Andrej Lasič, Member

Macroeconomic environment

Strong inflationary pressure continued in the third quarter of 2022. The growth in inflation continued to be mainly contributed by the strong rise in prices of energy, food and production materials in international markets.

There is significant heterogeneity among eurozone members in terms of the level of inflation, but available data by the end of November do not indicate that inflation in the eurozone, seen for the same period of the previous year, is slowing, despite rising ECB interest rates. In the third quarter, the ECB raised benchmark interest rates twice, to an unprecedented level since 2011. As of September, cb bh started harmonizing its policy of reimbursement on reserve account funds in trend, not entirely at the level, with that of the ECB. By the end of the third quarter, no significant changes in the amount of domestic interest rates in the banking sector were observed.

According to the latest available official data, the second quarter of 2022 saw strong growth in real economic activity on an annual basis, despite rising inflation. The strong growth was partly due to the strengthening of activities in the service sector, especially in the hospitality and hospitality industry, after the pandemic. However, a significant increase in gross value added was also recorded in trade, manufacturing and information and communications activities. With the autumn round of medium-term macroeconomic projections, expectations in terms of economic activities are revided below.
The expected real GDP growth rates for 2023 and 2024 are low for our level of development, but the Central Bank of Bosnia and Herzegovina still does not expect a recession in the medium term.

The average nominal wage did not fully follow the growth of inflation, and the growth of the average real wage was much slower. A stronger decline in unemployed persons than employment growth can also be explained by negative demographic trends, as well as new waves of population and labor migration, which are particularly represented among the younger population.

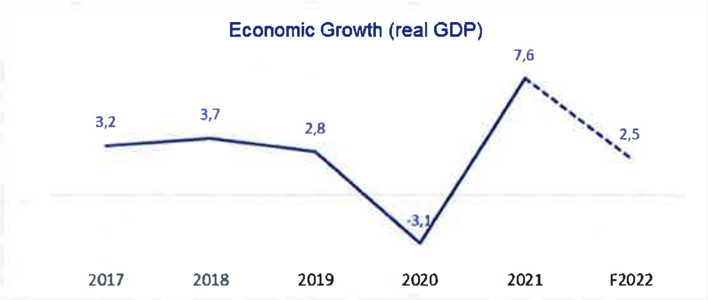
Bank deposits with the CBBH continued to grow, and are a consequence of, among other things, the continuation of the trend of strong growth of deposits of domestic sectors. Despite the very negative real interest rate, credit growth has not been significantly intensified. In part, this is a consequence of the practice of contracting loans, especially long-term ones, with a variable interest rate, with significant growth of euribor in the coming periods very certain. Also, it is certain that the demand for loans is strongly influenced by a decrease in disposable income of the population, due to constant and strong inflationary pressure.

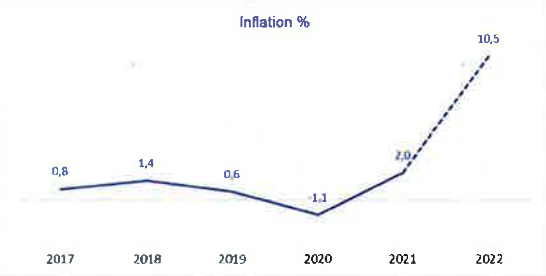
In the second quarter of 2022, record values of foreign trade in goods were achieved, primarily as a result of the rise in commodity prices on the world market. Despite positive developments in the services account, as well as record net inflows from workers' remittances, a significant deficit in the commodity account resulted in the largest current account deficit since 2012. Since the third quarter, exceptionally high growth rates of imports and exports have seen a slight slowdown in growth.

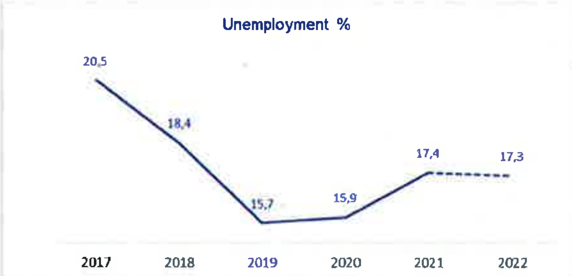
Fiscal indicators improved further in the third quarter, but strong inflationary pressure resulted in higher nominal spending on pensions and salaries in the public sector. Growth in government spending can be expected in the event of an additional increase in inflationary pressures.

On February 4, 2022, the international agency Standard & Poor's affirmed bosnia and herzegovina's credit rating, which is "B with a stable outlook".
On July 22, 2022, Moody's Investors Service confirmed Bosnia and Herzegovina's sovereign credit rating of "B3 with stable outlook"[1]

[1] www.cbbh.ba







BiH		Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Estimation 2022
Gross domestic product (GDP)	%	**3,2%**	**3,7%**	**2,8%**	**-3,1%**	**7,6%**	**2,5%**
Inflation	%	0,8%	1,4%	0,6%	-1,1%	2,0%	10,5%
Unemployment rate	%	20,5%	18,4%	15,7%	15,9%	17,4%	17,3%
General government net debt	% BDP	30,4%	24,2%	21,0%	25,0%	22,0%	19,5%
General government gross debt	% BDP	39,2%	34,3%	32,5%	36,5%	35,4%	31,8%
Exchange rate	-	1,95583	1,95583	1,95583	1,95583	1,95583	1,95583
Investments	% BDP	21,1%	21,1%	24,3%	22,7%	22,0%	27,8%

Source: International monetary fund (MMF); database World Economic Outlook, October 2022

Banking sector

In 2022, credit growth is low, while on the other hand, the deposit balance, for the first time since the massive withdrawal of deposits at the beginning of the year, is above pre-crisis levels. All interest rates have risen, except for interest rates on other household loans. Foreign assets are growing, while foreign liabilities are falling, and the degree of coverage of foreign liabilities with foreign assets is still very high.

The double-digit inflation rate has reduced the purchasing power of the population and contributed to a further reduction in real interest rates (real interest rate = nominal interest rate - inflation rate). A significant increase in demand for loans has not occurred, although debtors, in conditions of high inflation, are achieving inflationary the real value of the money they owe. On the contrary, moderate annual credit growth was achieved. Household loans are 4.2% higher annually, with consumer non-purpose loans still playing a leading role. Loans to private and public non-financial companies in BiH increased by 4% year-on-year in September. The modest growth of loans to enterprises, in the inflationary environment and the conditions of growth of company deposits and high liquidity of banks indicates a low investment activity of BiH. the corporate sector and on the postponement of investment spending.[2]

[2] www.cbbh.ba

Banking sector (continued)

The Banking Agency of the Federation of BiH publishes quarterly Information on the banking sector of the Federation of BiH, and the latest available final data are as of 30.09.2022.

As at 30.9.2022, there were 14 commercial banks in the Federation of BiH, with 516 organizational units, which employed a total of 6,390 workers, which is 42 workers fewer than at the end of 2021.

In the last few years, the capital adequacy of the banking sector has been maintained continuously above 15%, which is a satisfactory capitalization at the sector level. Regulatory capital rate on 30.09.2022. is 19.2% and is significantly higher than the statutory minimum, which also applies to other capital rates (rate of ordinary share capital and Tier 1 capital). Compared to the end of 2021, the rate of regulatory capital increased by 0.7 percentage points. In the same period, the rates of ordinary share capital and Tier 1 capital increased by 0.6 percentage points.

Observing the basic liquidity indicators, qualitative and quantitative requirements, as well as other factors influencing the liquidity position of banks, it can be concluded that the liquidity of the banking sector in FBiH at the end of nine months in 2022 is satisfactory, despite the negative effects of the pandemic on the economy.

- **Total assets**

Compared to 31.12.2021, as at September 30, 2022, the Bank achieved an 11% increase in assets, while the sector grew by 4%, so that the market share increased from 5.5% to 5.8%.
In terms of total assets, the Bank is in the 6th position, while on 31.12.2021.the bank was in 7th position.

- **Total deposits**[3]

Compared to 31.12.2021, the Bank 's deposits grew by 10%, while the sector grew by 5% in total deposits. According to the amount of total deposits, the Bank is in the 7th place as of September 30, 2022, the same as at the end of the previous year, while market share increased by 0.3 pp and amounted to 5.9%.
The Bank's market share according to the amount of the non-banking deposits increased compared to 31.12.2021 by 0.2 pp and amounts to 5.8%.

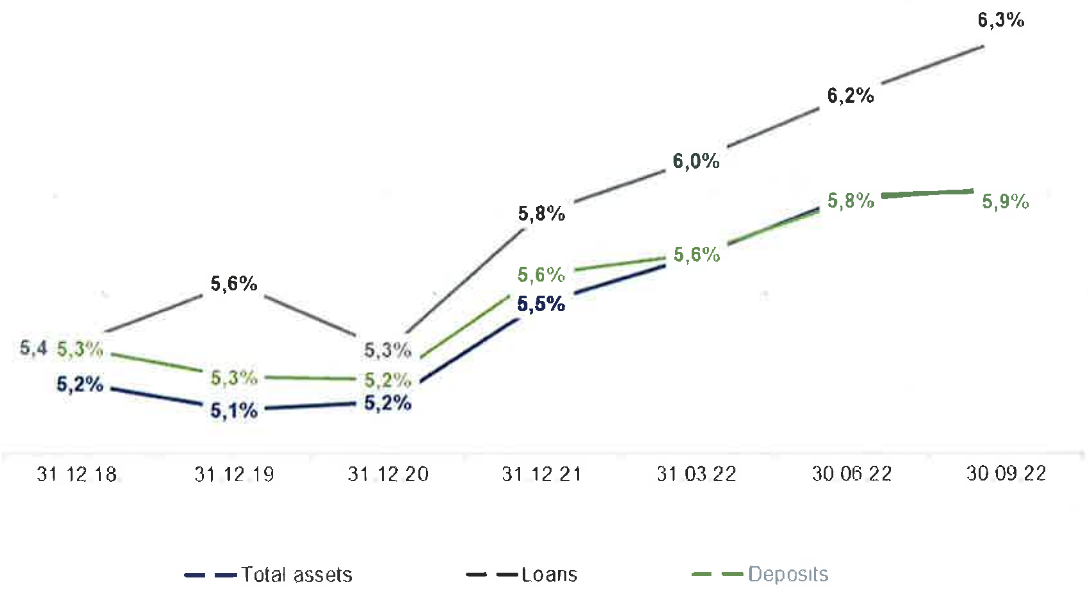
- **Total loans**[4]

Compared to 31.12.2021, the Bank recorded an increase in loans by 12%, while loans in the sector increased by 2%, so that the Bank's market share increased by 0.6 percentage points and amounts to 6.3%. According to the amount of total loans, the Bank ranks 5th in the sector, which is significantly better than at the end of the previous year when it ranked 6th.
The Bank's market share according to the amount of the non-banking loans increased compared to 31.12.2021 for 0.4 pp and amounts to 6.5%, while the market share of corporate loans increased by 0.2 percentage points, and the market share of retail loans increased by 0.7 percentage points.

- **Profit before tax**

In the first three quarters of 2022, the Bank made a profit before tax in the amount of BAM 17.8 million, which is lower than in the same period last year by BAM 0,1 million or 0.4%. According to the amount of profit, the Bank ranks 5th in the banking sector of the F BiH.
At the level of the banking sector in FBiH for the period 1.1. - 30.9.2022, a positive financial result in the amount of BAM 259.1 million was reported, which is 12% more than in the same period in 2021.

[3] Banking Agency of FBiH does not publish data on NBS deposits of individual banks, but data on total deposits (bank and non-bank)
[4] Banking Agency of FBiH does not publish data on NBS loans of individual banks, but data on total loans (bank and non-bank)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Total assets
Loans
Deposits

The most important financial and regulatory indicators for 2021 compared to 2022, and the Statement of financial position, and the Statement of profit or loss and other comprehensive income are presented below:

	2022	2021
Financial indicators		
ROE a.t.	11.9%	7.8%
ROA a.t	1.3%	1.0%
CIR	54.6%	57.0%
LTD (net)	81.1%	77.9%
Capital adequacy ratio	16.5%	16.9%
Profit or loss (in BAM thousand)		
Net interest income	38,176	34,689
Net commissions	23,483	19,593
Expenses	(37,879)	(34,613)
Profit / loss before impairment allowances	31,460	26,084
Profit / loss after tax	22,120	21,057
Comprehensive income, loss	19,941	12,990
Balance sheet (in BAM thousand)		
Total assets	1,634,954	1,419,126
Loans to clients	1,012,946	879,262
Deposits from clients	1,249,431	1,128,150
Equity	170,385	165,262
Loan portfolio and provisions (in BAM thousand)		
Loan portfolio volume	1,053,531	918,986
Impairment allowances and provisions for loans	(40,585)	(39,724)
Coverage of loan portfolio by impairment allowances (in %)	3.9%	4.3%
Other indicators		
Number of organizational units	35	36
Number of employees	475	460

in 000 BAM

Statement of profit or loss and other comprehensive income	31 December 2022	31 December 2021		
	Amount	Amount	Difference	Index
STATEMENT OF PROFIT AND LOSS				
Interest income calculated using the effective interest method	45,107	40,953	4,154	110
Income similar to interest income not calculated using effective interest rate method	(6,931)	(6,264)	(667)	111
Net Interest Income similar to effective interest rate method	**38,176**	**34,689**	**3,487**	**110**
Fee and commission income	32,946	27,929	5,017	118
Fee and commission expense	(9,463)	(8,336)	(1,127)	114
Net Fee and commission income	**23,483**	**19,593**	**3,890**	**120**
Impairment of value and provision (net)	(7,476)	(3,066)	(4,410)	244
Other gains and (losses) from financial assets	196	146	50	134
Foreign exchange gains	910	748	162	122
Gains and losses from non financial assets	1,276	555	721	230
Dividend income	-	12	-	-
Other income	5,298	4,954	344	107
Employees' expenses	(18,950)	(17,133)	(1,817)	111
General and administrative expenses	(4,788)	(4,271)	(517)	112
Other operating expenses and income	(14,141)	(13,209)	(932)	107
PROFIT BEFORE INCOME TAX	**23,984**	**23,018**	**966**	**104**
Income tax	(2,554)	(2,566)	12	100
Deferred tax	690	605	85	114
INCOME TAX	**(1,864)**	**(1,961)**	**97**	**95**
GAINS/(LOSSES) FROM OPERATING ACTIVITIES	**22,120**	**21,057**	**1,063**	**105**
STATEMENT OF OTHER COMPREHENSIVE RESULT				
Items that can be reclassified to profit or loss	(2,650)	(1,549)	(1,101)	171
Items that will not be reclassified to profit or loss	471	(6,518)	6,989	-
OTHER COMPREHENSIVE INCOME	**(2,179)**	**(8,067)**	**5,888**	**27**
TOTAL COMPREHENSIVE INCOME	**19,941**	**12,990**	**6,951**	**154**

in 000 BAM

Statement of financial position	31 December 2022	31 December 2021		
	Amount	Amount	Difference	Index
ASSETS				
Cash and cash equivalents	274,089	225,384	48,705	122
Investment in equity instruments	99	84	15	118
Given loans and other debt instruments	163,300	152,549	10,751	107
Reserve at Central bank	140,447	116,848	23,599	120
Bank deposits	461	434	27	106
Loans and receivables from customers	1,012,946	879,262	133,684	115
Other financial assets at amortized cost	3,846	3,772	74	102
Advanced income tax	2,628	2,402	226	109
Deferred tax assets	1,007	93	914	1,083
Tangible assets	32,400	33,954	(1,554)	95
Intangible assets	2,508	3,040	(532)	83
Long term assets planned for sale and assets of business that is suspended	13	171	(158)	8
Other assets and receivables	1,210	1,133	77	107
TOTAL ASSETS	**1,634,954**	**1,419,126**	**215,828**	**115**
LIABILITIES				
Financial liabilities at fair value	287	-	287	-
Banks and other financial institutions deposits	111,070	58,911	52,159	189
Customers' deposits	1,249,431	1,128,150	121,281	111
Borrowings	67,298	30,599	36,699	220
Lease liabilities	4,349	5,638	(1,289)	77
Other financial liabilities at amortized cost	23,512	22,366	1,146	105
Deferred income tax	2,554	2,566	(12)	100
Deferred tax liabilities	6	-	6	-
Provision	5,274	4,564	710	116
Other liabilities	788	1,070	(282)	74
TOTAL LIABILITIES	**1,464,569**	**1,253,864**	**210,705**	**117**
EQUITY				
Share capital	53,605	53,605	-	100
Statutory reserves	75,106	75,106	-	100

Revalorized reserves for financial assets measure at fair value at total comprehensive result	(2,457)	183	(2,640)	-
Other reserves	(242)	(703)	461	34
Retained earnings	22,120	21,057	1,063	105
Accumulated earning from previous years	22,253	16,014	6,239	139
Total equity	**170,385**	**165,262**	**5,123**	**103**
Total equity and liabilities	**1,634,954**	**1,419,126**	**215,828**	**115**

Information on the purchase of own shares, or stakes

The Bank did not repurchase its own shares or stakes.

Information on business segments of the legal entity

Business activities of the Bank

Retail banking

The primary goal in 2022 was to strengthen NLB Bank in all business segments. 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. Special emphasis in the segment of retail business is placed on the offer of housing loans.

Following previous years, one of the key goals in 2022 was the development of digital products and services. Clients are able to apply for a loan, credit card and current account overdraft through mobile and electronic services. In order to offer customers a modern solution for electronic banking, actively worked on its modification. For mobile banking users, a sweepstake entitled "Mobile bank ingest i win prizes!" was organized, and we rewarded clients for using mobile bank in three cycles during the year.

Through the project of support to companies for E-commerce service, in cooperation with our partners, we have provided companies with free support in creating their own web shop, integration of solutions, marketing support, education for the use and benefits of E-commerce services, as well as other support and consulting in all stages of integration and use of this service, in order to finally improve their business results and clients to take advantage of the benefits of online sales.

For individuals and legal persons, new product packages have been created that are tailored to the real needs of clients, which directly positively affects the improved customer experience in performing banking operations. During the past year, several promotional campaigns were organized with the aim of increasing NLB bank payment card users and transactions in cooperation with partners from several industries, with discounts and benefits for card payments with selected partners.

Over the past year, NLB Bank has been working on modernizing its business network. Three branches were renovated according to the NLB standard: Srebrenik, Gradačac and Živinice, and modern sustainable heating was introduced in the Doboj-East branch office.


DO
-15%
Pripremа, popusti, sad!
NLB Banka


Mobilno bankarstvo otvori i nagrade osvoji!
Nagradna igra
NLB Banka


UZ 10
PREDNOSTI
NLB E-commerce
NLB E-commerce
Poboljšaj svoje
poslovanje
misija.
Bit Alijansa
VISA
e-comm
ASOCIJACIJA
NLB Banka


Minusi stižu!
-10%
-15%
-20%
Astra
IMTEC
ZEKA
PETROL
Energija za život
BIHAMK
Više informacija na www.nlb-fbih.ba
NLB Banka

Corporate business

In 2022, NLB Banka d.d., Sarajevo achieved a successful business result in business with legal entities. Loans approved within the Business sector on 31 December 2022 amounted to KM 422 million, which represents an increase compared to the previous year by KM 39 million, when they amounted to KM 383 million (an increase of 10.1%).

The Ukrainian crisis was another blow to the global and local economy in 2022, which was already negatively affected by the COVID-19 pandemic. Higher energy and commodity prices due to the crisis and related sanctions have boosted inflation in many economies, as well as in Bosnia and Herzegovina. For business clients, rising energy costs have had negative impacts, as have supply chain disruptions and higher inflation, resulting in a cautious approach to credit exposure.

This has resulted in an increase in benchmark rates in the financial market. This has caused uncertainty among clients, and the focus has been placed on finding ways to facilitate the new situation, both for existing and new clients. Following the financial market situation, the Bank took timely measures to adjust its supply to market conditions and thus maintained its market position.

The Sector for Business with The Economy continued to advance in all strategic goals with competitive prices, responsible attitude towards clients, as well as fast and quality services, including increasing the credit position of business clients on an annual basis in all segments.

A special focus is dedicated to digitalization and digital services, and in 2022, the Bank presented its own E-commerce solution for legal entities. The business sector has continued to progress in terms of its ESG targets in 2022. Also in 2022, a project called #OkvirPomoći, a project to support innovative ideas that will bring progress and opportunity for development and a better life, continued. The project provided an opportunity for unique and innovative ideas addressing sustainability challenges.

In addition, in 2022, a contract was signed for the financing of the project "Crni Vrh", as one of the most important projects for the Bank.

Asset management

The previous year was extremely turbulent for the world economies through heightened geopolitical tensions and macroeconomic trends, and consequently for the financial market, which saw strong currency price fluctuations that greatly affected the Bank's exposure to foreign exchange risk. By responsible and controlled management of foreign exchange risk, NLB Bank has ensured compliance with the legal regulations and internal regulations of the NLB Group at the level of a particular currency, and in the total amount for all currencies.

In the previous year, NLB Bank was a reliable partner to clients and promptly responded to all challenges arising from foreign exchange risk management. The trading department has continued to provide high quality foreign currency buying and selling services, which is recognized by clients. A very successful year was marked by a significant increase in the number and volume of transactions in financial instruments.

The Balance Sheet Management Department has strategically managed liquidity reserves, ensuring that customer needs are met and compliance with all prescribed indicators. The Bank continued its strategy of building a stable deposit base by providing different types of funding sources with the aim of increasing flexibility and reducing dependence on any single source of funding and generally better managing financing costs. The Bank has contracted long-term financing lines with NLB Group and creditors following the needs of its clients.

In accordance with market demands and following the needs of its clients, the Bank has contracted long-term sources of funds with the European Fund for Southeast Europe (EFSE) in the amount of EUR 10 million. The Bank has focused particularly on programs to improve ESG standards that will contribute to the sustainability strategy within the NLB Bank and encourage projects containing these components.

Used financial instruments

The Bank invests in debt securities to establish and maintain a satisfactory level of liquid reserves. The portfolio of debt securities in the banking book consists of short-term and long-term, liquid, highly redeemable securities of issuers with a satisfactory credit rating and domestic securities. The level of investment in debt securities is limited by the limits set by the local regulator, the parent bank, and the Risk Management Department.

Risk management

The risk taking and management strategy is part of the overall risk management system to which the Bank is exposed in its operations and is in line with the Bank's business policy and general strategy.

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

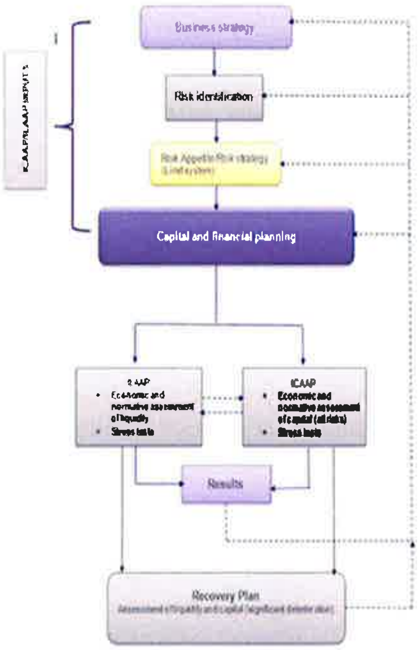
An effectively established Risk Appetite framework, as well as a Risk Taking and Management Strategy, is a management tool and a key component of risk management. The aim of the Risk Appetite framework is to align strategic objectives with the risks and financial objectives defined in the internal acts.

In achieving its strategic goals in 2022, the Bank operated in accordance with the defined limits and target values set through Risk Appetite.

Based on the results of the internal capital adequacy assessment process **(ICAAP)**, the Bank has sufficient capital to cover the exposure to identified material risks from the economic and regulatory perspective.

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

The Bank's **recovery plan** has been prepared with the aim of ensuring the Bank's financial viability, as well as re-establishing the Bank's viability and financial position in the event of a significant deterioration in its financial position.



Risk management (continued)

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

- lending to legal entities and individuals,
- market risk management, i.e., foreign exchange risk and interest rate risk, with the aim of managing the Bank's own positions,
- ensuring adequate liquidity and managing liquidity reserves,
- ensuring an appropriate structure of sources of financing, including guidelines for retail banking related to savings products,
- conclusion of other financial transactions in treasury operations,
- operating risk management.

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

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,
- operating risk.

In addition, the Bank monitors the exposure to risks from the Other Risks group, 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. Tolerance to all types of risks is determined on the basis of annual identification, measurement and assessment of material risks in the Bank within the ICAAP and ILAAP.

Credit risk management, as the most important risk, is aimed at accepting moderate risks and ensuring optimal return with regard to the risks taken. In order to maintain the medium and long-term sustainability of operations, the Bank seeks to gradually increase the quality of the loan portfolio and increase profitability, based on a better ratio between returns and risks. The main credit risk indicators whose limits and target values are defined in the Bank's Risk Appetite are in the segment of maintaining portfolio quality and credit risk volatility. 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. The Bank paid special attention during 2022 to the management of interest-induced credit risk due to macroeconomic developments in the market.

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

The emphasis is mainly on:

- the main conditions related to the approval of placements
- defining the main conditions related to the approval of collateral
- target customer segments that the Group is willing to accept or avoid, in accordance with risk appetite, restrictions on lending policies, the Social and Environmental Framework and other strategic orientations, maximum permissible exposures in terms of individual concentration
- proactive management of clients facing financial difficulties through restructuring or work-out measures

Risk management (continued)

The Bank has a moderate risk appetite for risk-taking. The primary source of repayment is the borrower's creditworthiness and available cash flow, while securing placements is considered a secondary source of repayment. Credit risk is mitigated through the provision of quality collateral in accordance with the Bank's internal acts. The portfolio is diversified by business segments and activities, especially considering exposures to one person or group of related parties.
In addition, regular monitoring and analysis of trends in the quality of individual segments of the loan portfolio, with special emphasis on new transactions, allows early detection of increased risk, as well as optimization of assumed risks in relation to profitability.

The Bank monitors its credit risk exposures in a manner that complies 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 for taking over and managing risks in the Bank. Also, control in the process of taking on the level of credit risk is performed through defined levels of decision-making in credit operations.

Measurement of exposure to **market risks** is performed in accordance with legal regulations and methodology for measuring exposure at the level of the NLB Group on a standardized approach. The NLB Group has a relatively conservative market risk management policy, which is reflected in appropriate restrictions and procedures in policies and other acts at the level of the NLB Group.

The Bank is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises from open positions in interest rates, currency, and capital goods, all of which are exposed to general and specific market movements and changes in the level of arbitrariness of market rates and prices such as interest rates, foreign exchange rates and capital prices. Market risks, in terms of the Banking Law, are considered to be position risk, currency (foreign exchange) risk and commodity risk, of which the most significant for the Bank is the currency (foreign exchange) risk.

The Bank sets limits and provides instructions for monitoring and reducing exposure to market risk, which are regularly monitored by the competent organizational units and risk management committees of the Bank.

In the area of market risk management, the division of responsibilities between monitoring and managing market risks is crucial. Exposure to market risks is regularly monitored by the Non-Credit Risk Management Department, and together with the Strategic Risk Management Department, it controls whether positions by individual types of risk are within defined limits. Open positions are managed by the Bank's Balance Sheet Management Department, maintaining them within the established limits.

The Asset Management Division maintains its foreign exchange position within the legally and internally determined limits by daily currency conversions, and continuously undertakes various activities to minimize market risks.

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

Given that in accordance with the Currency Board arrangement, the BAM currency is pegged to the EUR, the Bank is not exposed to changes in the EUR exchange rate. Oscillations in other currencies did not have a significant impact on the Bank's exposure to foreign exchange risk, as the openness of the foreign exchange position was kept to a minimum.

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

Risk management (continued)

In accordance with the Policy and Procedures for Monitoring Interest Rate Risk Exposure, the Bank must meet the criterion of the impact of a parallel shift of the interest rate curve by 200 basis points, which it applies to the existing open interest rate position at certain time intervals. During 2022, there were no significant changes in the Policy and Procedures for Monitoring Interest Rate Risk Exposure. The limit for EVE (Economic Value of Equity) indicator is 8% and during 2022 the Bank maintained its exposure to interest rate risk in accordance 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 related to the potential effect on capital.

Liquidity risk management is determined in a way that enables a reliable procedure for identifying, measuring, monitoring and controlling liquidity risk in the short and long term. Ensuring an adequate volume of liquidity and managing liquidity reserves in the Bank is carried out centrally, in accordance with the requirements of local regulations and applicable internal guidelines and policies of the Bank. The bank has access to various sources of financing. Funds are raised through a large number of instruments, including various types of deposits from individuals and legal entities, loans taken, share capital, as well as through the issuance of bonds. This increases the flexibility of funding sources, reduces dependence on a single source and the cost of funding in general.

The Bank seeks to maintain a balance between continuity of funding and flexibility through the use of liabilities with different maturities. The Bank continuously assesses liquidity risk by identifying and monitoring changes in funding required to achieve 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.

Measurement of liquidity risk exposure is also performed using the Scoring model. In accordance with local regulations, the Bank is obliged to maintain the minimum liquidity requirement through the liquidity coverage ratio or LCR, which was previously monitored due to the requirements of the Risk Management Standard at the level of the NLB Group.
The Bank regularly conducts stress testing in the liquidity risk management process. The Bank regularly performs the Internal Liquidity Adequacy Assessment Process (ILAAP). The purpose of the ILAAP is to establish a strong liquidity risk management system in the Bank. ILAAP is involved in daily business processes and business decisions in the form of daily cash flow monitoring, stress test results are used to define the volume of liquidity reserves, and defined indicators in the internal limit system related to monitoring liquidity risk exposure are used to activate contingency liquidity plan or the Bank's Recovery Plan.

The Bank adjusts its operations with regard to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities, and limits and liquidity targets. The Bank's Balance Sheet Management Department manages liquidity reserves on a daily basis, ensuring that the Bank meets the needs of its clients.

The Strategic Risk Management Department and the Non-Credit Risk Management Department monitor the following liquidity indicators on a monthly basis and report to the relevant boards of the Bank:

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

The realization of key indicators in liquidity risk management during 2022 was in line with the internal indicators defined in the Bank's Risk Appetite.

Risk management (continued)

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

- monitoring of the occurred harmful events,
- risk identification,
- evaluation and
- risk management.

The goal of operating risk management is to limit the scope of potential losses and the probability of their realization to a level that is 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. Complete elimination of operating risks is neither possible nor reasonable. The Bank accepts those operating risks, which in case of realization will not have a significant impact on the business result, i.e., will not jeopardize the Bank's further operations.

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

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

The realization of indicators of exposure to risks related to operating risk and the number of adverse events in 2022 was far below the internal limits defined in the Risk Appetite as well as the Operating Risk Management Policy.

In addition to significant risks that are material for the Bank's operations with possible effects on capital and liquidity, the Bank allocates internal capital requirements for **Other risks**[5], with special allocation of personnel risk, emerging ESG risk and business risk taking into account the situation resulting from the war events in Ukraine.

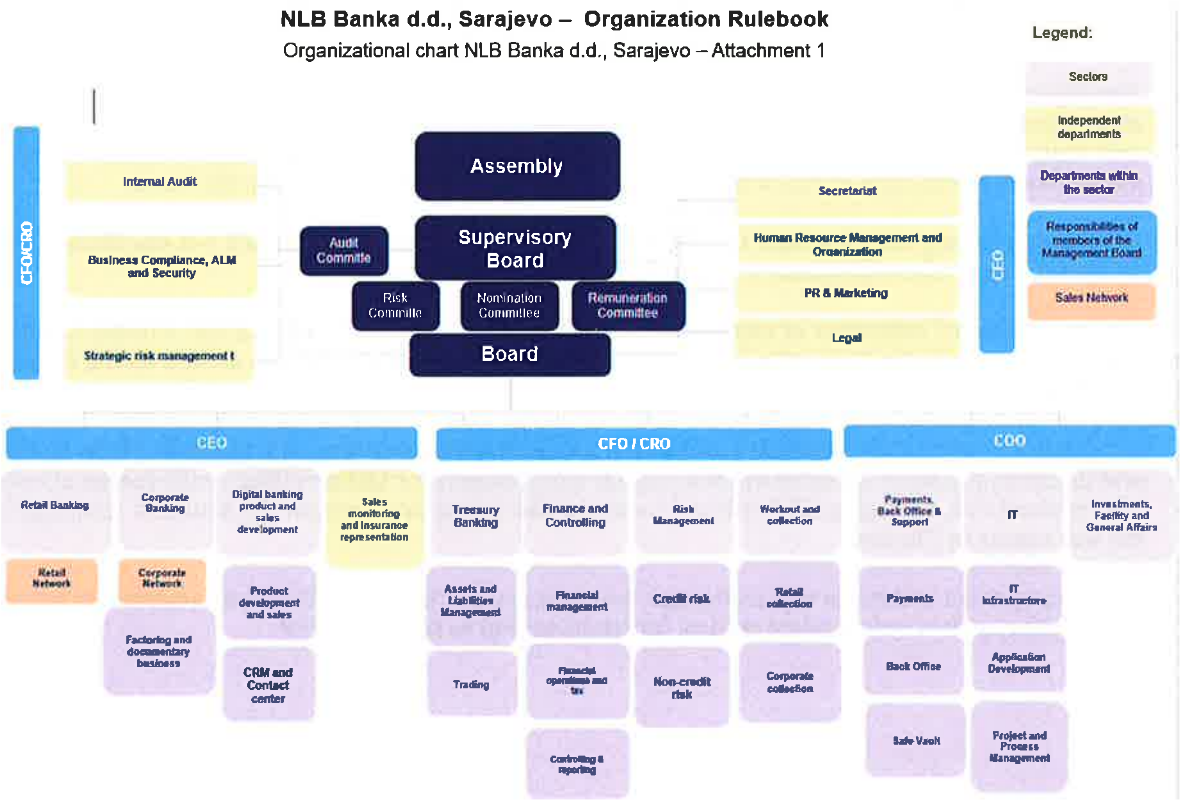
The management system as well as the risk management system in the Bank was assessed as adequate through the work of independent control functions as well as through SREP.

[5] Other risks - risks classified in accordance with the Guidelines for reporting to the FBiH Banking Agency on the application of ICAAP and ILAAP in the bank

Human resources

As of December 31, 2022, the Bank has 475 employees. Employee care is the foundation of all processes in human resource management, with special emphasis in the segment of health protection and safety of the business environment. Recognizing the specific business circumstances and new trends in work models, in the segment of human resource management, 2022 was marked by intensified activities to strengthen the corporate culture and brand of the employer. High level of employee engagement and significant progress in all categories of corporate culture measurement gave confidence in the quality of implemented systems and practices. We are proud to point out the title of the second most desirable employer in the financial sector for four years in a row.

Organization chart of NLB Banka d.d., Sarajevo



Corporate social responsibility

NLB Banka acts responsibly towards its clients, 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 intensive activities were carried out in 2022 in accordance with the UN Sustainable Development Goals. Furthermore, in accordance with its mission and goals, it undertakes various CSR activities to position itself as a responsible banking partner through support for the development of sports, preservation of cultural heritage, youth education and humanitarian activities.

Responsibility towards employees

Taking care of the health of all employees was set as a priority in the previous year. After the covid-19 pandemic stagnated and enabled health institutions to work at full capacity secondary health care, a systematic health check-up was provided for all employees during the second half of the year. The Bank continued to continuously support the implementation of remote work models for jobs for which it is possible to introduce this by the nature of the work.

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 have paid a lot of attention to sustainable business in the region of Southeast Europe, and we have dedicated our third project to the Assistance Framework in 2022 to supporting innovative ideas that will bring progress and opportunity for development and a better life. The project provided an opportunity with unique and innovative ideas addressing sustainability challenges and supporting and contributing to the achievement of at least one of the Seventeen Sustainable Development Goals of the United Nations and following the directives of the NLB Group's Sustainability Framework. Participants had the opportunity to win a valuable sponsorship fund.

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's why we've been running a campaign called "The Movement That Makes A Difference" throughout the year, encouraging clients 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 fees in three fitness centres in Sarajevo and Tuzla.

The Bank actively participated in supporting children who need help in mental, linguistic, and social development, and in addition to donating financial resources to the Association "Riders of Hope" from Sarajevo who are engaged in therapeutic riding, launched a campaign called "Horse that heals". The communication campaign aimed to raise awareness of the importance of therapeutic riding, as well as its importance for helping young people and children with disabilities, and to raise additional financial resources to help this Association.

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, the Faculty of Economics in Sarajevo and the Student Centre of the University of Mostar. Several projects for student education have been implemented with the faculties, and students have been given the internship opportunity at NLB Banka. The Bank supported Youth Business Camp, the first camp of its kind in Bosnia and Herzegovina for young people who want to get acquainted with the many skills they need in modern business.

On the occasion of the World Savings Day, the Bank presented a children's play organized by the Youth Theatre in Sarajevo in order to encourage culture among the youngest population.

Support to sports

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, and supported the Basketball Federation of Bosnia and Herzegovina.

Support to sports (continued)

To encourage healthy habits in children and youth, we continuously invest in initiatives aimed at this population such as international basketball tournaments, amateur sports clubs for young people and the like to connect children through sports from various cities in BiH, and many others.

Culture and environment

NLB Bank is continuously improving its awareness of culture and heritage, as well as nature conservation. Although the volume of events held during the year was reduced, in compliance with all epidemiological measures, NLB Banka sponsored several cultural events such as the Festival of Contemporary Women in Tuzla, and sponsorship of the National Theatre in Tuzla and the Youth Theatre in Sarajevo. All these activities affected the visibility of NLB Banka 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. Caring for the environment is becoming 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. and KVS SCUBA, an organization that participates in numerous ecological actions of water cleaning, and education of club members and beyond about marine biology and the negative impact of plastics and microplastics on the water system in Bosnia and Herzegovina.

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

Humanitarian activities

As part of humanitarian activities, several socially responsible actions and initiatives have been taken:

- Donation to the Association for Support of Children and Parents "Moja zvijezda"
- Donation for the Association of Dystrophic stakeholders Tuzla, and Rotary Club
- Donations to various youth sports clubs;
- Donations to various sports clubs for young people;
- Donations to the Pomozi.ba Association for the purpose of helping the treatment of fellow citizens;
- New Year's donations to the Association "Heart for Children", SOS Children's Villages in BiH, the Association "Riders of Hope" and the Pi Center for Autism "Meho Sadiković"
- Donation for the organization of a humanitarian winter bazaar by the Embassy of the Republic of Slovenia, and many others.

Events after the reporting date

There were no significant events between the balance sheet date and the date of approval of these financial statements that require 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 NLB 01

Lidija Žigić, President of Management board

NLB Banka d.d., Sarajevo
Koševo 3
71000 Sarajevo
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19 April, 2023

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Independent auditor's 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 2022, and the statement on total comprehensive income for the period, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with the statutory accounting regulations 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including the International Independence Standards), of the International Ethics Standards Board for Accountants (IESBA Code) as well as in accordance with the ethical requirements relevant to our audit of financial statements in the Federation of Bosnia and Herzegovina and we have fulfilled our ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *(continued)*

Loss allowance for expected credit losses on loans and receivables

In its financial statements for the year ended 31 December 2022 the Bank presented loans to customers in the amount of BAM 1,053,531 thousand and total expected credit loss in the amount of BAM 40,585 thousand.

Key audit matter	How the Key Audit Matter Was Addressed in Our Audit
For accounting policies, see Note 3. For additional information regarding the identified key audit matter see notes 4, 5, 7 and 17.	
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowances for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowances for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas: • Use of historical data in the process of determining risk parameters: • Estimation of the credit risk related to the exposure: • Assessment of the distribution of exposures for loans and receivables from customers by credit risk levels; • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses; • Assessment of the forward-looking information, • Expected future cash flows from operations, which may be available to repay the loans taken; • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.	In order to address the risks associated with loss allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Review and verification of the Bank's methodology for recognizing loss allowances for expected credit losses and comparing the reviewed methodology against the requirements of relevant regulations of the Federation of Bosnia and Herzegovina; • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring loss allowance for expected credit losses, including the used applications and information technology tools and internal controls. • Evaluating the adequacy of the design and inspecting implementation of identified internal controls relevant to the process of measuring loss allowances for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Performing substantive tests over recognition and measurement of loss allowances for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2 that are collectively assessed, focusing on: i. Models applied in credit risk stage allocation and transitions between credit risk stages; ii. Assumptions used by the Management in the expected credit loss measurement models; iii. Criteria used for determination of significant increase in credit risk

Key Audit Matters *(continued)*

Since determination of appropriate loss allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of loss allowances for expected credit losses on loans and receivables, recognized in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina as a key audit matter in our audit of the financial statements for the year ended 31 December 2022.

iv. Assumptions applied to calculate probability of default;
v. Methods applied to calculate loss given default;
vi. Methods applied to incorporate forward-looking information
vii. Recalculation of expected credit losses on a selected sample.

- Performing substantive tests over recognition and measurement of loss allowances for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:
  i. Assessment of customer's financial position and performance following latest credit reports and available information
  ii. Review of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, taking into consideration customer's financial position and performance in the current economic environment
  iii. Reviewing and assessing expected future cash flows and periods in which cash proceeds from potential repossession and sale from collateral and estimated realization period;
  iv. Assessment of appropriateness of transition of exposures between stages;
  v. Recalculation of expected credit losses on a sample selected using the following criteria: assessment of customer credit risk, industry risk, days of delay in payment of overdue loan receivables and other receivables, etc.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information. 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, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting and Auditing Act in the Federation of Bosnia and Herzegovina. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 42 and 43 of the Accounting and Auditing Act in the Federation of Bosnia and Herzegovina.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Article 42 of the Accounting Act.
3) Corporate Governance Rules has been prepared, in all material aspects, in accordance with the Article 43 of the Accounting Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the statutory accounting regulations 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.

Auditor's 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 auditor's 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:

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated to 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sabina Softić.

Deloitte d.o.o. Sarajevo

Yuri Sidorovich, procurator

Deloitte
d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
ID: 4200047380000

Sabina Softić, partner and licensed auditor

Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
19 April 2023

NLB BANKA d.d., SARAJEVO
Statement on total comprehensive income for the period
(All amounts are given in thousand BAM unless otherwise stated)

	Note	2022	2021
Interest and similar income calculated using the effective interest method	5a	45,107	40,953
Interest and similar expense calculated using the effective interest method	5b	(6,931)	(6,264)
Net Interest and similar income using effective interest rate method	5	**38,176**	**34,689**
Fee and commission income	6a	32,946	27,929
Fee and commission expense	6b	(9,463)	(8,336)
Net Fee and commission income	6	**23,483**	**19,593**
Impairments and provisions	7	(7,476)	(3,066)
Other gains from financial assets	8	196	146
Net positive currency differences	9	910	748
Gains from long term non-financial assets	10	1,276	555
Dividend income		-	12
Other income	11	5,298	4,954
Employee's expenses	12	(18,950)	(17,133)
Depreciation	18a,18b	(4,788)	(4,271)
Other expenses	13	(14,141)	(13,209)
Profit before income tax		**23,984**	**23,018**
Income tax	14	(2,554)	(2,566)
Deferred income tax		690	605
Income tax		**(1,864)**	**(1,961)**
Net profit for the year		**22,120**	**21,057**
Statement on total comprehensive income			
Items that can be reclassified to profit or loss		**(2,650)**	**(1,549)**
Decrease in fair value of debt instruments recognized at fair value through total comprehensive income		(2,875)	(1,718)
Income tax referring to these items		225	169
Items that will not be reclassified to profit or loss		**471**	**(6,518)**
Increase / (decrease) of fair value of equity instruments recognized at fair value through total comprehensive income		16	(7,050)
Actuarial gains / (losses) related to severance provision		461	(177)
Income tax referring to these items		(6)	709
Other comprehensive Income		**(2,179)**	**(8,067)**
Total comprehensive income		**19,941**	**12,990**
Basic and diluted earnings per Share (in BAM)	26	**56.00**	**55.32**

Notes on pages from 37 to 146 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, 2022	December 31, 2021
Assets			
Cash and cash equivalents	15	274,089	225,384
Financial assets at fair value through PL	16	163,399	152,633
Investments in equity instruments	*16a*	*99*	*84*
Given loans, papers of value and other debt instruments	*16b*	*163,300*	*152,549*
Financial assets on amortized cost	17	1,157,700	1,000,316
Reserve at Central Bank	*17a*	*140,447*	*116,848*
Bank deposits	*17b*	*461*	*434*
Credits and receivables from clients	*17c*	*1,012,946*	*879,262*
Other financial assets on amortized cost	*17d*	*3,846*	*3,772*
Prepaid income tax		2,628	2,402
Deferred tax assets	14a	1,007	93
Property, plant and equipment	18a	29,294	29,081
Right-of-use assets	18b	3,106	4,873
Intangible assets	19	2,508	3,040
Long term assets intended to sales and assets from discontinued operations	20	13	171
Other assets and receivables	21	1,210	1,133
Total assets		**1,634,954**	**1,419,126**
Liabilities			
Financial liabilities at air value through profit and loss	22	287	-
Financial liabilities at amortized cost	23	1,455,660	1,245,664
Banks' deposits and other financial institutions	*23a*	*111,070*	*58,911*
Customers' deposits	*23b*	*1,249,431*	*1,128,150*
Borrowings	*23c*	*67,298*	*30,599*
Lease liabilities		*4,349*	*5,638*
Other financial liabilities at amortized cost	*23d*	*23,512*	*22,366*
Income tax liabilities	14	2,554	2,566
Deferred tax liabilities	14a	6	-
Provisions	24	5,274	4,564
Credit risk of taken liabilities and given guarantees	24a	3,139	1,859
Court	24b	42	696
Other provisions	24c	2,093	2,009
Other liabilities	25	788	1,070
Total liabilities		**1,464,569**	**1,253,864**
Equity			
Share capital	26	53,605	53,605
Reserves		75,106	75,106
Revaluation reserves		(2,699)	(520)
Revaluation reserves for financial assets a fair value through total comprehensive income		(2,457)	183
Other revaluation reserves		(242)	(703)
Profit		**44,373**	**37,071**
Profit of the year		22,120	21,057
Accumulated, retained profit from previous years		22,253	16,014
Total equity		**170,385**	**165,262**
Total equity and liabilities		**1,634,954**	**1,419,126**

Notes on pages from 37 to 146 form an integral part of these financial statements.

The Management has authorized these financial statements on 19 April 2023 and signed them accordingly:

NLB Banka d.d., Sarajevo
NLB
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Jure Peljhan	Denis Hasanić	Lidija Žigić
MB member	MB member	President of MB

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

	Share capital	Reserves	Revaluation reserves for financial assets measured at fair value through other total result	Other revaluation reserves	Accumulated retained earnings	Total
Balance as of December 31, 2020	**53,605**	**75,106**	**8,073**	**(526)**	**31,441**	**167,699**
Balance as of January 1, 2021	**53,605**	**75,106**	**8,073**	**(526)**	**31,441**	**167,699**
Profit for the period	-	-	-	-	21,057	21,057
Other total comprehensive income for the period	-	-	(7,890)	(177)	6,472	(1,595)
Total comprehensive income for the period	-	-	**(7,890)**	**(177)**	**27,529**	**19,462**
Dividends paid	-	-	-	-	*(21,899)*	*(21,899)*
Balance as of December 31, 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 December 31, 2022	**53,605**	**75,106**	**(2,457)**	**(242)**	**44,373**	**170,385**

Notes on pages from 37 to 146 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	2022	2021
Cash flows from operating activities			
Interest and similar income calculated using the effective interest method		39,496	37,188
Interest expenses and similar income calculated using the effective interest method		(4,582)	(4,592)
Fees and commission income		41,848	36,625
Fees and commission expenses		(8,705)	(7,384)
Collection of previously written-off receivables for given loans and interest		4,901	2,968
Cash payments to employees		(19,626)	(17,850)
Cash payments on operating expenses		(24,043)	(21,407)
Other income from operating activities		137	9
Paid income tax		(2,792)	(1,380)
Net cash from operating activities before changes on operating assets and operating liabilities:		**26,634**	**24,177**
Cash flows from investing activities			
(Increase) / decrease reserve at Central bank, net		(23,623)	(9,507)
(Increase) / decrease placement at other banks, net		(29)	5,829
(Increase) / decrease in loans and receivables from clients, net		(135,842)	(110,321)
(Increase) / decrease in other assets and receivables, net		(333)	167
Increase / (decrease) of bank deposits and other financial institutions		19,904	14,603
Increase / (decrease) of clients deposits		157,544	137,850
Increase / (decrease) of provisions for liabilities		(124)	(239)
Increase / (decrease) of other liabilities		(785)	11,297
Net cash from operating activities		**43,346**	**73,856**
Cash flows from investment activities			
Acquisition of equity instruments at fair value through other total comprehensive result		(42)	(1,521)
Gains from the disposal of equity instruments at fair value through other total comprehensive result		-	8,563
Acquisition of debt instruments at fair value through other total comprehensive result		(140,271)	(149,267)
Gains from disposal of debt instruments at fair value through other total comprehensive result		121,768	123,610
Gains from disposal of property, plant and equipment		1,702	767
Acquisition of property, plant and equipment		(2,567)	(2,263)
Acquisition of intangible assets		(436)	(1,910)
Dividends received		-	12
Other gains from investing activities		2,479	2,178
Net cash flow from investment activities:		**(17,367)**	**(19,831)**
Cash flows from financing activities			
Dividends paid		(14,016)	(21,862)
Proceeds from bank loans		43,029	11,735
Repayment of principal bank loans		(14,145)	(12,248)
Proceeds from loans from other financial institutions		9,779	-
Repayment of loans principal from other financial institutions		(1,956)	(1,956)
Net cash flow from financing activities		**22,691**	**(24,331)**
Net increase / (decrease) in cash and cash equivalents:		**48,670**	**29,694**
Cash and cash equivalents at the beginning of the period:	**15**	**225,384**	**195,701**
Effects of changes in foreign exchange currency rates:		35	(11)
Cash and cash equivalents at the end of the period:	**15**	**274,089**	**225,384**

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 well-developed 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

	December 31, 2022		December 31, 2021	
	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 December 31, 2022, 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 December 31, 2022, NLB Banka d.d., Sarajevo had 475 employees (December 31, 2021: 460 employees).

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

1. General information *(continued)*

The Supervisory Board		**Term of office:**
Until 22.4.2022		
President	Peter Andreas Burkhardt	30.5.2021.-29.5.2025.
Deputy President	Boštjan Kovač	30.5.2021.-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.
Since 22.4.2022		
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		
Until 2.6.2022		
President	Tatjana Jamnik Skubic	2.6.2018.-1.6.2022.
Member	Suzana Žigon	2.6.2018.-1.6.2022.
Member	Andreja Golubić	2.6.2018.-1.6.2022.
Member	Polona Kurtevski	1.7.2019.-1.6.2022.
Member	Mirko Ilić	1.11.2021.-1.6.2022.
Since 2.6.2022		
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		
Until 22.4.2022		
President	Dino Osmanbegović	30.5.2021.-29.5.2025.
Member	Peter Andreas Burkhardt	30.5.2021.-29.5.2025.
Member	Boštjan Kovač	30.5.2021.-29.5.2025.
Since 22.4.2022		
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		
Until 22.4. 2022.		
President	Boštjan Kovač	30.5.2021.-29.5.2025.
Member	Peter Andreas Burkhardt	30.5.2021.-29.5.2025.
Member	Ayda Šebić	30.5.2021.-29.5.2025.
Since 22.4. 2022.		
President	Damir Kuder	22.4.2022.-29.5.2025
Deputy President	Peter Andreas Burkhardt	30.5.2021.-29.5.2025.
Member	Ayda Šebić	30.5.2021.-29.5.2025.

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

1. General information *(continued)*

Compensation Committee

Until 22.4.2022		
President	Ayda Šebić	30.5.2021.-29.5.2025.
Member	Boštjan Kovač	30.5.2021.-29.5.2025.
Member	Andrej Lasič	30.5.2021.-29.5.2025.
Since 22.4.2022		
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

December 31, 2022:		
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

1. General information *(continued)*

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

Members of Supervisory Board:

Peter Andreas Burkhardt, President of the Supervisory Board
1. NLB d.d., Ljubljana, Member of the 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. N Banka d.d., Ljubljana, Member of the Supervisory Board

Andrej Lasič, Member of the Supervisory Board
1. NLB Banka a.d. Beograd, President of the Management Board

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

Members of Management board:

Lidija Žigić, president of the Board
1. Tuzla Canton Chamber of Commerce, member of the Board

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

Jure Peljhan, member of the Board
1. Bankarsko sportsko društvo NLB d.d., Ljubljana, president of the Company
2. Slovenačko udruženje privrednika u Bosni i Hercegovini, president of the association

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, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- Amendments to IFRS 3 "Business Combinations" - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022).
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts - Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022).
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022.
- Amendments to IFRS 16 "Leases" - Covid-19-Related Rent Concessions beyond 30 June 2021 adopted on 6 February 2022 (effective from 30 June 2021 for financial years starting at the latest, on or after 1 January 2021),

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

2. Adoption of new and revised standards *(continued)*

2.2 New standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 from 25 June 2020 and Amendments to IFRS 17 "Insurance contracts" - Initial Application of IFRS 17 and IFRS 9 from 9 December 2021 (effective for annual periods beginning on or after 1 January 2026).
- Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" adopted on 6 February 2022 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021), which is adopted and effective from 10 February 2023.
- Amendments to IAS 1 "Presentation of Financial Statements" – Long-term debt with covenants (effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 12 "Income Taxes" - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 16 "Leases" – Lease liability in Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024).

The Bank has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. Summary of significant 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 FBiH Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

The Law on Banks of the FBiH prescribes the preparation of annual financial statements in accordance with the previously mentioned Law on Accounting and Auditing of the FBiH, this Law, and bylaws adopted on the basis of both laws. The attached financial statements are prepared in accordance with the forms prescribed by the Rulebook on the content and form of financial statements for companies ("Official Gazette of the FBiH", No. 81/21 and 102/22).

These financial statements are prepared in accordance with the legal accounting regulation applicable to banks in the Federation of Bosnia and Herzegovina ("FBiH"), which is based on the Law on Accounting and Audit of the FBiH, the Law on Banks of the FBiH and the bylaws of the Banking Agency of the FBiH adopted on the basis of the 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).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses as of 31 December 2022 in the amount of BAM 1,752 thousand 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 1,698 thousand,
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) in the amount of BAM 103 thousand, of which the amount of BAM 49 refers to exposures not secured by acceptable collateral.

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

3. Summary of significant accounting policies (continued)

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

BAM '000	December 31, 2022	December 31, 2021
Assets	(1,254)	(1,359)
Total assets	**(1,254)**	**(1,359)**
Liabilities	498	205
Equity:		
Regulatory reserves	-	-
Revaluation reserves	-	62
Net profit	(1,752)	(1,626)
Total liabilities	**(1,254)**	**(1,359)**

	2022	2021
Financial result before taxation	(1,752)	(1,626)

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

Reclassifications

A certain reclassification was carried out on previously presented financial statements to comply with the new mandatory forms as required by the Rulebook on the content and form of financial statements (Official Gazette of the Federation of Bosnia and Herzegovina, No. 81/21 and 102/22). These changes did not have a material impact on previously presented financial statements.

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.
Business activities are recorded on the date of their occurrence.

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.

3. Summary of significant accounting policies (continued)

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

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.

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 (after 6 months without transactions)
- 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.

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

3. Summary of significant accounting policies (continued)

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 3.32*.

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 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 December 31, the average exchange rates were as follows:

Exchange rate	31.12.2022	31.12.2021
	BAM	**BAM**
USD	1,833705	1,725631
EUR	1,95583	1,95583

3. Summary of significant accounting policies (continued)

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. Exceptions are interest incomes on exposures that were recognized as impaired (non-performing) after initial recognition and exposures initially recognized as impaired (non-performing). Accrued interest income on non-performing loans is excluded from profit or loss and recognized as income upon collection.

Calculation of interest for non-performing loans, i.e., for the loans which are overdue over 90 days in a materially significant amount, is suspended on the date when the loan becomes default, and all further calculations of such positions are recorded in off-balance sheet.

Interest is calculated in accordance with the regulations in force or 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.

Modifications to financial assets that are not significant and are not classified as derecognised are recognized as a separate item of income/expense from the modification of financial assets and are recognized within net interest income.

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).

For this second type of fees, it is considered that the input data necessary for the provision of the service built into the performance obligation are evenly distributed throughout the duration of the contract.

If the time is not in line with the way the performance obligation has been fulfilled, the Bank calculates the contractual assets or contractual liabilities for the part of the income generated in the period or for the deferral in the following periods.

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 significant 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 goods/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.

This circumstance, which is not significant, can occur in the case of customer loyalty programs that require free provision of goods or services or by redeeming a price that is not under market conditions, if the client reaches a certain amount of fees or in the case of programs to acquire new target customers. form of product or service).

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 significant 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 significant 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. Financial assets are recognized as of the date of settlement (settlement date) determined for that financial asset.

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 significant 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 valued at their paid value 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
- Interest rate
- Compensation for other risks (liquidity) and expenses.

3. Summary of significant 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.

Financial assets included in business model whose goal is not to collect contractual cash flows or collect contractual cash flows and sell, are valued at fair value through profit or loss and are not subject of SPPI test (e.g. Financial assets available for sale).

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 the represent solely payment of principal and interest of the financial asset (meet the SPPI test)

3. Summary of significant 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 valuation 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 for business and reasons of change must be proven. 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 significant 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 amortized cost into a category measured at fair value through other comprehensive income, fair value is calculated at the date of reclassification. Possible gain or loss that arises as the difference between the previous repaid value and fair value is recognized in other comprehensive income. 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 oat 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. The SPPI test is performed at the date of initial recognition of the new financial asset.

3. Summary of significant 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 recognition of the initiated contractual 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 significant 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:

	2022	2021
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.

During 2022, the Bank adjusted the fair value of real estate and recognized impairment in the value of one business premises in which it conducts business activities, in a total net value of BAM 54 thousand.

Overview of property and equipment and right of use assets in 2022 and 2021 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 significant 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, 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 amount of lease income is expressed within the position other revenues in the Statement of Total 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 significant 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 2022 and 2021 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 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.

3. Summary of significant 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 contractual amount, which 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

3.22.1 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 liabilities 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,
- when financial assets have material delays exceeding 30 days (maturity days are also included in the credit risk assessment),
- if the Bank is expecting to approve a postponing to the Borrower or
- if a credit item is on the "watch list".

3. Summary of significant accounting policies (continued)

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

3.22.1 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.

Expected loss is calculated only for 12 months in advance, even if the maturity of the item is longer than one year, but if the exposure time exceeds two years (starts in the first year, it continues in the second year, but not longer than 12 months), the change in PD must be executed in the second calendar year.

Impairment losses in stage 1 are designed to reflect losses from impairment occurred in the portfolio which are not yet identified.

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.

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 – 0.5% of exposure.

3. Summary of significant accounting policies (continued)

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

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

Impairment – allowance for credit losses (continued)

As of 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 exposures allocated to Credit Risk Level 2, the Bank sets expected credit losses to a minimum of 5% of the exposure.

As of June 30, 2022, the Bank applies the minimum rate of expected credit losses for credit risk level 2 which is a minimum of 8% of exposure, 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.

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

3. Summary of significant accounting policies (continued)

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

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

Impairment – allowance for credit losses (continued)

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

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

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

Days overdue	Minimum expected credit loss
less than 180 days	15%
181 – 270 days	45%
271 – 365 days	75%
366 – 456 days	85%
Over 456 days	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 unnecessary 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 significant accounting policies (continued)

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

3.22.1 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.

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 significant accounting policies (continued)

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

3.22.1 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 for legal claims 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 cancelled.

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 significant 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 December 31, 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 which are neither related parties nor joint investment,
- 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 significant accounting policies (continued)

3.30. Impact of the "Covid-19" Pandemic

The outbreak of the "Covid-19" pandemic has triggered a global health crisis and a major impact on the global economy due to massive locking measures, travel restrictions, trade and other measures. In terms of macroeconomic and geopolitical risks, the "Covid-19" pandemic has shifted its focus around the world towards global and national efforts and measures to address this crisis. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with more remote / network channels for customer service.

From the very beginning, NLB Banka established continuity of operations in accordance with the Business continuity management policy in the form of business continuity for human resources, office buildings and information systems in order to protect both clients and employees of the Bank by enabling key functions and services business.

The risk management approach is tailored to current and expected needs during and after the pandemic while avoiding activities that could lead to additional negative consequences for the Bank or economic consequences for the banking system or the economy. Special attention is paid to risk identification and constant monitoring of risk exposure indicators, especially taking into account the effects on capital adequacy and liquidity adequacy.

Shortly after the outbreak of the "Covid-19" pandemic, the Banking Agency of FBiH issued a Decision on temporary measures to mitigate the negative economic consequences caused by the Covid-19 viral disease, which relate to:

- granting benefits to the bank's clients who are directly or indirectly affected by negative effects,
- special rules related to credit risk management, which the bank applies in case it approves special measures to the client and
- measures aimed at preserving the bank's capital.

During the risk management during the pandemic, the Bank acted in accordance with the *Program of Special Measures of NLB Banka d.d. Sarajevo for mitigation of the negative economic consequences caused by the "COVID-19" viral disease* created in accordance with the Decision of the Banking of FBiH Agency on temporary measures to mitigate the negative economic consequences caused by the "Covid-19" viral disease.

According to the Decision of the Banking Agency, banks could receive requests from clients for the approval of special measures until December 31, 2021.

3. Summary of significant accounting policies (continued)

3.30. Impact of the "Covid-19" Pandemic (continued)

In the Official Gazette of the Federation of BiH No. 21 of March 17, 2022, the Decision on Amendments to the Decision on Temporary Measures Applied by Banks for Recovery from Negative Economic Consequences Caused by the "COVID-19" Viral Disease (Official Gazette of the Federation of BiH, No. 60/20) was published. With this decision, the Banking Agency of the Federation of BiH again enables the submission of requests for special measures, limiting the duration of the measure for the moratorium until June 30, 2022, at the latest. while for measures "grace" and extension of maturity of loans with one-time maturity, including revolving loans and overdrafts on transaction accounts for the period up to 31.12.2022. Accordingly, the Bank updated the Special Measures Program and provided its clients with the opportunity to submit requests for special measures, while fulfilling the conditions for their approval in accordance with the recommendations of the regulator. In December 2022, the Banking Agency made a decision and published in the Official Gazette of the Federation of BiH ("Official Gazette of the Federation of BiH", No. 104/21) on the extension of the deadline for submitting requests for special measures until March 31, 2022.

In 2022, there were no additionally approved measures in accordance with the Decision on temporary measures applied by the bank to recover from the negative economic consequences caused by the viral disease "COVID-19".

The last reporting date for the submission of the report according to the Decision on temporary measures applied by the bank to recover from the negative economic consequences caused by the viral disease "COVID-19" was 31.12.2022.

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

3. Summary of significant accounting policies (continued)

3.30. Impact of the "Covid-19" Pandemic (continued)

The following table shows the total level of loans for which measures were approved, as at 31 December 2022, broken down by credit risk levels at the reporting date:

DESCRIPTION	Loans in Stage 1 at the date of approval of special measures		Loans in Stage 2 at the date of approval of special measures		Loans in Stage 3 at the date of approval of special measures	
	Gross loan amount	ECL amount	Gross loan amount	ECL amount	Gross loan amount	ECL amount
Total corporate loans	**14,520**	**261**	**1,342**	**120**	**2,346**	**1,931**
A - Agriculture, forestry, and fishing	-	-	-	-	-	-
B - Mining and quarries	-	-	-	-	-	-
C - Processing industry	3,878	41	-	-	-	-
D - Production and supply of electricity, gas, steam, and air conditioning	-	-	-	-	-	-
E - Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-
F - Construction	136	1	-	-	-	-
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	7,344	156	368	30	1,648	1,362
H - Traffic and storage	128	1	974	90	-	-
I - Accommodation, food preparation and serving activities; hotel and catering	118	1	-	-	-	-
J - Information and communication	109	1	-	-	698	569
K - Financial and insurance activities	-	-	-	-	-	-
L - Real estate activities	-	-	-	-	-	-
M - Professional, scientific, and technical activities	-	-	-	-	-	-
N - Administrative and support service activities	-	-	-	-	-	-
O - Public administration and defence; compulsory social insurance	2,807	60	-	-	-	-
P - Education	-	-	-	-	-	-
Q - Health and social work activities	-	-	-	-	-	-
R - Arts, entertainment, and recreation	-	-	-	-	-	-
S - Other service activities	-	-	-	-	-	-
Total retail loans	**9,809**	**120**	**551**	**85**	**2,275**	**2,134**
General consumer	7,522	84	499	81	2,251	2,116
Housing	2,287	36	52	4	24	18
Business operations (entrepreneurs)	-	-	-	-	-	-
Total loans	**24,329**	**381**	**1,893**	**205**	**4,621**	**4,065**

As at 31.12.2022, of the total loan portfolio to which special measures were approved, BAM 24,329 thousand gross loans were classified in the level of credit risk 1 (stage 1), BAM 1,893 thousand in the level of credit risk 2 (stage 2), while BAM 4,621 thousand were classified in the level credit risk 3 (stage 3).

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

3. Summary of significant accounting policies (continued)

3.30. Impact of the "Covid-19" Pandemic (continued)

The following table shows the total level of loans for which measures were approved, as at 31 December 2021, divided by credit risk levels at the reporting date:

DESCRIPTION	Loans in Stage 1 at the date of approval of special measures		Loans in Stage 2 at the date of approval of special measures		Loans in Stage 3 at the date of approval of special measures	
	Gross loan amount	ECL amount	Gross loan amount	ECL amount	Gross loan amount	ECL amount
Total corporate loans	**19,804**	**347**	**4,281**	**253**	**2,311**	**1,829**
A - Agriculture, forestry, and fishing	-	-	-	-	-	-
B - Mining and quarries	-	-	-	-	-	-
C - Processing industry	6,368	35	560	28	-	-
D - Production and supply of electricity, gas, steam, and air conditioning	-	-	-	-	-	-
E - Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-
F - Construction	369	6	-	-	-	-
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	9,355	233	1,956	136	1,612	1,294
H - Traffic and storage	347	9	1,587	80	-	-
I - Accommodation, food preparation and serving activities; hotel and catering	-	-	175	9	-	-
J - Information and communication	172	2	-	-	699	535
K - Financial and insurance activities	-	-	-	-	-	-
L - Real estate activities	-	-	-	-	-	-
M - Professional, scientific, and technical activities	3	-	3	-	-	-
N - Administrative and support service activities	-	-	-	-	-	-
O - Public administration and defence; compulsory social insurance	3,190	62	-	-	-	-
P - Education	-	-	-	-	-	-
Q - Health and social work activities	-	-	-	-	-	-
R - Arts, entertainment, and recreation	-	-	-	-	-	-
S - Other service activities	-	-	-	-	-	-
Total retail loans	**12,269**	**97**	**3,477**	**459**	**2,329**	**2,048**
General consumer	10,195	79	2,821	371	2,239	1,972
Housing	2,070	18	656	88	58	44
Business operations (entrepreneurs)	4	-	-	-	32	32
Total loans	**32,073**	**444**	**7,758**	**712**	**4,640**	**3,877**

As at 31.12.2021, of the total loan portfolio to which special measures were approved, BAM 32,037 thousand gross loans were classified in the level of credit risk 1 (stage 1), BAM 7.758 thousand in the level of credit risk 2 (stage 2), while BAM 4,640 thousand were classified in the level credit risk 3 (stage 3).

3. Summary of significant accounting policies (continued)

3.31. 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.

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 30.09.2022, the authorized actuary has made a calculation of provisions for severances for 2022 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 December 31.

The average 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 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. A comprehensive approach to risk management is based on sound and reasonable conservative risk-taking orientations, considering relevant professional criteria. At the same time, the Bank carries out development activities in this area by developing methods and models for assessing, monitoring, and defining criteria for mitigating all relevant types of risks.

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).

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.

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.

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

4.1. Risk management and transfer strategy *(continued)*

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 Strategy sets out material principles and guidelines for risk assumption in the following business segments:

- lending to legal and natural persons,
- ensuring adequate volume of liquidity and managing liquidity reserves,
- ensuring an adequate source of funding structure, including guidance for retail banking in the part related to savings products,
- management of market risk, that is, foreign exchange and interest rate risk, with the aim of managing the Bank's own positions,
- conclusion of other financial transactions in the treasury business,
- operational risk management

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

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	**31.12.2022.**	**31.12.2021.**
Cash and cash equivalents *(Note 15)*	274,089	225,384
Financial assets at FVPL *(Note 16)*	163,399	152,633
Financial assets at amortised cost *(Note 17)*	1,157,700	1,000,316
	1,595,188	**1,378,333**

The following table shows the maximum exposure to credit risk

Financial assets	**Total carrying value**	**Impairment**	**Total net carrying value**
December 31, 2022			
Cash and cash equivalents (*Note 15*)	**274,314**	**(225)**	**274,089**
Financial assets at FVPL	**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*)	4,400	(554)	3,846
	1,637,571	**(42,383)**	**1,595,188**
Contingent liabilities (Note 28)	**226,586**	**(3,139)**	**223,447**
Total	**1,864,157**	**(45,522)**	**1,818,635**
December 31, 2021			
Cash and cash equivalents (*Note 15*)	**225,584**	**(200)**	**225,384**
Financial assets at FVPL	**152,633**	-	**152,633**
Investment in instruments of equity	84	-	84
Loans to customers, securities and other debt instruments	152,549	-	152,549
Financial assets at amortized costs	**1,040,645**	**(40,329)**	**1,000,316**
Reserve at Central bank (Note 17a)	116,965	(117)	116,848
Deposits at other banks (Note 17b)	434	-	434
Loans to customers	918,986	(39,724)	879,262
Other financial assets (*Note 17d*)	4,260	(488)	3,772
	1,418,862	**(40,529)**	**1,378,333**
Contingent liabilities (*Note 28*)	**162,400**	**(1,859)**	**160,541**
Total	**1,581,262**	**(42,388)**	**1,538,874**

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, by credit rating, is given below:

December 31, 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

December 31, 2021	Bank deposits		Loans to customers		Total	
	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
A	434	-	530,510	(3,564)	530,944	(3,564)
B	-	-	317,130	(4,634)	317,130	(4,634)
C	-	-	39,976	(2,254)	39,976	(2,254)
D	-	-	14,067	(12,055)	14,067	(12,055)
E	-	-	17,303	(17,217)	17,303	(17,217)
Total	**434**	-	**918,986**	**(39,724)**	**919,420**	**(39,724)**
Total (net)		**434**		**879,262**		**879,696**

Impairment losses and provisioning policy

The Bank assesses the impairment of receivables which represents the Bank's estimate of losses incurred in its loan portfolio.

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 50 thousand EUR.

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
December 31, 2022		
Credit exposure, net	*1,012,946*	1,565,849
Loans to customers at AC	*1,012,946*	1,565,849
Placements with banks	*461*	-
Off-balance sheet exposure, net	223,447	239,224
Total	**1,236,854**	**1,805,073**

	Maximum credit risk exposure (net)	Estimated fair value of collaterals
December 31, 2021		
Credit exposure, net	879,262	1,387,373
Loans to customers at AC	879,262	1,387,373
Placements with banks	*434*	-
Off-balance sheet exposure, net	160,541	168,724
Total	**1,040,237**	**1,556,097**

Out of the total collateral value, as at December 31, 2022, amount of BAM 565,568 thousand relates to business and residential real estates, while the rest of the collaterals are deposits, movable assets, inventories, administrative orders, codebtors and bills of exchange.

As at December 31, 2021, out of the total value of collaterals, BAM 438,704 thousand relates to business and residential real estates.

(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:

December 31, 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	**605,009**	**2,087**	**65**	**212,142**	**202**	**214,496**	**(24,744)**	**580,265**
Housing loans	135,080	436	-	137,411	-	137,847	(2,789)	132,291
Consumer loans	438,365	1,587	-	72,987	202	74,776	(20,885)	417,480
Other retail loans	31,564	64	65	1,744	-	1,873	(1,070)	30,494
Corporate loans	**448,522**	**9,113**	**1,994**	**292,455**	**11,011**	**314,573**	**(15,841)**	**432,681**
Corporate customers	391,686	5,982	1,784	263,278	8,748	279,792	(10,609)	381,077
SME	40,312	2,591	65	23,838	1,922	28,416	(4,788)	35,524
Other customers	16,524	540	145	5,339	341	6,365	(444)	16,080
Off-balance sheet exposure	**226,586**	**4,204**	**2,361**	**60,971**	**1,207**	**68,743**	**(3,139)**	**223,447**
Guarantees	98,520	3,490	2,361	16,179	1,207	23,237	(1,508)	97,012
Letters of credit	636	-	-	-	-	-	(6)	630
Approved undrawn loans	127,430	714	-	44,792	-	45,506	(1,625)	125,805
Total	**1,280,117**	**15,404**	**4,420**	**565,568**	**12,420**	**597,812**	**(43,724)**	**1,236,393**

December 31, 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	**17,036**	-	-	**3,918**	-	**3,918**	**(15,791)**	**1,245**
Housing loans	866	-	-	906	-	906	(764)	102
Consumer loans	15,514	-	-	3,012	-	3,012	(14,418)	1,096
Other retail loans	656	-	-	-	-	-	(609)	47
Corporate loans	**10,071**	**2**	-	**7,283**	**67**	**7,352**	**(9,179)**	**892**
Corporate customers	5,311	-	-	2,517	-	2,517	(4,836)	475
SME	4,527	-	-	4,766	-	4,768	(4,160)	367
Other customers	233	-	-	-	67	67	(183)	50
Off-balance sheet exposure	**546**	**7**	-	**1,080**	-	**1,087**	**(116)**	**430**
Guarantees	512	7	-	1,080	-	1,087	(86)	426
Letters of credit	-	-	-	-	-	-	-	-
Approved undrawn loans	34	-	-	-	-	-	(30)	4
Total	**27,653**	**9**	-	**12,281**	**67**	**12,357**	**(25,086)**	**2,567**

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

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

4.2. Credit risk management *(continued)*

December 31, 2021	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	**511,146**	**1,975**	-	**144,928**	**182**	**147,085**	**(25,549)**	**485,597**
Housing loans	**105,007**	357	-	99,876	-	100,233	(2,009)	102,998
Consumer loans	**376,526**	1,483	-	43,975	1	45,459	(22,498)	354,028
Other retail loans	**29,613**	135	-	1,077	181	1,393	(1,042)	28,571
Corporate loans	**407,840**	**8,991**	**737**	**270,605**	**11,845**	**292,178**	**(14,175)**	**393,665**
Corporate customers	**353,070**	5,600	737	240,183	9,421	255,941	(8,363)	344,707
SME	**37,700**	2,631	-	24,282	2,129	29,042	(5,084)	32,616
Other customers	**17,070**	760	-	6,140	295	7,195	(728)	16,342
Off-balance sheet exposure	**162,400**	**3,872**	**1,069**	**23,171**	**1,537**	**29,649**	**(1,859)**	**160,541**
Guarantees	**81,204**	3,327	1,069	12,390	1,509	18,295	(1,288)	79,916
Letters of credit	**955**	-	-	37	-	37	(16)	939
Approved undrawn loans	**80,241**	545	-	10,744	28	11,317	(555)	79,686
Total	**1,081,386**	**14,838**	**1,806**	**438,704**	**13,564**	**468,912**	**(41,583)**	**1,039,803**

December 31, 2021	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	21,182	-	-	**7,290**	-	**7,290**	**(19,835)**	1,347
Housing loans	1,208	-	-	1,214	-	1,214	(1,077)	131
Consumer loans	19,085	-	-	6,076	-	6,076	(17,931)	1,154
Other retail loans	889	-	-	-	-	0	(827)	62
Corporate loans	10,188	-	-	**7,410**	**83**	**7,493**	**(9,437)**	751
Corporate customers	5,288	-	-	2,375	-	2,375	(4,766)	522
SME	4,557	-	-	5,035	-	5,035	(4,328)	229
Other customers	343	-	-	-	83	83	(343)	0
Off-balance sheet exposure	48	**4**	-	-	-	**4**	**(48)**	-
Guarantees	7	4	-	-	-	4	(7)	-
Letters of credit	-	-	-	-	-	-	-	-
Approved undrawn loans	41	-	-	-	-	-	(41)	-
Total	31,418	**4**	-	**14,700**	**83**	**14,787**	**(29,320)**	2,098

(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 2022 and 2021 are presented below:

LTV ratio December 31, 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**

LTV ratio December 31, 2021	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Amount of uncovered loans	Total
Housing loans	1,945	10,594	27,850	23,028	5,142	467	35,981	105,007
Consumer loans	1,918	5,537	6,997	6,455	1,665	286	353,668	376,526
Total	**3,863**	**16,131**	**34,847**	**29,483**	**6,807**	**753**	**389,649**	**481,533**

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.

	31.12.2022. BAM	31.12.2022. %	31.12.2021. BAM	31.12.2021. %
Retail	604,820	57,42	511,272	55,63
Trade	201,228	19,10	192,853	20,98
Mining and industry	122,319	11,61	119,334	12,98
Financial institutions	14,500	1,38	9,768	1,06
Building construction industry	33,661	3,20	20,734	2,26
Transportation and communications	32,207	3,06	21,470	2,34
Trading in real estate	5,944	0,56	10,294	1,12
Services, tourism, catering	7,238	0,69	10,571	1,15
Agriculture, forestry and fishing	2,342	0,22	1,725	0,19
Other	29,081	2,76	21,009	2,29
	1,053,340	**100,00**	**919,030**	**100,00**
Interests and fees	2,847		2,435	
Deferred fees for loans processing	(2,194)		(2,045)	
	1,053,993		**919,420**	
Less: Impairment allowance	(40,586)		(39,724)	
	1,013,407		**879,696**	

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).

As of June 1, 2017, 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:

	December 31, 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**

	December 31, 2021		
Segment	**Performing portfolio**	**Non-performing portfolio**	**Total**
Corporate clients	-	-	-
SME clients	-	3,383	3,383
Other clients	591	50	641
Retail	76	184	260
	667	**3,617**	**4,284**

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

	December 31, 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**

	December 31, 2021			
Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate clients	-	-	-	-
SME clients	-	-	3,220	3,220
Other clients	-	154	50	204
Retail	-	13	168	181
	-	**167**	**3,438**	**3,605**

(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
December 31, 2022		
Corporate	3	143
Retail and entrepreneurs	7	3,895
Total	**10**	**4,038**
December 31, 2021		
Corporate	7	4,032
Retail and entrepreneurs	10	260
Total	**17**	**4,292**

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 according to the international methodology for determining the date of delay, 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 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. Clients who are admitted to WL1 are retained the existing level of credit risk (stage) in which they are classified at the time of inclusion on WL1 and creditworthiness valid at the time of inclusion on WL1, and clients who are admitted to WL2 are assigned or maintained a level of credit risk 2 (stage 2), depending on the existing classification of the client in the level of credit risk at the time of inclusion on WL2, and the creditworthiness of the CCC is established.

The 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.

Creditors assigned to the ICL list are assigned or retained credit risk level 2 (stage 2) and credit rating C is determined, provided that for customers assigned to the NPL, credit rating group D is 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:

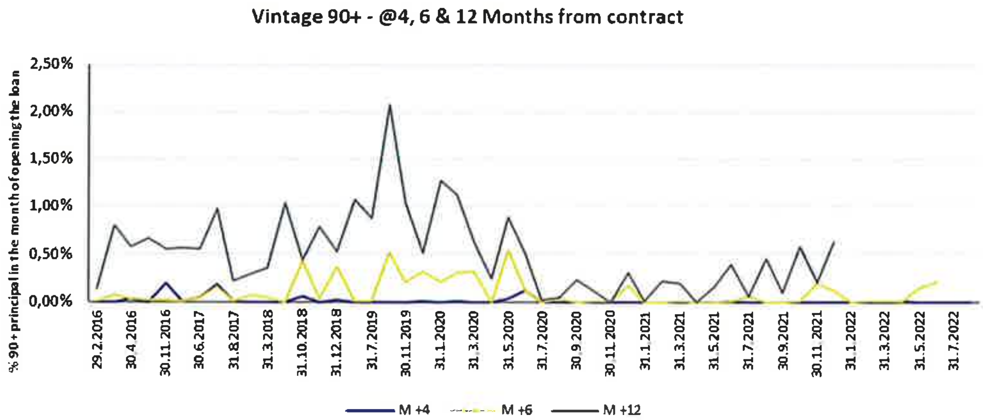
- transaction account blocking (clients whose account is found to be blocked are included in the ICL)
- frequent change of management,
- change of creditworthiness,
- degree of financial security,
- financial debts according to EBITDA ratio,
- poor FBA category of debtors in other Banks or poor FBA category 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)*

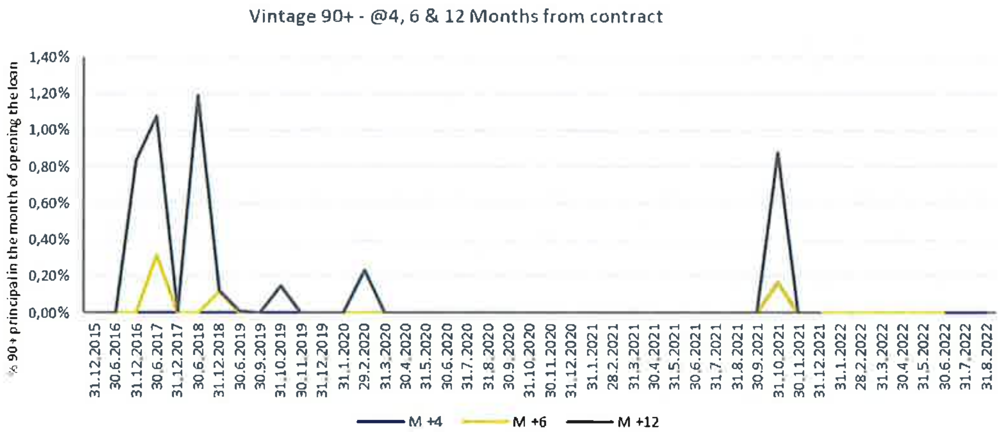
4.2. Credit risk management *(continued)*

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 2016	Q1 2017	Q2 2017	Q3 2017	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
Vintage @12 M	0,59%	0,57%	0,56%	0,55%	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%
Vintage @18 M	0,82%	1,32%	0,75%	1,00%	0,80%	0,65%	1,46%	0,91%	1,49%	1,61%	1,57%	1,58%	1,59%	1,42%	0,75%	0,22%	0,00%	0,00%	0,00%	0,00%	0,00%
Vintage @24 M	1,06%	1,53%	0,60%	1,27%	0,73%	1,12%	1,96%	1,95%	1,90%	1,96%	2,12%	2,24%	1,99%	1,29%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Vintage @36 M	1,74%	2,09%	1,65%	1,77%	1,47%	2,12%	2,30%	2,14%	2,23%	1,20%	0,00%	0,00%	0,00%	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 as at 31.12.2022 concludes that in the observed year one client, i.e. one batch of loans was in arrears 90+, and that the same was approved during 2021.

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.

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	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
Vintage @12 M	0,44%	0,10%	3,32%	0,07%	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%
Vintage @18 M	0,59%	0,13%	1,25%	0,07%	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%	0,00%	0,00%	0,00%
Vintage @24 M	0,59%	0,10%	1,25%	0,07%	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%	0,00%	0,00%	0,00%
Vintage @36 M	0,45%	0,07%	0,00%	0,00%	0,10%	0,68%	0,56%	1,33%	0,08%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%

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

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

4.2. Credit risk management *(continued)*

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 year	From 1 to 5 years	Over 5 years	Total
As of December 31, 2022				
Loan liabilities	106,322	14,049	7,059	**127,430**
As of December 31, 2021				
Loan liabilities	80,102	139	-	**80,241**

(b) Other financial liabilities - guarantees

Other financial liabilities are also included in the table below, based on the earliest contractual maturity date.

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
As of December 31, 2022				
Other financial facilities	68,536	24,356	6,264	**99,156**
As of December 31, 2021				
Other financial facilities	54,236	27,917	6	**82,159**

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 has relatively conservative policy for market risk management, which 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.

	2022	**2021**
USD Profit/(loss)	3/(3)	2/(2)

The Bank had the following currency position:

December 31, 2022	**EUR**	**USD**	**BAM**	**Other currencies**	**Total**
Financial assets					
Cash, cash equivalents and mandatory reserve with CB	44,172	6,101	361,422	2,841	414,536
Deposits with other banks	-	461	-	-	461
Loans and receivables from clients	-	-	508,771	-	508,771
Loans and receivables from clients with a foreign currency clause (EUR)	504,175	-	-	-	504,175
Financial assets at fair value OCI	90,555	1,815	65,204	1,983	159,557
Financial assets at fair value OCI with foreign exchange clause	3,842	-	-	-	3,842
Other financial assets according to AC	1,404	-	2,440	2	3,846
	644,148	**8,377**	**937,837**	**4,826**	**1,595,188**
Financial liabilities					
Deposits from banks and other financial organizations	42,140	1	11,541	-	53,682
Deposits from banks and other financial organizations with foreign exchange clause (EUR)	57,388	-	-	-	57,388
Deposits from clients	278,967	8,166	769,472	4,545	1,061,150
Deposits from clients with foreign exchange clause (EUR)	188,281	-	-	-	188,281
Loans taken	61,292	-	-	-	61,292
Subordinated debt	6,006	-	-	-	6,006
Other financial obligations under AC	5,568	180	17,582	182	23,512
	639,642	**8,347**	**798,595**	**4,727**	**1,451,311**
Foreign exchange position, net	**4,506**	**30**	**139,242**	**99**	**143,877**

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

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

4.4. Foreign currency risk management *(continued)*

December 31, 2021	EUR	USD	BAM	Other currencies	Total
Financial assets					
Cash, cash equivalents and mandatory reserve with CB	49,488	7,196	279,149	6,399	342,232
Deposits with other banks	-	434	-	-	434
Loans and receivables from clients	-	-	480,517	-	480,517
Loans and receivables from clients with a foreign currency clause (EUR)	398,742	-	-	-	398,742
Financial assets at fair value OCI	105,677	1,726	36,423	-	143,826
Financial assets at fair value OCI with foreign exchange clause	8,807	-	-	-	8,807
Other financial assets according to AC	1,325	-	2,447	-	3,772
	564,039	**9,356**	**798,536**	**6,399**	**1,378,330**
Financial liabilities					
Deposits from banks and other financial organizations	27,205	17	10,438	-	37,660
Deposits from banks and other financial organizations with foreign exchange clause (EUR)	21,251	-	-	-	21,251
Deposits from clients	263,963	9,182	638,560	5,831	917,536
Deposits from clients with foreign exchange clause (EUR)	210,614	-	-	-	210,614
Loans taken	24,681	-	-	-	24,681
Subordinated debt	5,918	-	-	-	5,918
Other financial obligations under AC	6,518	136	21,936	294	28,884
	560,150	**9,335**	**670,934**	**6,125**	**1,246,544**
Foreign exchange position, net	**3,889**	**21**	**127,602**	**274**	**131,786**

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 2022 and 2021 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)*

	until 1 month	1 – 3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2022						
Assets						
A vista assets	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						
A vista assets	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**

	until 1 month	1 – 3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2021						
Assets						
A vista assets	167,709	-	-	-	-	**167,709**
Term deposits	3,987	-	116,965	434	-	**121,386**
Loans	105,663	291,834	445,843	37,579	6,719	**887,638**
Securities	4,646	44,594	53,275	49,199	-	**151,714**
Total assets	**282,005**	**336,428**	**616,083**	**87,212**	**6,719**	**1,328,447**
Liabilities						
A vista assets	11,927	-	747,123	-	-	**759,050**
Term deposits	20,615	61,750	262,918	78,667	228	**424,178**
Loans	-	1,956	9,744	12,992	5,867	**30,559**
Total liabilities	**32,542**	**63,706**	**1,019,785**	**91,659**	**6,095**	**1,213,787**
Exposure to interest risk, net	**249,463**	**272,722**	**(403,702)**	**(4,447)**	**624**	**114,660**

As at 31.12.2022, the Bank is mostly exposed to items with a variable interest rate (61.54% of the total portfolio), while the rest is with a fixed interest rate (38.46% of the portfolio). When it comes to reference rates, they are included in variable interest rates. The Bank's portfolio with a variable interest rate mostly refers to items with an administratively variable interest rate (more than 92.25%), while the reference rates refer to 7.75% of the portfolio (mostly items with EURIBOR, and a very small part with LIBOR).

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 December 31, 2022

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

Profit or loss sensitivity to change in interest rates as at December 31, 2021

Increase in interest rates	Impact on profit or loss in BAM	Decrease in interest rates	Impact on profit or loss in BAM
+50 bp	19	-50 bp	(14)

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 interest rate decreases by 50 bp, at December 31, 2021 was 0.01% of capital, while at December 31, 2022 it was 1.20%.

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 December 31, 2022

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	7,285	4,81%

Sensitivity of the market value of financial instruments at December 31, 2021

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	2,314	1,72%

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 December 31, 2022, is at the very threshold between low and acceptable level, because the result of a Scoring model is 19.23% (31 December 2021: 15.38%).

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.

December 31, 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash, cash equivalents and mandatory reserve with CB	414,536	-	-	-	-	414,536
Deposits with other banks	-	-	-	461	-	461
Loans and receivables from clients	79,015	109,078	272,197	436,784	247,813	1,144,887
Financial assets at fair value through OSD	163,399	-	1	-	-	163,400
Other financial assets according to AC	3,846	-	-	-	-	3,846
Total	**660,796**	**109,078**	**272,198**	**437,245**	**247,813**	**1,727,130**
Financial liabilities						
Deposits from banks and other financial organizations	12,140	50,245	19,222	29,538	-	111,145
Deposits from clients	904,481	29,488	146,629	172,192	695	1,253,485
Loans taken	-	5,696	12,398	45,533	-	63,627
Subordinated debt	141	23	255	1,120	6,422	7,961
Other financial obligations under AC	23,512	-	-	-	-	23,512
Total	**940,274**	**85,452**	**178,504**	**248,383**	**7,117**	**1,459,730**
Exposure to liquidity risk, net	**(279,478)**	**23,626**	**93,694**	**188,862**	**240,696**	**267,400**

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

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

4.6. Liquidity risk management *(continued)*

December 31, 2021 (restated)	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets						
Cash, cash equivalents and mandatory reserve with CB	342,232	-	-	-	-	342,232
Deposits with other banks	-	-	-	434	-	434
Loans and receivables from clients	76,429	115,792	228,004	386,439	180,013	986,677
Financial assets at fair value through OSD	152,634	2	5	2	-	152,643
Other financial assets according to AC	3,772	-	-	-	-	3,772
Total	**575,067**	**115,794**	**228,009**	**386,875**	**180,013**	**1,485,758**
Financial liabilities						
Deposits from banks and other financial organizations	12,813	14,990	24,512	6,597	-	58,912
Deposits from clients	763,613	28,358	142,683	196,431	703	1,131788
Loans taken	-	2,076	8,961	14,211	-	25,248
Subordinated debt	57	8	178	1,121	6,701	8,065
Other financial obligations under AC	22,366	-	-	-	-	22,366
Total	**798,849**	**45,432**	**176,334**	**218,360**	**7,404**	**1,246,379**
Exposure to liquidity risk, net	**(223,782)**	**70,362**	**51,675**	**168,515**	**172,609**	**239,379**

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 – quoted price for identical financial instruments, i.e. identical assets and liabilities in active markets
- Level 2 – other visible inputs for assets or liabilities such as quoted prices in active markets for similar assets or liabilities, or quoted prices for identical assets or liabilities in inactive markets
- Level 3 – invisible input developed by the entity using the best available information that has no market activity (or is negligible) for the asset or liability at the measurement date

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 163,399 thousand (31.12.2021: BAM 152,633 thousand).

The following table presents information on how the fair value of securities available for sale is measured (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)***

Fair value as of December 31, 2022	Fair value as of December 31, 2021	Fair value hierarchy
Financial assets at fair value, which is measured through other comprehensive income		
• Republic of Slovenia (long-term bonds) - BAM 29,130 thousand • Republic of France (short-term treasury bills) - BAM 11,670 thousand • Kingdom of Belgium (short-term treasury bills) - BAM 5,835 thousand • Kingdom of Belgium (long-term bonds) - BAM 5,702 thousand • Republic of Slovenia (long-term treasury bills) - BAM 3,530 thousand • Kingdom of Belgium (long-term treasury bills) - BAM 2,656 thousand • French Republic (long-term bonds) - BAM 2,124 thousand • United States (short-term treasury bills) - BAM 1,815 thousand	• Republic of Slovenia (short-term treasury bills) BAM 23,408 thousand • Republic of France (short-term bonds) – BAM 15,664 thousand • Kingdom of Belgium (short -term bonds) – BAM 13,702 thousand • Republic of Austria (short-term bonds) - BAM 10,765 thousand • Kingdom of Belgium (long -term bonds) – BAM 8,896 thousand • Kingdom of Finland (short -term bonds) – BAM 5,862 thousand • Republic of Slovenia (short-term bonds) BAM 2,920 thousand • Republic of France (long-term bonds) – BAM 2,684 thousand • United States of America (long-term bonds) BAM 1,726 thousand	Level 1
Financial assets at fair value, which is measured through other comprehensive income		
• Ministry of Finance FBIH (long-term bonds) – BAM 31,307 thousand • Ministry of Finance RS (short-term bonds) – BAM 27,321 thousand • Ministry of Finance RS (long-term bonds) – BAM 19,034 thousand • Ministry of Finance RS (short-term bonds) – BAM 14,016 thousand • Ministry of Finance FBiH (short-term treasury bills) – BAM 4,998 thousand • Ministry of Finance FBIH (short-term bonds) – BAM 1,441 thousand • City Banja Luka (long-term bonds) – BAM 738 thousand	• Ministry of Finance RS (long-term bonds) – BAM 27,939 thousand • Ministry of Finance FBiH long-term bonds) – BAM 26,188 thousand • Ministry of Finance FBiH long-term bonds) – BAM 10,988 thousand • City Banja Luka (long-term bonds) – BAM 1,086 thousand Canton Sarajevo (long-term bonds) – BAM 721 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 December 31, 2022	Fair value as of December 31, 2021	Fair value hierarchy
Equity instruments:		
• SWIFT Belgium – BAM 85 thousand • RVP FBiH – BAM 14 thousand	• SWIFT Belgium – BAM 70 thousand • 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 shall consider the expected cash flows from loans and deposits, from principal and interest, from depreciation plans, at the remaining maturity of each cash flow, whereby the cash flow from each contract is reduced by the calculated value adjustments and provisions, while accrued interest is not taken into account.

Future cash flows of loans and deposits are discounted at the market interest rate in accordance with the net present value methodology, whereby the discount factor consists of the market curve and spread for deposits and performing loans, i.e., the market curve and the discount factor of 20% for non-performing loans.

Calculated fair value of financial instruments as at 31.12.2022. is presented below and has no impact on the Bank's existing accounting records:

		December 31, 2022		December 31, 2021	
Financial assets	**Fair value hierarchy**	**Book value**	**Fair value**	**Book value**	**Fair value**
Deposits with other banks	Level 3	461	396	434	418
Loans and receivables	Level 3	1,012,946	1,006,504	879,262	974,862
Total		**1,013,407**	**1,006,900**	**879,696**	**975,280**
Financial liabilities					
Deposits from banks and other financial institutions	Level 3	111,070	111,047	58,911	59,234
Deposits from clients	Level 3	1,249,431	1,245,649	1,128,150	1,125,938
Loans taken	Level 3	67,298	59,375	30,599	31,269
Total		**1,427,799**	**1,416,071**	**1,217,660**	**1,216,441**

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,
- Establishing and monitoring of adequacy of formed provisions to cover operational risk in accordance with the Federal Banking Agency regulations, and guidelines of the Group, with the purpose of creating consolidated reports, and reporting to Bank authorities, the Operating risks department, and NLB d.d. Ljubljana,
- 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.
- • BIA analysis was done, and DR test was ended

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 ordinary share capital to total risk exposure,
2. a fixed capital rate of 9.75% (T1 rate), as a ratio of share capital to total risk exposure, and
3. a regulatory 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. Core Bank capital (Tier 1) represents sum of regular core capital items (CET 1) after regulatory adjustments and additional core 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 0.5%.

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

	December 31, 2022	**December 31, 2021**
Regulatory capital of the Bank	157,287	146,646
Exposure weighted with credit risk	890,927	794,967
Risk exposure for valuation risk	-	13,994
Risk exposure for operational risk	63,634	61,309
Total risk exposure	**954,561**	**870,270**
Regular core capital ratio	**15.86%**	**16.17%**
Core capital ratio	**15.86%**	**16.17%**
Regulatory capital ratio	**16.48%**	**16.85%**
Regular Core Capital Rate including adjustments from Tier 2	7.50%	8.58%
Core capital rate including adjustments from Tier 2	9.75%	11.44%
Regulatory capital rate including adjustments from Tier 2	12.75%	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 (Baseline Scenario) is a five-year assessment of the Bank that demonstrates its ability to meet all regulatory requirements related to equity and the Bank's Risk Appetite. Within these capital constraints, the Bank defines its risk layers in Risk Appetite above regulatory minimums and internal capital requirements that enable it to sustainably monitor its business strategy.

The Normative perspective (adverse stress scenario) includes the results of the stress tests performed. In a perspective that includes stress scenarios, the Bank seeks to meet the capital adequacy ratio, including three-year projections of adverse developments that imply the Bank's exhaustion of capital.

During 2022, 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 December 31, 2022, at the time of preparation of these reports have not yet been audited given that the regulatory audit deadline is May 31, 2023.

(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*

	2022	2021
Loans measured at amortized cost	41,872	38,566
Financial assets at FVOCI	140	8
Other interest and similar income	197	123
Interest Income	**42,209**	**38,697**
Financial assets at fair value through other comprehensive income	**2,898**	**2,256**
Total income from interest and similar income at effective interest rate	**45,107**	**40,953**

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

	2022	2021
Deposits	3,192	3,333
Loan liabilities	888	544
Subordinated debt	280	265
Discount amount of provision under IAS 19	32	41
Other interest expenses	2,539	2,081
Interest Expense	**6,931**	**6,264**
Net Interest Income and similar income at effective interest rate	**38,176**	**34,689**

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

6. Net fee and commission income

a. *Fee and commission income*

	2022	2021
Income from domestic and international payment transactions	25,995	22,462
Income from guarantees and letters of credit	1,476	1,318
Income from other activities	5,475	4,149
Fee and commission income	**32,946**	**27,929**

b. *Fee and commission expense*

	2022	2021
Payment transactions and other banking services expenses	1,133	1,022
Deposit insurance expenses	8,330	7,314
Fee and commission expense	**9,463**	**8,336**
Net fees and commission income	**23,483**	**19,593**

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

	2022				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Net credit losses from financial assets at amortised cost	(3,217)	(1,631)	(1,117)	(5,965)	(3,516)
Net credit losses from financial assets at fair value through PL	(216)	-	-	(216)	(9)
Allowance for general credit risk and potential credit losses (net) (Note 24b)	(1,035)	(200)	(45)	(1,280)	154
Net provisions / Provision for court disputes (Note 24b)	619	-	-	619	(104)
Other provisions / net earlier admitted provisions	(634)	-	-	(634)	409
	(4,483)	**(1,831)**	**(1,162)**	**(7,476)**	**(3,066)**

During 2022, impairment losses were significantly reduced compared to 2021. The most significant changes, which reduced the level of expected credit losses, relate to the application of more favourable risk parameters, recovery of the portfolio and release of impairment from out-of-court settlement, as well as the lack of impact of the first application of the Decision on Credit Risk Management and Determination of Expected Credit Losses of the Banking Agency of FBiH.

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

8. Other gains and (losses) from financial assets

	2022,				2021,
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Net effects of value changes of financial assets at fair value through profit or loss	45	-	-	45	-
Other gains from financial assets	151	-	-	151	146
	196	-	-	**196**	**146**

9. Foreign exchange gains

	2022	**2021**
Fee income from foreign exchange transactions	1,037	1,167
Fee expense from foreign exchange transactions	(153)	(408)
	884	759
Foreign exchange differences, net	26	(11)
	910	**748**

10. Other gains and (losses) from long term non financial assets

	2022,				2021,
	Stage 1	**Stage 2**	**Stage 3**	**Ukupno**	
Net gains and (losses) from property, plant and equipment	33	-	-	33	(23)
Net gains and (losses) from rights of use assets	46	-	-	46	29
Net gains and (losses) from long term assets meant to sales	-	-	732	732	139
Other gains from earlier acknowledged from value impairment of long term non-financial assets	465	-	-	465	410
	544	-	732	1,276	555

11. Other income

	2022	**2021**
Income from recovered written off receivables	4,908	2,976
Income from lease	208	101
Subsequently determined interest and fee income	105	336
Income from credits, measured at FV through profit and loss	-	1,515
Other revenues	77	26
	5,298	**4,954**

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

12. Employees' expenses

	2022	2021
Net salaries	9,585	8,957
Taxes and contributions	6,167	5,714
Meal and transport	1,355	1,154
Holiday allowance	905	853
Other	938	455
	18,950	**17,133**

The average number of employees by calculated hours in 2022 was 437 (2021: 432).

13. Other expenses and costs

	2022	2021
Deposits insurance expenses	2,440	2,383
Maintenance	2,349	2,210
Postal and telecommunications services cost	1,369	1,372
Marketing costs	1,234	1,033
Services	1,223	1,140
Security costs	1,222	1,193
Fees to FBA	929	808
Utilities	703	692
Office supplies and small inventory	635	523
Rent	586	561
Insurance of property and users of banking cards	380	403
Legal expenses and other administrative expenses	241	215
Cleaning costs	202	209
Management fee	77	21
Other employees' expenses	551	446
	14,141	**13,209**

14. Income tax

Total tax recognized in the statement of profit or loss and other comprehensive income can be presented as follows:

	2022	2021
Income tax for the year	2,554	2,566
Deferred tax	(690)	(605)
	1,864	**1,961**

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

14. Income tax (continued)

Reconciliation of the income tax presented in the tax balance and the accounting income tax can be presented as follows:

	2022	2021
Profit before tax	23,984	23,018
Income tax at the statutory rate of 10%	2,398	2,302
Capital gains/losses	0	7,191
Non-taxable income	(970)	(1,782)
Effect of non-deductible expenses	161	180
Temporary tax differences	7,214	352
Tax reliefs	(4,852)	(3,295)
Tax base	**25,537**	**25,664**
Income tax expense	**2,554**	**2,566**
Effective income tax rate for the year	**10.65%**	**11.15%**

14.a Deferred tax assets and liabilities

Movement in deferred tax assets

	2022	2021
Balance at December 31, previous year	93	152
Deferred tax assets-other provisions	54	(24)
Deferred tax assets-stage 1 and 2 impairment allowances	630	(92)
Deferred tax assets-impairment of other assets	5	3
Deferred tax assets-debt securities	225	54
Balance at December 31	**1,007**	**93**

Movement in deferred tax liabilities

	2022	2021
Balance at December 31, previous year	-	823
Deferred tax liabilities-equity securities	6	(719)
Deferred tax liabilities-debt securities	-	(104)
Balance at December 31	**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 31,12,2020	**152**	**(823)**	**(671)**
Change in fair value of financial assets at fair value through other comprehensive income	54	823	877
Other provisions for loans and receivables from clients through profit or loss	(24)	-	(24)
Gain-deferred tax assets IV Stage 1 and 2	(92)	-	(92)
Changes in negative fair value of property and equipment recognized in profit or loss	3	-	3
Balance at 31,12,2021	**93**	**-**	**93**
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-
Other provisions for loans and receivables from clients through profit or loss	54	-	54
Gain-deferred tax assets Stage 1 and 2	630	-	630
Changes in negative fair value of property and equipment recognized in profit or loss	5	-	5
Deferred tax assets – debt	225	-	225
Deferred tax liabilities – owner's	-	6	(6)
Balance at 31,12,2022	**1,007**	**6**	**1,001**

15. Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash in hand	59,041	53,675
Balances with banks with maturity until 30 days	48,639	58,906
Liquidity reserves above the required reserve at the Central Bank	166,627	112,992
Calculated interest on assets at banks	7	11
	274,314	**225,584**
Less: Value adjustment	(225)	(200)
	274,089	**225,384**

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 on 31.12.2022	**31.12.2022**				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2021**
Cash and cash eqvivalents	274,314	-	-	274,314	225,584
	274,314	**-**	**-**	**274,314**	**225,584**

Imapairment on 31,12,2022	**31.12.2022**				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2021**
Cash and cash eqvivalents	225	-	-	225	200
	225	**-**	**-**	**225**	**200**

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

16. Financial assets at fair value through PL

The Bank classifies financial assets according to IFRS 9 as financial assets measured at fair value through other totals.

16.a Investment in equity instruments	31.12.2022	31.12.2021
S.W.I.F.T., Belgium	85	70
Register of securities of the Federation of Bosnia and Herzegovina, Sarajevo	14	14
	99	**84**

16.b Debt securities	31,12,2022	31,12,2021
Republic of Srpska – Ministry of finance	60,371	27,939
Government F BiH – Federal Ministry of finance	37,746	37,176
Ministry of finance of Republic of Slovenia	32,660	26,328
Kingdom of Belgium	14,193	22,598
Republic of France	13,794	18,348
Switzerland	1,983	-
United States of America	1,815	1,726
City of Banja Luka	738	1,086
Republic of Austria	-	10,765
Republic of Finland	-	5,862
Canton Sarajevo	-	721
	163,300	**152,549**

The bank had no dividend income in 2022.

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

16. Financial assets at fair value through PL (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 prudential system (internal classification) and the level of credit risk (stage classification) at the end of the year:

31 December 2022	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Internal classification							
A	-	64,543	-	-	-	-	64,543
B	-	98,856	-	-	-	-	98,856
C	-	-	-	-	-	-	-
D i E	-	-	-	-	-	-	-
	-	**163,399**	-	-	-	-	**163,399**

31 December 2022	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Internal classification							
A	-	85,711	-	-	-	-	85,711
B	-	66,922	-	-	-	-	66,922
C	-	-	-	-	-	-	-
D i E	-	-	-	-	-	-	-
	-	**152,633**	-	-	-	-	**152,633**

Change in gross carrying amount value and related value adjustment for financial assets measured at fair value through other comprehensive income in 2022 are shown below:

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
***Fair value at* 31 December 2022**	-	**152,633**	-	-	-	-	**152,633**
New assets approved or purchased	-	117,106	-	-	-	-	**117,106**
Asset derecognition/maturity (excluding write-offs)	-	(102,734)	-	-	-	-	**(102,734)**
Changes in fair value	-	(3,606)	-	-	-	-	**(3,606)**
Transfer in Stage 1	-	-	-	-	-	-	-
Transfer in Stage 2	-	-	-	-	-	-	-
Transfer in Stage 3	-	-	-	-	-	-	-
As at 31 December 2022	-	**163,399**	-	-	-	-	**163,399**

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

16. Financial assets at fair value through PL (continued)

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Value adjustments as of 31 December 2021	-	**668**	-	-	-	-	**668**
New assets approved or purchased	-	583	-	-	-	-	583
Asset derecognition/maturity (excluding write-offs)	-	(285)	-	-	-	-	(285)
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	-	(88)	-	-	-	-	(88)
Write offs	-	-	-	-	-	-	-
Exchange rate differences	-	-	-	-	-	-	-
As at 31 December 2022	-	**878**	-	-	-	-	**878**

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Value adjustments as of 31 December 2020	-	**663**	-	-	-	-	**663**
New assets approved or purchased	-	174	-	-	-	-	174
Asset derecognition/maturity (excluding write-offs))	-	(90)	-	-	-	-	(90)
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	-	(79)	-	-	-	-	(79)
Write offs	-	-	-	-	-	-	-
Exchange rate differences	-	-	-	-	-	-	-
As at 31 December 2022	-	**668**	-	-	-	-	**668**

(All amounts are given in thousand BAM unless otherwise stated)
16. Financial assets at fair value through PL (continued)

Equity instruments at fair value through other total result:

Structure of equity investments	**Activities**	**Country of business**	**% of ownership 31 December 2022**	**% of Ownership 31 December 2021**
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 hard papers at the level of evaluation on the day 31. December 2022.:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities	64,445	98,855	-	**163,300**
Equity instruments	-	-	99	**99**
Total	**64,445**	**98,855**	**99**	**163,399**

Overwiev of securities by the level of valuation as of 31. December 2021:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities	85,627	66,922	-	**152,549**
Equity instruments	-	-	84	**84**
Total	**85,627**	**66,922**	**84**	**152,633**

The portfolio of debt securities in level 1 consists of bonds and treasury bills of the Ministry of Finance of the Republic of Slovenia in the amount of BAM 32,660 thousand, the Kingdom of Belgium in the amount of BAM 14,193 thousand, the Republic of France in the amount of BAM 13,794 thousand, Switzerland in the amount of BAM 1,983 thousand and the United States of America in the amount of BAM 1,815 thousand.

The level 2 portfolio consists of long-term bonds and treasury bills of the RS Ministry of Finance in the amount of BAM 60,371 thousand, the Ministry of Finance of the FBiH in the amount of BAM 37,746 thousand, the City of Banja Luka in the amount of BAM 738 thousand.

Equity instruments are included in Level 3.

(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.

	31.12.2022	31.12.2021
Obligatory reserve at Central Bank BiH	140,588	116,965
Less: Impairment	(141)	(117)
	140,447	**116,848**

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 10 basis reserves on the basis of foreign currencies and in domestic currency with a currency clause and pay compensation at the rate of 10 basis points; and
- 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 to 31.12.2022		**31.12.2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2021.**
Obligatotiry reserve with the CB of BiH	140,588	-	-	140,588	116,965
	140,588	-	-	**140,588**	**116,965**

Gross exposure to 31.12.2022			**31.12.2022**				
	A	**B**	**C**	**D**	**E**	**Total**	**2021.**
Obligatory reserve with the CB of BiH	-	**140,588**	-	-	-	140,588	116,965
	-	**140,588**	-	-	-	**140,588**	**116,965**

Impairment on 31. december 2022		**31.12.202**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2021.**
Obligatory reserve with the CB of BiH	141	-	-	141	117
	141	-	-	**141**	**117**

17.b Deposits with other banks

	31.12.2022	**31.12.2021**
Deposits with other banks	462	434
Less: Impairment	(1)	-
	461	**434**

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		**31.12.2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2021**
Deposits with other banks	462	-	-	462	434
	462	-	-	**462**	**434**

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

17. Financial assets at amortized cost (continued)

17.b Deposits with other banks

Gross exposure on 31.12.2022	31.12.2022						
	A	B	C	D	E	Total	2021
Deposits with other banks	462	-	-	-	-	462	434
	462	**-**	**-**	**-**	**-**	**462**	**434**

Impairment on 31. december 2022	31.12.2022				
	Stage 1	Stage 2	Stage 3	Total	2021
Deposits with other banks	1	-	-	1	-
	1	**-**	**-**	**1**	**-**

17.c Loans and trade receivables

	Short-term loans on 31.12.		Long-term loans on 31.12.		Total on 31.12.	
	2022	2021	2022	2021	2022	2021
Retail loans	31,119	29,594	573,890	481,552	605,009	511,146
Corporate loans	258,432	239,579	190,090	168,261	448,522	407,840
	289,551	**269,173**	**763,980**	**649,813**	**1,053.531**	**918,986**
Less: impairment	(9,800)	(8,647)	(30,785)	(31,077)	(40,585)	(39,724)
	279,751	**260,526**	**733,195**	**618,736**	**1,012.946**	**879,262**

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 (phase classification) at the end of the year:

	31.12.2022						
	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Internal classifications-cation							
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**

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

17. Financial assets at amortized cost (continued)

17.c Loans and trade receivables (continued)

	31.12.2021						
	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Group rated	Individually rated	Group rated	Individually rated	Group rated	
Internal classifications-cation							
A	-	523,679	-	6,832	-	-	530,511
B	-	304,551	-	12,578	-	-	317,1 29
C	-	16,906	-	23,070	-	-	39,976
D i E	-	-	-	-	10,165	21,205	31,370
	-	**845,136**	-	**42,480**	**10,165**	**21,205**	**918,986**

The movement of loan impairment in 2022 and 2021 is shown in the following table:

	2022	2021
January 1	**39,724**	**42,571**
Increase in impairment for the year	27,865	37,380
Decrease in impairment	(22,212)	(34,086)
Increase by year, net	5,653	3,294
Decrease in impairment based on unwinding	(17)	(42)
Net cost of interest impairment	56	144
Accounting write-offs during the year	(4,738)	(3,626)
Permanent write-off	(93)	(2,617)
December 31	**40,585**	**39,724**

Below is an overview of loans given to customers by segments and by credit risk levels as of December 31, 2022, and December 31, 2021:

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

17. Financial assets at amortized cost (continued)

17.c. Loans and trade receivables *(continued)*

31.12.2022

	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							
Corporate clients	-	375,521	-	10,854	5,311	-	391,686
SME clients	-	34,030	-	1,755	4,527	-	40,312
Other clients	-	15,937	-	354	101	132	16,524
	-	**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**

31.12.2021

	Stage 1		Stage 2		Stage 3		
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total
Retail loans							
Housing loans	-	102,280	-	1,519	177	1,031	105,007
Consumer loans	-	346,343	-	11,098	152	18,933	376,526
Other retail loans	-	28,095	-	630	22	866	29,613
	-	**476,718**	-	**13,247**	**351**	**20,830**	**511,146**
Corporate loans							
Corporate clients	-	325,612	-	22,171	5,288	-	353,071
SME clients	-	28,369	-	4,774	4,526	31	37,700
Other clients	-	14,437	-	2,289	-	343	17,069
	-	**368,418**	-	**29,234**	**9,814**	**374**	**407,840**
	-	**845,136**	-	**42,481**	**10,165**	**21,204**	**918,986**
Less: Impairment	-	(6,640)	-	(3,812)	(9,370)	(19,902)	(39,724)
Total loans (net)	-	**838,496**	-	**38,669**	**795**	**1,302**	**879,262**

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

17. Financial assets at amortized cost (continued)

17. Loans and trade receivables *(continued)*

Changes in the gross carrying amount and the related value adjustments for retail loans in 2022 are, as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Collective rated	Individually rated	Collective rated	Individually rated	Collective rated	
Gross carrying amount as at December 31, 2021	-	**476,718**	-	**13,247**	**351**	**20,830**	**511,146**
New assets originated or purchased	-	241,604	-	1,543	-	468	243,615
Assets derecognized or matured (excluding write-offs)	-	(81,246)	-	(11,518)	(168)	(1,300)	(94,232)
Transfers to Stage 1	-	(65,225)	-	4,838	-	2,695	(57,692)
Transfers to Stage 2	-	6,671	-	(287)		1,427	7,811
Transfers to Stage 3	-	1,055	-	583	(19)	(2,938)	(1,319)
Changes to contractual cash flows due to modification not resulting in derecognition	-	(9)	-	-	(24)	-	(33)
Accounting write-off	-	-	-	-	-	(4,194)	(4,194)
Write-offs	-		-		-	(93)	(93)
At December 31, 2022	-	**579,568**	-	**8,406**	**140**	**16,895**	**605,009**

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Collective rated	Individually rated	Collective rated	Individually rated	Collective rated	
ECL Allowance as at December 31, 2021	-	**3,705**	-	**2,009**	**307**	**19,528**	**25,549**
New assets originated or purchased	-	3,547	-	249	-	327	4,123
Assets derecognized or matured (excluding write-offs)	-	(628)	-	(1,705)	(140)	(1,002)	(3,475)
Transfers to Stage 1	-	781	-	887	-	2,141	3,809
Transfers to Stage 2	-	80	-	(87)	-	1,269	1,262
Transfers to Stage 3	-	11	-	104	-	(2,352)	(2,237)
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	-	-	-	-
Accounting write-off	-	-	-	-	-	(4,194)	(4,194)
Write-offs	-	-	-	-		(93)	(93)
At December 31, 2022	-	**7,496**	-	**1,457**	**167**	**15,624**	**24,744**

(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	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2020	**-**	**426,417**	**-**	**7,019**	**326**	**23,677**	**457,439**
New assets originated or purchased	-	185,671	-	1,728	-	116	187,515
Assets derecognized or matured (excluding write-offs)	-	(68,491)	-	(1,010)		(1,201)	(70,702)
Transfers to Stage 1	-	(71,484)	-	10,138	123	3,702	(57,521)
Transfers to Stage 2	-	2,677	-	(5,044)		1,656	(711)
Transfers to Stage 3	-	1,927	-	369	(98)	(4,383)	(2,185)
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	47	-	154	201
Accounting write-off	-	-	-	-	-	(2,686)	(2,686)
Write-offs	-	-	-	-		(204)	(204)
At December 31, 2021	**-**	**476,717**	**-**	**13,247**	**351**	**20,831**	**511,146**

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL Allowance as at December 31, 2020	**-**	**2,763**	**-**	**1,153**	**202**	**21,423**	**25,541**
New assets originated or purchased	-	1,534	-	299		87	1,920
Assets derecognized or matured (excluding write-offs)	-	(422)	-	(140)	-	(1,073)	(1,635)
Transfers to Stage 1	-	(200)	-	1,541	-	2,984	4,325
Transfers to Stage 2	-	17	-	(892)	-	1,495	620
Transfers to Stage 3	-	13	-	46	105	(2,643)	(2,479)
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	2	-	145	147
Accounting write-off	-	-	-	-	-	(2,686)	(2,686)
Write-offs	-	-	-	-	-	(204)	(204)
At December 31, 2021	**-**	**3,705**	**-**	**2,009**	**307**	**19,528**	**25,549**

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

17. Financial assets at amortized cost (continued)

17.c. Loans and trade receivables *(continued)*

Changes in the gross carrying amount and the related value adjustments for corporate loans in 2022 are, as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individualy rated	Collective rated	Individual rated	Collective rated	Individual rated	Collective rated	
Gross carrying amount as at December 31, 2021	**-**	**368,418**	**-**	**29,234**	**9,814**	**374**	**407,840**
New assets originated or purchased	-	333,181	-	6,101	542	-	339,824
Assets derecognized or matured (excluding write-offs)	-	(206,488)	-	(23,963)	(249)	169	(230,531)
Transfers to Stage 1	-	(72,435)	-	3,664	-	17	(68,754)
Transfers to Stage 2	-	2,944	-	(2,071)	-	38	911
Transfers to Stage 3	-	-	-	1	(74)	(34)	(107)
Changes to contractual cash flows due to modification not resulting in de-recognition	-	(132)	-	(3)	18	-	(117)
Accounting write-off	-	-	-	-	(112)	(432)	(544)
Write-offs	-	-	-	-	-	-	-
At December 31, 2022	**-**	**425,488**	**-**	**12,963**	**9,939**	**132**	**448,522**

	Stage 1		Stage 2		Stage 3		Total
	Individualy rated	Collective rated	Individual rated	Collective rated	Individual rated	Collective rated	
ECL Allowance as at December 31, 2021	**-**	**2,935**	**-**	**1,803**	**9,063**	**374**	**14,175**
New assets originated or purchased	-	4,183	-	746	224	-	5,153
Assets derecognized or matured (excluding write-offs)	-	(1,411)	-	(1,285)	(251)	169	(2,778)
Transfers to Stage 1	-	(421)	-	304	-	17	(100)
Transfers to Stage 2	-	40	-	(231)	-	38	(153)
Transfers to Stage 3	-	-	-	-	122	(34)	88
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-	-	-	-
Accounting write-off	-	-	-	-	(112)	(432)	(544)
Write-offs	-	-	-	-	-	-	-
At December 31, 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 trade receivables *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Collective rated	Individual rated	Collective rated	Individual rated	Collective rated	
Gross carrying amount as at December 31, 2019	-	**302,301**	-	**43,999**	**9,411**	**562**	**356,273**
New assets originated or purchased	-	273,982	-	21,523	267	23	295,795
Assets derecognized or matured (excluding write-offs)	-	(175,159)	-	(26,818)	449	140	(201,388)
Transfers to Stage 1	-	(40,583)	-	4,472	-	2	(36,109)
Transfers to Stage 2	-	7,877	-	(13,314)	2,167	29	(3,241)
Transfers to Stage 3	-	-	-	-	-	(110)	(110)
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	575	(652)	50	(27)
Accounting write-offs	-	-	-	-	(779)	(161)	(940)
Write-offs	-	-	-	(1.203)	(1.049)	(161)	(2.413)
At December 31, 2021	-	**368,418**	-	**29,234**	**9,814**	**374**	**407,840**

	Stage 1		Stage 2		Stage 3		Total
	Individually rated	Collective rated	Individual rated	Collective rated	Individual rated	Collective rated	
ECL allowance as at December 31, 2019	-	**3,469**	-	**6,931**	**6,070**	**560**	**17,030**
New assets originated or purchased	-	2,045	-	1,131	241	23	3,440
Assets derecognized or matured (excluding write-offs)	-	(1,565)	-	(3,933)	680	132	(4,686)
Transfers to Stage 1	-	(1,199)	-	321	-	3	(875)
Transfers to Stage 2	-	185	-	(1,598)	1,849	77	513
Transfers to Stage 3	-	-	-		511	(99)	412
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	154	1,540	-	1,694
Accounting write-offs	-	-	-	-	(779)	(161)	(940)
Write-offs	-	-	-	(1.203)	(1.049)	(161)	(2.413)
At December 31, 2021	-	**2.935**	-	**1.803**	**9.063**	**374**	**14.175**

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

17. Financial assets at amortized cost (continued)

17.c. Loans and trade receivables *(continued)*

Trade receivables – Stage 1

At December 31, 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	-	-	-	-	-	-

At December 31, 2021	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	100,540	1,740	-	-	-	102,280
Consumer loans	328,513	17,812	-	6	12	346,343
Other retail loans	26,683	1,409	-	1	2	28,095
Total Retail loans	**455,736**	**20,961**	**-**	**7**	**14**	**476,718**
Corporate lending	325,387	224	-	-	-	325,611
SME lending	28,369	-	-	-	-	28,369
Other loans	14,241	190	-	-	7	14,438
Total Corporate loans	**367,997**	**414**	**-**	**-**	**7**	**368,418**
Total Loans to customers	**823,733**	**21,375**	**-**	**7**	**21**	**845,136**
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 trade receivables *(continued)*

Trade receivables – Stage 2

At December 31, 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 trade receivables *(continued)*

At December 31, 2021	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	1,126	136	258	-	-	1,520
Consumer loans	6,408	2,089	1,606	995	-	11,098
Other retail loans	366	111	104	48	-	629
Total Retail loans	**7,900**	**2,336**	**1,968**	**1,043**	**-**	**13,247**
Corporate lending	21,998	173	-	-	-	22,171
SME lending	3,630	1,144	-	-	-	4,774
Other loans	2,175	109	-	5	-	2,289
Total Corporate loans	**27,803**	**1,426**	**-**	**5**	**-**	**29,234**
Total Loans to customers	**35,703**	**3,762**	**1,968**	**1,048**	**-**	**42,481**
of which: restructured	636	29	-	-	-	665
Due from banks	-	-	-	-	-	-

Trade receivables – Stage 3

At December 31, 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

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

17. Financial assets at amortized cost (continued)

17.c. Loans and trade receivables *(continued)*

At December 31, 2021	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	154	153	-	16	885	1,208
Consumer loans	2,482	899	256	145	15,303	19,085
Other retail loans	4	6	1	-	878	889
Total Retail loans	**2,640**	**1,058**	**257**	**161**	**17,066**	**21,182**
Corporate lending	-	-	-	-	5,288	5,288
SME lending	-	-	267	-	4,290	4,557
Other loans	70	-	-	-	273	343
Total Corporate loans	**70**	**-**	**267**	**-**	**9,851**	**10,188**
Total Loans to customers	**2,710**	**1,058**	**524**	**161**	**26,917**	**31,370**
of which: restructured	30	-	-	23	3,568	3,621
Due from banks	-	-	-	-	-	-

17.d Other financial assets at amortized cost

	31.12.2022	31.12.2021
Other financial assets at amortized cost		
Calculated service fees	508	460
Receivables from the card transactions	3,194	3,171
Other financial assets	698	630
	4,400	4,261
Less: Impairment	(554)	(489)
Other financial assets at amortized cost	**3,846**	**3,772**

(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	Assets in progress	Total
Cost						
At 1 January 2021,	36,370	1,080	8,595	4,976	1,535	52,556
Additions	-	-	-	-	2,263	2,263
Transfer	142	-	1,805	800	(2,747)	-
Disposals	-	-	-	-	-	-
- write offs	-	(32)	(908)	(108)	-	(1,048)
- disposal on IFRS 36	(45)	-	-	-	-	(45)
- sale of assets	(349)	(299)	-	-	-	(648)
At 31 December 2021,	**36,118**	**749**	**9,492**	**5,668**	**1,051**	**53,078**
Additions	-	-	-	-	2,566	2,566
Transfer	1,432	273	901	569	(3,175)	-
Transfer from intangible assets	-	-	194	-	-	194
Disposals	-	-	-	-	-	-
- write offs	-	-	(647)	(97)	-	(744)
- Disposals on IFRS 36	(55)	-	-	-	-	(55)
- sale of assets	(143)	-	-	-	-	(143)
At 31 December 2022,	**37,352**	**1,022**	**9,940**	**6,140**	**442**	**54,896**
Accumulated impairment						
At 1 January 2021,	13,791	594	5,489	3,338	-	23,212
Derecognition of the period	726	136	980	368	-	2,210
- write offs	-	-	(908)	(107)	-	(1,015)
- Disposals on IFRS 36	(11)	-	-	-	-	(11)
- sale of assets	(184)	(215)	-	-	-	(399)
At 31 December 2021,	**14,322**	**515**	**5,561**	**3,599**	-	**23,997**
Derecognition of the period	732	109	1,086	444	-	2,371
- write offs	-	-	(644)	(97)	-	(741)
- Disposals on IFRS 36	(1)	-	-	-	-	(1)
- sale of assets	(23)	-	(1)	-	-	(24)
At 31 December 2022,	**15,030**	**624**	**6,002**	**3,946**	-	**25,602**
Net book value 31 December 2022,	**22,322**	**398**	**3,938**	**2,194**	**442**	**29,294**
Net book value at 31 December 2021,	**21,796**	**234**	**3,931**	**2,069**	**1,051**	**29,081**

(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 2021	7,516
Additions	1,326
- write-offs	(459)
At 31 December 2021	**8,383**
- write-offs	(340)
At 31 December 2022	**8,043**
Accumulated depreciation	
At January 1, 2021	**2,223**
Depreciation of period	1,465
Write-offs	(178)
At December 31 2021	**3,510**
Depreciation of period	1,643
Write-offs	(216)
At December 31, 2022,	4,937
Net book value at December 31, 2022	**3,106**
Net book value at December 31, 2021	4,873

During 2022 and 2021, 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 KM 6,841 thousand as of December 31, 2022, while as of December 31, 2021, it amounted to KM 6,404 thousand.

Management believes that the fair value of property and equipment is approximately equal to its book value.

Leases

a) Lease as lessee

Right of use assets	**31,12,2022**	**31,12,2021**
Property	6,593	6,933
Equipment	1,450	1,450
Total	**8,043**	**8,383**

There has been no increase in property rights in 2022.

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	**2022**	**2021**
Property	1,353	1,211
Equipment	290	254
Total	**1,643**	**1,465**

Other expenses	**2022**	**2021**
Interest expenses	51	72
Short term lease expenses (Note 13)	263	254
Expenses for leases of low value (Note 13)	200	187
Expenses on VAT based on leases treated under IFRS 16 (Note 13)	123	120
Total	**637**	**633**

A total of BAM 1,763 thousand was paid to suppliers from the lease basis in 2022. Out of these, the amount of BAM 1,300 thousand refers to leases treated under IFRS 16.

b) Lease as leaseholder

In 2021, the Bank leased a smaller part of the main building in Tuzla, for the period of 5 years, with the possibility of extending the lease. The amount of net income in 2022 is KM 208 thousand.

(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 2.193 thousand as at December 31, 2022 while as at December 31, 2021, it was BAM 1.758 thousand.

	Licenses and software	Assets in progress	TOTAL
Cost			
At January 1, 2021	**7,455**	**338**	**7,793**
Additions	1,072	1,574	2,646
Write-offs	(1,385)	(736)	(2,121)
At December 31, 2021	**7,142**	**1,176**	**8,318**
Additions	-	436	436
Transfers	1,230	(1,230)	-
Transfer to tangible assets	-	(194)	(194)
Write offs	(14)	-	(14)
At December 31, 2022	**8,358**	**188**	**8,546**
Accumulated depreciation			
At January 1, 2021	**5,995**	-	**5,995**
Deprecation	596	-	596
Write-offs	(1,313)	-	(1,313)
At December 31 2021	**5,278**	-	**5,278**
Deprecation	774	-	774
Write-offs	(14)	-	(14)
At December 31, 2022	**6,038**	-	**6,038**
Net book value at December 31, 2022	**2,320**	**188**	**2,508**
Net book value at December 31, 2021	**1,864**	**1,176**	**3,040**

20. Long term assets available for sale

Long-term assets available for sale relate to acquired tangible assets in the amount of BAM 13,000 as of December 31, 2022 (2021: BAM 171,000), that relates to property taken over for unpaid receivables.

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 (3) properties were made in 2022, while for six (6) properties valuations were made in the period from 2018 to 2021, and reassessments will be made in 2023. Annually, the value is checked by internal appraisers, who have the title of expert in the architectural/construction profession.

For the above-mentioned six (6) properties, no assessments have been made because the Bank, after acquiring the property, conducts the procedure of registering the property in the land registry and entering into possession, after which it can monitor and request an appraisal.

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

21. Other assets and receivables

	December 31, 2022	December 31, 2021
Other assets and receivables		
Prepaid costs and	1,214	1,128
Small inventory	22	22
Less (impairment/value adjustment):	1,236	1,150
Other assets and receivables	(26)	(17)
	1,210	**1,133**

22. Financial liabilities at fair value through PL

Financial liabilities at fair value through the balance of success refer to bonuses, which are paid in the value of financial instruments (shares).

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 KM 332 thousand of financial liabilities.

The value of financial liabilities on this basis is determined on a monthly basis.
On December 31, 2022, a decrease in the value of shares was determined in the amount of KM 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

	31.12.2022	31.12.2021
Deposits a vista	**11,975**	**11,838**
Banks	3,047	1,575
Other financial institutions	8,928	10,263
Other deposits	**98,930**	**47,072**
Banks	40,241	25,572
Other financial institutions	58,689	21,500
Interest accrued and reserved	165	1
Total banks and other financial institutions	**111,070**	**58,911**

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

23. Financial liabilities at amortized cost (continued)

23. b. Customers' deposits

	31.12.2022	31.12.2021
Deposits avista	**889,070**	**747,490**
Government	263,447	202,626
Public companies	40,840	31,419
Private companies	177,930	156,898
Non-profit organization	18,348	17,941
Retail	388,505	338,606
Other deposits	**357,453**	**376,829**
Government	4,787	3,587
Public companies	19,700	607
Private companies	59,707	51,417
Non-profit organization	2,738	2,762
Retail	270,521	318,456
Interest accrued and reserved	2,908	3,831
Total customer's deposits	**1,249,431**	**1,128,150**

23. c Borrowings

Liabilities for taken loans refer to liabilities based on long-term and subordinated loans from banks and non-banking financial organizations.

	December 31, 2022	December 31, 2021
Loans		
Nova Ljubljanska bank d.d.. Ljubljana	51,704	22,725
European Fund for South-East Europe (EFSE)	9,588	1,956
Subordinated loans		
Nova Ljubljanska bank d.d.. Ljubljana	6,006	5,918
	67,298	**30,599**

Interest rates on the entire portfolio of long-term credit lines from banks and non-banking financial institutions for the year ended 31 December 2022, were in the range: fixed interest rates from 0.01% to 2.45% per annum, while variable interest rates ranged from 6M EURIBOR +4.4% to 6M EURIBOR + 3.5%.

On the financial date, the Bank has an agreed unused long-term loan in the amount of EUR 5 million, with the investment fund EFSE.

In 2019, the Bank concluded a subordinated debt with NLB d.d. Ljubljana in the amount of EUR 3 million, for a period of 10 years, with a variable interest rate of EUR 6M EURIBOR + 4.40% with a one-time repayment.

With the consent of the Banking Agency of the Federation of BiH on 27 October 2021, Annex 1 of the Subordinated Loan Agreement was concluded, by which the interest rate was changed from variable in the amount of EUR6M EURIBOR + 4.40%, to fixed in the amount of 4.70%.

(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

	31.12.2022	31.12.2021
Liabilities to individuals based on inactive accounts	6,481	7,837
Funds paid for overdue loan liabilities	9,826	7,177
Unallocated inflows	2,937	2,888
Liabilities to suppliers	1,326	1,024
Dividend liability	427	365
Commission liabilities	-	1
Other financial liabilities	2,515	3,074
	23,512	**22,366**

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

	December 31, 2022	December 31, 2021
Corporate	11,887	12,369
Retail	5,728	7,208
Total placements	**17,615**	**19,577**
Government of Tuzla Canton	12,232	13,434
Government of Sarajevo Canton	4,098	4,610
Other non-banking financial institutions	1,285	1,534
Total sources (liabilities)	**17,615**	**19,578**
Differences	**-**	**1**

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

	31.12.2022	31.12.2021
Credit risk of commitments and guarantees (Note 28)	3,139	1,859
Litigation	42	696
Other provisions	2,093	2,009
	5,274	**4,564**

a. Credit risk of commitments and guarantees	31.12.2022	31.12.2021
Opening balance as of January 1	1,859	2,012
Decrease/ increase for the year, net (Note 7)	1,280	(154)
Foreign exchange differences, net	-	1
	3,139	**1,859**

b. Litigation

	31.12.2022	31.12.2021
Opening balance as of January 1	696	601
Decrease/ increase for the year, net (Note 7)	(619)	104
Utilization	(35)	(9)
	42	**696**

c. Other provisions

	31.12.2022	31.12.2021
Opening balance as of January 1	2,009	2,471
Increase / decrease for the year, net	634	(409)
Release via OUR/additional booking via OUR	(461)	177
Utilization	(89)	(230)
	2,093	**2,009**

25. Other liabilities

	31.12.2022	31.12.2021
Other liabilities to employees	513	641
Liabilities for taxes and membership fees	123	204
Prepaid fees	108	134
Other liabilities	44	91
	788	**1,070**

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

26. Share capital

	31.12.2022	31.12.2021
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.

	31.12.2022	31.12.2021
Net profit of the Bank after tax (in BAM)	21,430,216	21,170,679
Weighted number of shares	382,712	382,712
Basic earnings per Share (in BAM)	56.00	55.32

In November 2022, by the Decision of the Assembly of the Bank, no. I-100-55-2/22, dated 3.10.2022, the payment of dividends from the accumulated (retained) earnings for 2021 was made.

For 2021, the amount of dividend for one ordinary share was BAM 38.71, and for 2020, BAM 23.29.

For 2020, a total of BAM 14,819 thousand of dividends was calculated, and for 2020 BAM 8,913 thousand of dividends.

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 2022 and 2021.

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 Note 1.

(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 December 31, 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 KOMERCIJALNA BANKA AD BANJA LUKA	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	SHAREHOLDE R 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. Transactions with related parties (continued)

The volume of transactions with the related party and the balance at the end of December 31. 2021 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 31.12.2021 toward related party			NLB Banka d.d.. Sarajevo in 2021 toward related party	
NOVA LJUBLJANSKA BANKA DD. LJUBLJANA	BANK ACTIVITIES	SIGNIFICANT OWNERSHIP INTEREST IN BANK	54,597	10,686	1,5	273	1.04
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	95	741	-	233	-
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	34	982	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	1,018	2,037	-	-	-
NLB BANKA AD BEOGRAD	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	102	2,036	-	4	-
KOMERCIJALNA BANKA AD BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	-	-	-	4	-
PRVI FAKTOR DOO s\Sarajevo-in liquidation	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	-	-	-	1	2
REAM D.O.O. PODGORICA	REAL ESTATE	COMMON OWNER	-	-	-	-	-
REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE	OTHER ACTIVITIES	SHAREHOLDER OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK	-	26,328	-	409	-
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		1.322	1,466	152	59	8

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

27. Transaction with related parties (*continued*)

Management remuneration

	2022	2021
Short-term employee benefits		
Net salaries	724	754
Taxes and contributions on net salaries	570	594
Other remunerations	142	189
Taxes and contributions on other income	106	143
	1,542	**1,680**

Net salaries, taxes and contributions are slightly lower in 2022 compared to 2021, which is caused by the five-year delay in the payment of the variable part for 2021.

Remunerations of Bank's Supervisory Board and Audit Committees' members

	2022	2021
Fees paid to SB an AC members	34	20
Taxes and contributions	8	5
	42	**25**

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	2021
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment		
Guarantees	-	97,512	-	496	502	10	98,520	81,204
Letters of credit	-	635	-	-	-	-	635	955
Granted loans not withdrawn	-	125,516	-	1,880	-	34	127,430	80,241
	-	**223,663**	-	**2,376**	**502**	**44**	**226,585**	**162,400**
Less: Value adjustment for potential losses	-	(,2833)	-	(190)	(85)	(31)	(3,139)	(1,859)
	-	**220,830**	-	**2,186**	**417**	**13**	**223,446**	**160,541**

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:

	2022							2021
	Stage 1		Stage 2		Stage 3		Total	
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment		
Internal classification								
A	-	100,072	-	65	-	-	100,137	71,959
B	-	110,591	-	192	-	-	110,783	78,407
C	-	13,000	-	2,119	-	-	15,119	11,986
D and E	-	-	-	-	503	43	546	48
	-	**223,663**	-	**2,376**	**503**	**43**	**226,585**	**162,400**

Change in gross carrying value and related provisions for potential losses in 2022 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	-	**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**

(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 2019	**-**	**148,146**	**-**	**7,549**	**-**	**84**	**155,779**
New exposure	-	-	-		-	-	-
Exposures derecognized or matured (excluding write off))	-	86,069	-	4,290	-	3	90,362
Transfer to Stage 1	-	(75,195)	-	(4,683)	-	(47)	(79,925)
Transfer to Stage 2	-	(4,535)	-	716	-	15	(3,804)
Transfer to Stage 3	-	1,046	-	(1,069)	-	13	(10)
Changes due to modifications not resulting in derecognition	-	14	-	4	-	(20)	(2)
Write offs	-	-	-		-	-	-
Foreign exchange adjustments	-	-	-		-	-	-
Balance at 31 December. 2021	**-**	**155,545**	**-**	**6,807**	**-**	**48**	**162,400**

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 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 December 31, 2022	**-**	**2,833**	**-**	**190**	**86**	**30**	**3,139**

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2020	**-**	**1,421**	**-**	**507**	**-**	**84**	**2,012**
New exposure	-	691	-	392	-	3	1,086
Exposures derecognized or matured (excluding write off)	-	(590)	-	(268)	-	(47)	(905)
Transfer to Stage 1	-	(265)	-	45	-	15	(205)
Transfer to Stage 2	-	21	-	(143)	-	13	(109)
Transfer to Stage 3	-	-	-	-	-	(20)	(20)
Balance at December 31, 2021		**1,278**		**533**		**48**	**1,859**

28. Contingencies (continued)

Litigation in progress

As of December 31, 2022, 56 legal proceedings are pending against the Bank for which legal risk is assessed. The total value of these court proceedings as of December 31, 2022, amounts to BAM 11,958 thousand; CHF 5 thousand and $ 50.

During 2022, the Bank received 9 new lawsuits.

Between January 1, and December 31, 2022, 12 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 December 31, 2022:

	Corporate and SME	Micro and population	Financial market	Collection	Other	Bank
Interest income	10,765	30,443	3,038	813	48	45,107
Interest expense	(1,121)	(2,061)	(3,702)	(2)	(45)	(6,931)
Net income interest	9,644	28,382	(664)	811	3	38,176
Net fee and provision income	3,566	19,972	(96)	21	20	23,483
Other non-interest income	54	314	656	6,093	563	7,680
Other operating income	13,264	48,668	(104)	6,925	586	69,339
Total expenses	(1,710)	(15,289)	(549)	(1,215)	(19,116)	(37,879)
Gains / (Loss) before impairment and provision	11,554	33,379	(653)	5,710	(18,530)	31,460
Losses from impairment (net)	(2,831)	(5,522)	(257)	1,192	(58)	(7,476)
GAIN/ (LOSS) BEFORE TAX	**8,723**	**27,857**	**(910)**	**6,902**	**(18,588)**	**23,984**
Loans and receivables	416,425	594,673	141,022	2,876	2,704	1,157,700
gross client loans	422,898	603,977	-	27,115	(459)	1,053,531
Financial liabilities at amortized cost	472,304	856,200	113,188	929	13,039	1,455,660

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

29. Segment reporting *(continued)*

Statement of financial position per segments as of December 31, 2021:

	Corporate and SME	Micro and population	Financial market	Collection	Other	Bank
Interest income	9,710	28,152	2,264	861	(34)	40,953
Interest expense	(782)	(2,691)	(2,728)	(3)	(60)	(6,264)
Net income interest	8,928	25,461	(464)	858	(94)	34,689
Net fee and provision income	2,361	17,303	(131)	49	11	19,593
Other non-interest income	(21)	217	899	4,963	357	6,415
Other operating income	11,268	42,981	304	5,870	274	60,697
Total expenses	(1,790)	(14,107)	(548)	(1,244)	(16,924)	(34,613)
Gains / Loss before impairment and provision	9,478	28,874	(244)	4,626	(16,650)	26,084
Losses from impairment (net)	1,932	(4,568)	37	(758)	291	(3,066)
GAIN/ (LOSS) BEFORE TAX	**11,410**	**24,306**	**(207)**	**3,868**	**(16,359)**	**23,018**
Loans and receivables	379,057	499,198	117,297	2,267	2,497	1,000,316
gross client loans	383,508	504,556	-	31,430	(508)	918,986
Financial liabilities at amortized cost	316,790	848,153	60,232	3,264	17,225	1,245,664

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 2023.

NLB Banka d.d. Sarajevo NLB 01

Jure Peljhan
Member of the Board

Denis Hasanić
Member of the Board

Lidija Žigić
President of the Board