BOSNA BANK INTERNATIONAL D.D. SARAJEVO

ANNUAL REPORT FOR 202

Trg djece Sarajeva bb
71000 Sarajevo | Bosna i Hercegovina

info@bbi.ba
www.bbi.ba

0800 200 20

of interpretation of information, views or opinions, the original language version of our financial reports and the accompanying audit report takes precedence over this translation.

Content

Address of the President of the Management Board

Dear clients, shareholders and business partners,

It is my honor that, on behalf of the Board of Bosna Bank International d.d. Sarajevo, present the business results that BBI Bank achieved in 2023, continuing previous growth, strengthening clients trust and modernizing the business model. We are also ending this business year with market growth in operating and net profit, as well as significant business results in the segmented financing of corporate clients and considerable achievements in the Retail segment.

In the past few years, the industry of financial products and services has undergone a kind of evolution conditioned by changes in client's behavior, the expansion of sales channels and frequent market disruptions, which imposed the need to modernize banking business models to create innovative products, adopt new technologies and digitize operations. Therefore, Bosna Bank International has organically established itself as an undoubted leader in the implementation of the aforementioned changes on the Bosnian financial market and in harmonizing with current world trends.

The operating result exceeded last year's by 59%. In this way, the Bank has further strengthened its position in the segment of medium-sized banks in BiH and is ready to continue on its strategic path to take over the leading position in this market segment. There was an increase in customer deposits by 3%.

The business result was BAM 23.3 million, which is a 59% increase compared to the same period last year. In 2023, a record net profit was achieved, and the Bank is once again one of the leading banks in the segment of small and medium-sized banks in terms of profitability indicators.

The past year was a confirmation of our commitment to excellence, nurturing the trust of our clients, the dedicated joint work of all the Bank's employees, the strategic transformation of our business model, the introduction of new products and services, as well as the clear segmentation and recognition of the actual needs of our clients.

In the constantly evolving and interconnected world in which we navigate, characterized by rapid changes, our organization has skillfully faced various challenges, consistently focusing on creating new values. Digital transformation, an influential force that touches every aspect of life, has emerged as an imperative for individuals and teams that want to stay relevant and achieve success.

With the strong support of BBI Bank's shareholders, we allocated significant funds for future investments, modernization of the appearance of the business network and the Bank's headquarters. In addition, we improved the quality of assets, worked to reduce operating costs, laid the foundations for continuous sustainable development.

Our unwavering commitment to investing in human potential remains the cornerstone of BBI Bank. Education is not just a passing trend; it is a deliberate and strategic decision, which ensures personal development, career advancement and overall prosperity for our employees. The continuous improvement of the skills of our team members contributes to innovative business solutions, greater efficiency and the ability to tackle the complex challenges we face every day.

The year 2023 witnessed significant internal promotions, welcoming new talents and celebrating the dedication of colleagues who marked significant milestones in the organization. Our commitment to nurturing young talent through initiatives such as the BBI Young Talents program remains key in ensuring our commitment to the future.

In the field of business, we achieved significant milestones, including the successful introduction of Sukuk, an Islamic form of bonds, and the launch of the BBI Platinum package with the Visa Platinum card. The renovation of branches has already started, which ensures better availability of a comprehensive range of banking products and services to our clients.

We successfully organized the 12th Sarajevo Business Forum and the 3rd Sarajevo Halal Fair, during which businessmen from our country had the opportunity to connect with businessmen from all over the world, and to open new markets, which is ultimately an additional boost to the economy of Bosnia and Herzegovina.

As part of our social responsibility, we proudly supported projects dedicated to preserving the cultural heritage of Bosnia and Herzegovina.

Looking ahead, our commitment to excellence remains unwavering. We are committed to strengthening teamwork, fostering innovation, and maintaining our promise to provide exceptional service to our clients. I especially want to thank the entire BBI team for the effort, energy, determination, and commitment they invest every day in order to fulfil the promise of a bank adapted to all the needs and requirements of clients with our commitment and professional service for the client.

Previous year was a journey marked by growth, learning and success. We eagerly await the continuation of this joint journey in the coming year.

On behalf of the Bank's Management and myself, I would like to thank all clients and business partners for what they have shown trust.

I hope that our activities will justify your trust in the business year ahead.

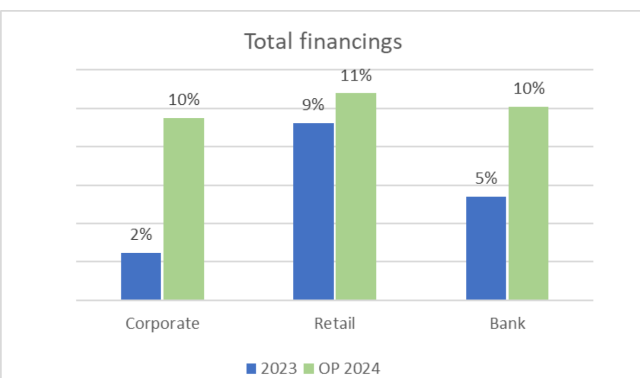
Alek Bakalović
President of the Management Board

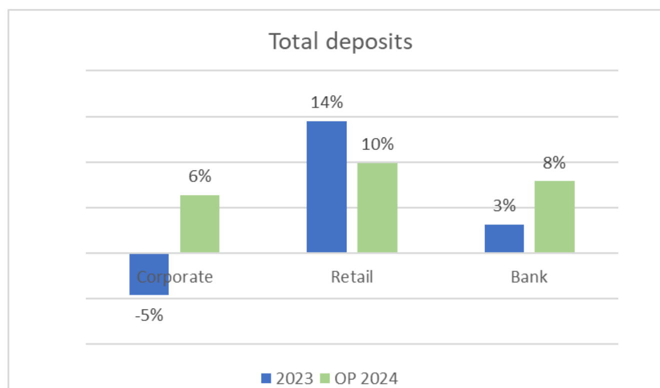
ASSESSMENT OF THE BANK'S EXPECTED FUTURE DEVELOPMENT

Considering worsened macroeconomic circumstances and general projections for the banking sector, the Bank plans to achieve moderate growth in the segment of financing and assets for 2024. The Bank plans to maintain its position in the medium-sized banks segment, with moderate and gradual growth in market share.

Special emphasis will continue to be placed on preserving the quality of the financing portfolio. In addition, it is planned to continue intensive activities on the collection of the portfolio, which is already in credit risk Stage 3 and for which lawsuits and other collection activities are already underway, and the sale of repossessed assets. Therefore, the risk indicators are expected to improve in 2024, compared to the previous year, including the rate of non-performing loans, the coverage ratio for the Stage 3 portfolio, reducing the total volume of non-performing loans. To successfully implement the plan, the Bank will continue intensive monitoring of clients in Stage 1 and Stage 2, both retail and corporate, and a proactive approach in terms of financing restructuring, as well as timely initiation of lawsuits to collect overdue financing.

The planned growth of financing and deposits at the level of the Bank and by business segments is graphically presented below:





In terms of revenues, revenue growth is expected in line with the expectations of economic growth, and thanks to the planned growth in the number of clients. On the cost side, activities will continue to rationalize and improve efficiency in all segments, including digitalization, cost control and procurement.

The table below shows the planned growth of the Bank's operating income and expenses, and the growth of the number of clients, both corporate and retail, in 2024:

Description	Annual growth in 2024
Operating income	9%
Operating expenses	14%
Number of Corporate clients	5%
Number of Retail clients	6%
Number of Bank's clients	6%

As a result of the planned achievements in revenues and expenditures, asset growth, financing and collection forecasts, the Bank expects the following values of basic performance indicators in the coming year:

Description	Plan for 2024
Cost to income ratio (CIR)	51%
Capital adequacy ratio	> 16%
Non-performing financing ratio	< 5%
Assets per employee (in BAM 000)	3,943

MOST IMPORTANT DEVELOPMENT ACTIVITIES

During 2023, numerous activities were implemented, resulting in significant results through achieved synergies:

1. New products

Strategic orientation of our activities is to improve and widen the range of banking products in compliance with Islamic principles, thus enabling the Bank o offer competitive and innovative services. We designed and improved existing products such as product packages, additional insurance offerings included in packages, so as to adapt to our clients' needs. New debit card in portfolio was introduced - Visa Platinum card with numerous benefits for clients. Also, we are introducing new hybrid financing with combined profit margin (first period fixed, rest of the period variable profit margin). The mentioned product is in the last stage of testing's will be implemented starting Q2 2024.

Bosna Bank International introduced Sukuk into its operations
Additional stability of the Bank

BBI Bank introduced sukuk, an Islamic form of bond, into business after investing 10 million EUR in Islamic debt securities issued by the Islamic Bank for Reconstruction (IsDB), the strongest institution in Islamic banking with the best credit ratings worldwide. The investment was realized through Abu Dhabi Islamic Bank (ADIB), which provided brokerage and custody services to BBI Bank. We are proud that the Bank has managed to invest in Islamic debt securities, which are in high demand at the global level, and in addition, access to this type of investment is very limited. With this, the Bank diversified its investment portfolio and became the first and only bank on our market to include sukuk in its investment operations, which will enable surplus funds to be placed in innovative ways on the capital market, achieving returns from other sources that will further strengthen stability of the Bank. Sukuk is a product of Islamic finance in which the owner assumes the risk of return until his compensation corresponds to a share in the profit, and according to the Organization for Accounting and Auditing of Islamic Financial Institutions (AAOIFI) it is used to raise funds for long-term investments.

BBI Platinum package
The value you carry with you

In 2023, the Bank introduced 4 new BBI packages of products and services, of which the BBI Platinum package, which includes the newly introduced Visa Platinum card, stands out. This product was created for premium clients who are offered many benefits, from worry-free business and family trips with free travel health insurance to pleasant shopping around the world. With this, BBI Bank confirms its commitment to continuous improvement of its services and products, as well as modernization. The BBI Platinum package brings a handful of privileges to users, and most of all, it provides a sense of security and reliability in making cashless payments, both in Bosnia and Herzegovina and around the world. With this premium product, the Bank enriched its card portfolio and adapted to the needs of clients, providing them with a higher level of service that follows their dynamic lifestyle. At the end of 2023, the Bank was awarded by Visa for the successful launch of the Visa Platinum card.

BBI Banka winner of the "Business move of the year" award for the largest investment in the ATM network
For the investment in digitalization and the purchase of more than 60 multifunctional ATMs, Bank was awarded by the “Business Move of the Year” according to the choice of the Indikator.ba portal, the leading financial and business media in B&H, which represents one of the largest investments in the ATM network. These ATMs are equipped with a special CRM option that enables clients to easily communicate with the bank's team. Also, ATMs offer the possibility of currency exchange and can be used to deposit cash for individuals and legal entities, including coins. At BBI Bank, we are dedicated to sustainable financing through ecological and social projects, which is a logical sequence of Islamic-ethical banking principles that promote sharing wealth and providing support.
We continuously work to make business easier for our users and offer products and services that make us stand out as market leaders. In addition, within the framework of mobile banking, we offer the BBI Card Guard function that allows our customers to monitor, enable or disable the use of cards at POS terminals, ATMs and in different locations and countries, as well as manage and control online payments. This service significantly increases trust in our bank. In order to make daily business with the Bank easier for our clients, we have created the eRežija service, which provides the possibility for the user of internet (eBBI) and mobile banking (mBBI) to receive a completed order for the payment of monthly bills and make the payment with just one click.

2. Process improvements

Based on a performed analysis of processes “as is” we have identified bottlenecks and outdated practices. Through an entire set of procedures, rulebooks, instructions we have defined new processes resulting in significant acceleration. Re-designed financing approval process along with new decision making matrices shall significantly impact the time for approval and time to cash for financings. We updated our procedures, product catalogue, rulebooks, and instructions. We implemented the accelerated procedure for short term financial partnership derived from frame financing contract.

3. Digital transformation

During 2023 the Bank was committed to digitalization of the branch network and business model modernization in line with the digitalization trends in the banking industry.

The Bank installed 33 new generation ATMs during the 2023, totaling as of 31 December 2023 83 ATMs.
These Smart digital ATMs offer standard services, but also additional services such as cash in, exchange transactions, transfers, bill payments to name a few. All ATMs offer the possibility of CRM client communication.

The Bank proudly emphasizes its commitment to the community through a series of projects and initiatives in line with the Bank's core values. A brief overview of key corporate social responsibility projects from the past year is presented below, showcasing the Bank's engagement in various fields.

Sarajevo Business Forum 2023 - Where ideas meet opportunities

„Sarajevo Business Forum promotes cooperation and innovation. Entrepreneurs and business communities play a key role in building a better future"

Sarajevo Business Forum, the most important socially responsible project of the Bank, is an annual international investment and business conference and platform organized since 2010 by Bosna Bank International and its shareholders: the Islamic Development Bank Group, Dubai Islamic Bank and Abu Dhabi Islamic Bank. Held under the auspices of the Presidency of Bosnia and Herzegovina and in cooperation with its Strategic partner - the Ministry of Economy of Sarajevo Canton, the 12th Sarajevo Business Forum 2023 has been organized once again, encouraging the economic development of Bosnia and Herzegovina and all the countries in the region. More than 2000 business leaders coming from over 50 countries had the opportunity to once again exchange ideas and work together in order to build a better and more prosperous future. The event proved to be an excellent opportunity to discuss and share knowledge and experience, expand the network of business associates as well as to explore and connect to new markets. The Forum proved how a shared vision, cooperation and innovation are the key to success in the development of the economy and society. Sarajevo Business Forum 2023, followed by over 200 accredited journalists, has confirmed its status as a solid platform that unites people from different countries and cultures, encouraging investments and business cooperation.
The new edition of SBF is being prepared and will be held in the period from 21-23 May 2024.

Sarajevo Halal Fair 2023: A networking opportunity, education and development business

Third Sarajevo Halal Fair 2023 organized by the Bank and Certification Agencies for halal quality, under the auspices of the Rijaset of the Islamic Community in Bosnia and Herzegovina and with a strategic partnership with Ministry of Economy of Sarajevo Canton, in 2023 hosted 56 companies - exhibitors from 12 countries around the world, reflecting great interest and support from business communities from Bosnia and Herzegovina, Croatia, Serbia, Albania, Great Britain, Saudi Arabia, United States of America, Turkey, Indonesia, Malaysia, Jordan and Libya. Innovative products, technologies and services were presented by the exhibitors. Every company brought its unique ideas and solutions, resulting in inspiring the environment in which they could exchange ideas and establish new partnerships. 38 speakers shared their knowledge, experiences and visions for the future of the halal industry. These speakers, along with four moderators, a total of 42 experts, coming from eight countries: Bosnia and Herzegovina, Jordan, Turkey, Serbia, Croatia, Libya, the United States of America and Great Britain. This diversity of participants reflects the global the nature of the halal industry and its capability to connect people and companies from different parts of the world. The halal industry is not only a business opportunity, but it is also a connecting bridge between culture and international cooperation. The Bank firmly believes that the results of this Fair will be visible in the future, both in the form of new projects and investments, as well as in strengthening the international cooperation in the halal industry.

BBI Young Talents Program 2023/2024:

The year 2023 marked the launch of the innovative BBI Young Talents Program. This six-month paid program provides a platform for young, university-educated individuals to gain their first work experience under the mentorship of experienced Bank employees. The program aims to support young talents in their professional beginnings, preparing them for the challenges of the dynamic job market. Through a systematic approach to education, project work, and skill development, participants in the program cultivate their professional careers. The program is an investment in the future, and the Bank expects young talents to contribute to innovations within the Bank.

The Bosnian Experiences

Project "Under the Sky of Bright Faith - Islam and Europe in the Experience of Bosnia":

In 2023, the Bank proudly supported, the project "Under the Bright Faith - Islam and Europe in the Experience of Bosnia." This scientific, research, educational, and exhibition project, initiated by the Rijaset of the Islamic Community in Bosnia and Herzegovina, aims to promote the cultural and civilizational heritage of Bosnian Muslims. The project thematizes and interprets openness, dynamism, cheerfulness, unique spiritual, cultural, civilizational, political-legal heritage, cultural heritage, artistic, architectural, construction, scientific, literary, musical and other spiritual expressions and global contributions of the Bosnian worlds of Islam. By supporting this project the Bank contributes to preserving cultural heritage and promoting dialogue between different cultures.

BBI Charity Fund

Since its establishment, the Bank, as an institution that has a built-in concern for the most vulnerable categories of society in the foundations of its corporate culture, has been dedicated to social responsibility through its own Charity Fund. This fund supports the most vulnerable social categories through scholarships, medical assistance and general support to individuals, families and institutions in need. Donations from the fund reached significant amounts for numerous activities related to the local community. In 2023, the Bank traditionally took part in the humanitarian campaign "A thousand packages for families throughout Bosnia and Herzegovina", which the Bank is organizing for the ninth year in a row with the aim of distributing food packages to a thousand of the most needy families throughout the country. The Bank also donated a significant amount to help those affected by the earthquakes in Turkey and Syria.

Donation to the „Obrazovanje gradi BiH“

As part of its social responsibility, the Bank purchased 1,000 calendars from the NGO „Obrazovanje gradi BiH“ for the year 2024. Through this donation, the Bank supports the humanitarian mission of helping young people acquire knowledge and education, which is crucial for their future.

Membership in the Philanthropy Forum:

The Bank has been a member of the Philanthropy Forum in Bosnia and Herzegovina for two years. This platform brings together companies, organizations, and philanthropists aiming to actively invest in a better society. Through membership, the Bank supports the creation of a strong philanthropic culture and contributes to positive social change.

These projects are not just an investment in individuals and the community; they form the foundation of the long-term success of the Bank.

INFORMATION ON THE REPURCHASE OF OWN SHARES OR STAKES

The Bank did not repurchase its own shares or stakes.

INFORMATION ON CORPORATE BUSINESS SEGMENTS

Information on business segments is prepared based on the report per business segments, which was created for the purposes of management reporting. The Bank conducts business and generates income through three business segments:

1. Retail segment,
2. Corporate segment and
3. Treasury segment.

The Retail segment includes the Bank's operations with individuals and entrepreneurs, the Corporate segment includes operations with legal entities, while the Treasury segment includes operations with other banks and exchange offices.

Main products of business segments

All three mentioned business segments generate income from profit margin on financing and income from various types of fees, such as income from foreign exchange operations, payment transactions, card business, etc., and expenses from profit margin on deposits. The following is an overview of the main products for each business segment:

- **Retail business segment**
  - **Financing of individuals and entrepreneurs:**
    - Housing financing,
    - Long-term financing,
    - Short-term financing,
    - Overdrafts (salary in advance),
    - Credit cards,
    - Financing of entrepreneurs.
  - **Deposits of individuals and entrepreneurs:**
    - Individual's demand deposits
    - Entrepreneur's deposits,
    - Individual's fixed-term deposits.
  - **Current accounts**
  - **Foreign exchange operations / foreign exchange transactions**
  - **Payment transactions** (domestic and foreign payment transactions)
  - **Card business**
  - **Other**

- <u>**Corporate business segment**</u>
    - **Client financing:**
        - Long-term financing,
        - Short-term financing,
        - Overdrafts.
    - **Deposits of corporate clients:**
        - Demand deposits,
        - Fixed-term deposits.
    - **Documentary operations**
        - Guarantees (loro / nostro, payable / performance / advance, etc.)
        - Letters of credit
    - **Foreign exchange business**
    - **Payment transactions** (domestic and foreign payment transactions)
    - **Projects** (Sarajevo Business Forum and Sarajevo Halal Fair) and financial consulting
    - **Other**
- <u>**Treasury business segment**</u>
    - **Bank financing / placements with banks**
    - **Bank deposits and credit lines**
    - **Foreign exchange operations**
    - **Securities trading**
    - **Other**

Structure of operating revenues by business segments

The structure of revenues was made based on the reports by segments of the Bank, which do not consider transfer prices, and expenses on deposits are also presented here. The Bank is committed to faster growth of the Retail segment than the Corporate segment for a long period, which resulted in the revenues of the Retail segment in 2023 being higher than the revenues of the Corporate segment.

Business segment	Overview of operating result and share in revenues
Retail	The Retail business line represents the segment of retail banking (individuals and entrepreneurs) in the field of financing, deposit collection, provision of transaction account management services, foreign exchange operations, payment operations (domestic and foreign), card operations and other banking services. Retail clients make up 96% of the Bank's total number of clients. In the total revenues of the Retail business line, revenues from net profit margin participate with 69%, and net income from fees with 31%. The highest revenues are generated by long-term financing (BAM 13 million), which makes 24.6% of the total income from the Bank's profit margin and 43.6% of the total revenues of Retail. This is followed by housing financing with an income of BAM 10.4 million (19.6% of the Bank's total income from profit margin and 34.7% of total Retail income). On the fees side, the largest revenue was generated from account and package fees in the amount of BAM 4.2 million (32.1% of total business line fees and 20.9% of total Bank fees).
Corporate	The Corporate business line represents a segment of business with legal entities in the field of financing, deposit collection, provision of transaction account management services, foreign exchange operations, payment operations (domestic and foreign), card operations, documentary operations and other banking services. Legal entities make up 4% of the total number of the Bank's clients. In the total revenues of the Corporate business line, revenues from net profit margin participate with 73.3%, and net revenues from fees with 26.7%. The highest revenues

Business segment	Overview of operating result and share in revenues
	are generated by long-term financing (BAM 13.8 million), which is 26.1% of the total income from the Bank's profit margin and 61% of the total income of the Corporate. This is followed by short-term financing with income of BAM 5.9 million (11.1% of the Bank's total income from profit margin and 25.9% of total Corporate income). On the fees side, the largest revenue was generated from payment fees in the amount of BAM 3.4 million (53% of total business line fees and 16.8% of total Bank fees, and 14.8% of total business line revenues).
Treasury	The Treasury business line includes the segment of operations with other Banks (financing, deposit acceptance) and exchange offices and includes securities trading. Placements with banks represent 6.4% of the Bank's total financing portfolio. The highest revenues are generated by placements with banks (BAM 6.3 million), which is 11.9% of the total income from the Bank's profit margin. On the fees side, the largest income was generated from foreign exchange operations in the amount of BAM 0.6 million (3.1% of total Bank fee income).

CREDIT-GUARANTEE FUND OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

The Bank takes participation in the credit-guarantee fund of the Federation of Bosnia and Herzegovina, administered by the Development Bank of the Federation of Bosnia and Herzegovina.

The aim of the credit-guarantee fund is to provide access to financing for entrepreneurs, agricultural producers, micro, small, medium and large companies, especially in industries impacted by the pandemic.

Total number of issued guarantees in 2023 was 7. Total financing volume in 2023 amounted to BAM 3.789 thousand. Total number of corporate clients in 2023 was 7.

In 2022 total financing volume was BAM 17,328 thousand and total number of issued guarantees was 51, for total 44 corporate clients.

SUBSIDIZED FINANCING LINES

From December 2013 until 31 December 2023, in total 43 subsidized financing line was contracted and implemented, covering multiple Cities, Municipalities, Cantons.

Active subsidized lines as of 31 December 2023 are as follows:

In BAM '000

Subvention	Total financing line	Total approved financings
Canton Sarajevo (8th line)	23,500	8,811
Municipality Konjic	10,950	5,955
Central Bosnia Canton – 31.10.2023 (line closed)	8,250	6,370
Zenica – Doboj Canton – 31.12.2023 (line closed)	8,800	9.520

NEW SUBSIDIZED LINES IN 2023

Sarajevo Canton

In 2023, the Bank signed an Agreement on business cooperation with the Canton Sarajevo – Ministry of economy, for subsidizing small businesses headquartered in Canton Sarajevo. Total value of the financing line is BAM 23,500 thousand, subsidized at BAM 1,500 thousand. Until 31.12.2023 in total BAM 8,811 thousand were disbursed.

Central Bosnia Canton

In 2023, the Bank signed an Agreement on business corporation with the Central Bosnia Canton – Ministry of economy, for subsidizing small business headquartered in Central Bosnia Canton. Total value of the financing line is BAM 8,250 thousand, subsidized at BAM 200 thousand. Until 31.12.2023 in total BAM 6,370 thousand were disbursed.

Subsidized line approved by World Bank (IBRD)

The Bank takes participation in the subsidized line approved by World Bank. An agreement between the World Bank and the Federation of Bosnia and Herzegovina has been signed and is administered by the Development Bank of the Federation of Bosnia and Herzegovina.

In 2023, the Bank signed an Agreement with Development Bank of the Federation of Bosnia and Herzegovina.

The aim of the subsidized line is to provide access to financing for micro, small and mid companies impacted by the COVID-19 pandemic. Total value of the subsidized line is EUR 5,000 thousand.

OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

The Bank's Risk Strategy defines the financial and non-financial risks to which it is exposed. Financial risks are: credit risk (concentration risk, residual risk, profit induced credit risk and political and economic risk risk), market risks (foreign exchange risk), profit rate risk and liquidity risk.

Credit risk management objectives and policies

With the Risk Management Strategy, Financing Policy and Program for Credit Risk Management and Determining Expected Credit Losses, the Bank further defined the credit risk management system including concentration risk, residual risk, profit induced credit risk and political and economic risk.

The Bank's business policy requires and envisages maximum protection against exposure to credit risk, as the most significant risk in banking operations. The Bank has provided an adequate credit risk management system through internal acts, policies and procedures related to risk management, which reduces it to an acceptable level.

The Bank's Management Board is supported by several sectors, i.e. bodies – boards that have been established in order to operationally perform control functions and implement strategic responsibilities for credit risk management, as follows:

- The Bank's Financing and Investment Committee (FI Committee) approves the Bank's exposure to risks arising from the structure of its on-balance sheet receivables and off-balance sheet items – financing and investments within the limits set by the Bank's acts.
- The Committee for the Management of Non-performing Assets (Remedial Committee) makes decisions in the field of collection of problematic receivables, and the sale of real estate and movables repossessed in the collection procedures.
- The Credit Risk Approval Division analyses credit applications and gives an opinion on the acceptability of credit risk accordingly.
- The Risk Control Division conducts credit risk management and monitors the balance of the credit portfolio of Corporate and Retail clients.
- Risk Management Committee (RICO) has been established in 2023 so as to contribute to integrated risk management at the Bank level.

The Bank manages credit risk by establishing adequate processes for determining the debtors' minimum repayment ability when approving placements, as well as for regular monitoring for the entire duration of the contractual relationship, defining different levels of decision-making when approving placements, establishing limits defining the risk level the Bank is willing to accept at the level of individual clients, geographical areas, and industries, as well as through monitoring of these limits.

The Bank manages credit risk through:

- Financing/ placement approval process;
- Collateral management process;
- Credit risk measurement process in accordance with the regulatory framework (decisions of the Federal Banking Agency);
- Portfolio monitoring process and monitoring its quality;
- The process of calculating the minimum capital requirement for credit risk and internal capital adequacy assessments;
- Early Warning Signals Process (EWS);
- Risk placement and non-performing assets management process.

The goal of credit risk management is to minimize the negative effects of credit risk on the Bank's financial result and capital. During the analysis of clients for financing / placements, the analysis of qualitative and quantitative indicators of client's business, identification of risk levels as well as control of limit utilization is performed. To supervise and control, the Bank has defined limits that reflect market conditions and business strategy, as well as the Bank's risk appetite. The Bank also uses the results of its internally developed credit rating of customers, which contains financial and behavioral variables of customers.

The Financing and Investment Committee of the Bank or the organizational part, upon the authorization of the Committee, makes a decision on approving individual financing or guarantees of private individuals and legal entities, due to which the Bank's exposure to credit risk / financing risk arises or increases. After the approval of placements, the analysis of the quality of placements is performed based on system data, and data from relevant sectors to adequately and timely classify and identify potential losses.

The Bank pays special attention to monitoring the exposure to credit risk of non-performing assets, i.e. low-quality financing / placements, which includes:

- monitoring portfolio levels;
- monitoring on an individual basis;
- monitoring the status and maturity of taking over assets repossessed in the collection process.

Non-performing asset management also includes monitoring the implementation of the non-performing assets collection plan.

For the purpose of controlling the concentration risk, internal exposure limits with the same or similar risk factors (by activity), individual debtors or groups of related parties have been determined. Establishing an exposure limit is the basis for diversifying a loan portfolio.

The Bank also manages collateral in accordance with the Collateral Management Procedure in order to reduce credit risk exposure.

Reporting on credit risk at the Bank level includes a system of external and internal reporting on credit risk management. External reporting is performed in accordance with the requirements of the Federal Banking Agency, and internal reporting in accordance with the internal acts of the Bank.
The credit risk management report contains: total credit risk exposure, amount of overdue receivables, overview of non-performing loans, value and type of eligible collateral, amount of value adjustments and reserves for credit losses.
The Bank's credit risk management process is subject to continuous control by internal audit.

Liquidity risk management objectives and policies

The objective of liquidity risk management is to maintain the level of liquid assets, in order to settle due liabilities on the Bank's on-balance sheet and off-balance sheet transactions on time, i.e., to minimize negative effects on the Bank's financial result and capital.

Through the Risk Management Strategy, the Liquidity Risk Management Program and the Liquidity Risk Management Procedures, the Bank has further defined the liquidity risk management system. The goal of the liquidity strategy is to determine the liquidity approach that will ensure the preservation of the Bank's financial strength and its ability to withstand stressful market events.

The Bank's liquidity management strategy includes the following:

- Management of on-balance sheet and off-balance sheet assets and liabilities reconciliation;
- Asset liquidity management;
- Liability management in the context of liquidity;
- Off-balance sheet management in the context of liquidity;
- Liquidity design;
- Inclusion of liquidity costs (LTP) in internal pricing;
- Emergency resolution strategy;
- Control and supervision of liquidity management.

With the established organizational structure, business activities, decision-making lines and responsibilities are clearly demarcated between the liquidity risk management process (Risk Control Division – Market and Operational Risk Department) and the liquidity risk assumption process (Assets and Financial Institutions Division).
The Assets and Liabilities Management Committee (ALCO) and the Liquidity Commission have a primary role in the liquidity risk management process, within their competence in regular and extraordinary business conditions. Also, other boards of the Bank (FI Committee, Non-performing Asset Management Committee, RICO) have a role in the liquidity risk management process, whose decisions may affect the exposure to the mentioned risk.

The Bank seeks to maintain a balance between continuity of funding and flexibility, using liabilities of different maturities. The Bank continuously assesses liquidity risk by identifying and monitoring changes in funding required to achieve business objectives.

There are three basic elements of liquidity risk:

- risk of mismatched liquidity arising from mismatch of the Bank's assets and liabilities,
- the risk of increased liquidity arising from cash flows of assets and liabilities that show that the Bank may have potentially higher needs for more liquid assets in the future,
- market liquidity risk arising from potentially weaker market liquidity and the Bank's inability to sell liquidity reserves.

The Bank has established the basic principles of liquidity risk management, as follows:

- readiness to meet due liabilities by maintaining a minimum level of liquid assets;
- maintaining compliance between inflows and outflows of funds by limiting currency and maturity mismatches of receivables and liabilities;
- determination of planned activities in case of unforeseen events.

Liquidity risk identification involves analyzing all indicators that lead to the emergence and increase of liquidity risk, as well as monitoring the level of available liquid assets (liquidity reserves) and considering the type and number of sources of funds, through assessing the stability of deposits. In addition to the legally prescribed indicators, the Bank additionally established internal liquidity risk indicators as well as the frequency of their monitoring.
Established internal limits for monitoring liquidity risk indicators are aimed at timely detection of deviations when it comes to liquidity risk exposure and to take adequate measures in a timely manner to reduce liquidity risk exposure and to comply with liquidity risk management strategy.

The Bank has established an internal and external liquidity risk reporting system, which includes assessment and analysis of liquidity risk exposure, compliance with external and internal limits, results of stress test analysis and proposed measures.

Market risk management objectives and policies

The Bank considers market risks to be:
- position risk;
- foreign exchange risk;
- commodity risk.

In its operations, the Bank is, based on the positions kept in the banking book, exposed to foreign exchange risk, which represents the possibility of negative effects on the financial result and capital of the Bank because of changes in exchange rates.

The Bank applies a standardized approach when calculating capital requirements for market risk.

Through the Risk Management Strategy, the Foreign Exchange Risk Management Program and the operating procedures, the Bank has further defined the currency / foreign exchange risk management system.

The Bank has established an appropriate organizational structure, business activities, decision-making lines and responsibilities by clearly distinguishing the process of taking currency / foreign exchange risk from its management and support process.
The Foreign Exchange Risk Management Program defines the limits within the laws and decisions of the Federal Banking Agency.

A reporting system has also been established, which includes an assessment of currency / foreign exchange risk exposure, compliance with defined limits (external and internal), the results of stress test analysis, as well as proposed measures. Reporting to the Liquidity Commission is performed daily, monthly to the Assets and Liabilities Management Committee and Risk Management Committee, and quarterly to the Supervisory Board.

Objectives and policy of profit rate risk management

Profit rate risk is the risk of possible negative effects on the bank's financial result and capital based on positions in the banking book due to changes in profit rates.

The Bank has established an appropriate organizational structure, business activities, decision-making lines and responsibilities by clearly distinguishing the risk-taking process from its management process.

The Assets and Liabilities Management Committee has a significant role in the profit rate risk management process. The report on profit rate risk is reviewed monthly by the Assets and Liabilities Management Committee, which analyses the Bank's exposure to this risk, as well as the Risk Management Committee, and the report is submitted to the Federal Banking Agency on a quarterly basis.

Profit rate risk management is performed in accordance with the Profit Rate Risk Management Procedure.

The Bank manages various forms of profit risk, as follows:

- Repricing risk – the risk to which the Bank is exposed due to maturity mismatch (for fixed profit rate items) and profit rate resetting (for variable profit rate items) of balance sheet and off-balance sheet positions in the banking book.
- Base profit risk (basis risk) – the risk to which the Bank is exposed due to different reference profit rates for profit rate sensitive positions with similar characteristics in terms of maturity or re-pricing.
- Optionality risk – risk arising from contractual provisions related to profit rate sensitive positions, i.e., arising from contracted profit rate options.
- Yield curve risk – risk arising from the impact of changes in the shape and / or slope of the yield curve on the economic value of the Bank.

The Bank's exposure to profit risk is measured by the sensitivity of the Bank's financial results and capital to possible negative profit rates. The effect of negative profit rate movements on the Bank's financial result and equity is calculated by multiplying the GAP's of assumed changes in profit rates (a standard profit rate shock of 200 basis points is applied). GAP represents the difference between profit sensitive assets and profit sensitive liabilities.

The Bank calculates the ratio of the change in the economic value of the banking book and the regulatory capital of the Bank, which should not exceed 20%.

The Bank has established a reporting system, which includes quantitative and qualitative assessment of profit rate risk exposure and is performed using internal models of static and dynamic GAP and ratio analysis, economic value of capital, net present value and stress testing. The Bank also uses the method of assessing the impact on net income / profit on a monthly basis when managing profit rate risk. Reports are submitted monthly to the Assets and Liabilities Management Committee and Risk Management Committee, and quarterly to the Supervisory Board and the Federal Banking Agency.

Risk mitigation policies

The Bank's business policy requires and envisages maximum protection against credit risk exposure, as it represents the most significant risk in the Bank's operations.

Credit risk mitigation is a technique used by the Bank to reduce credit risk associated with an exposure or exposures that it has, which includes tangible and intangible credit security.

Tangible credit security is a technique of credit risk mitigation according to which the reduction of credit risk by the Bank's exposure arises from the Bank's right to liquidate or transfer or appropriate to itself in case of default status of other counterparties or retain certain assets or amounts or reduce the amount of exposure to the amount of the difference between the amount of exposure and credit protection.

The Bank accepts the following categories of collateral:
1. Real estate (business and residential)
2. Movable property (equipment)
3. Financial collaterals (securities and deposits)
4. Bank guarantees

The amount and type of collateral requested depends on the estimated amount of the client's credit risk. With the Collateral Management Policy, the Bank has set standards for assessing the value of collateral, determined criteria for collateral eligibility, frequency of monitoring and reassessment of collateral value.

Intangible credit security is a technique of credit risk mitigation according to which the reduction of credit risk on the Bank's exposure arises from the obligation of a third party to pay a certain amount in case of default of the debtor or other specific credit events.

When calculating the capital requirement for credit risk, only collateral instruments that meet the eligibility requirements are used, which is defined by the Bank's internal acts and the Decisions of the Federal Banking Agency.

For the purposes of calculating the capital requirement for credit risk according to the standardized approach, the Bank uses tangible credit security in the form of a cash deposit that meets the following conditions:
- the credit quality of the debtor and the value of the collateral must not be significantly interdependent,
- the collateral agreement is properly documented, and it has clear and efficient procedures for the timely realization of collateral,
- the outstanding maturity of the security must be at least equal to the remaining maturity of the exposure.

Exposure of the legal entity to market, credit, liquidity risk and other risks present in the business of the legal entity, as well as the strategy for managing these risks and assessing their effectiveness.

Exposure to market risk
In its operations, the Bank is exposed to foreign exchange risk based on the positions kept in the banking book, which represents the possibility of negative effects on the Bank's financial result and capital as a result of changes in the exchange rate. A standardized approach is applied for calculating capital requirements for market risk.

Exposure to credit risk
The Bank continuously monitors client placements and operations on a monthly basis in order to adequately and timely classify clients and identify potential losses.

Impairment measurement is defined by the Program for Credit Risk Management and Determination of Expected Credit Losses harmonized with the Decision on Credit Risk Management and Determination of Expected Credit Losses and covers financial assets valued at amortized cost and fair value through other comprehensive income. profit, and related off-balance sheet exposures.

The Bank defines overdue receivables as all receivables that are not collected within the due date (based on principal, profit margin, fees, paid guarantees and other overdue liabilities).

The default status is determined at the client level for all exposures. Debtor default status exists when the debtor is more than 90 days in arrears in a material amount or, based on an analysis of the financial situation, it is estimated that the debtor will not be able to settle its obligations in full without the realization of collateral, regardless of whether the debtor settles timely or not. Operationally, the Bank identifies defaults as follows:

- The debtor is in arrears for more than 90 days in a material amount, or
- The bank considers it certain that the debtor will not fully settle its obligations to the bank.

Risk Appetite Statement for 2023, as part of the Risk management strategy, defines credit risk related limits for the Bank. During the year, there were no breaches of the regulatory set limits nor early warning triggers activated for those indicators.

DPD counter starts on the day when the total amount of all due outstanding obligations of the debtor, for all contractual amounts, has become materially significant.

Liquidity risk exposure
The Bank is continuously exposed to liquidity risk. Liquidity risk is monitored on a daily basis through daily reports as well as within intraday liquidity. In addition, liquidity risk management is carried out through regulatory indicators (LCR, NSFR and maturity adjustment of financial assets and liabilities) as well as internally developed indicators. Limit values have been set and during 2023 there was no threat to the Bank's liquidity, i.e. the Bank's liquidity was above the average level of the FBiH banking sector (based on data published by the Federal Banking Agency).

Also, in order to timely detect potential risks to liquidity risk, the Bank conducts stress testing of liquidity risk on a quarterly basis and based on the results of stress testing, adequate decisions and steps are taken.

Exposure to operational risk
The Bank applies a simple approach to calculating the amount of operational risk exposure. According to the simple approach, the capital requirement for operational risk is 15% of the three-year average of the relevant indicator. The Bank calculates a three-year average based on data for the last three twelve-month periods at the end of the financial year.

The total amount of operational risk exposure is calculated by multiplying the capital requirement by 8.33. When calculating the relevant indicator, the Bank does not include:
- Impairment costs and reserves to cover expected credit losses for off-balance sheet items as well as income from their reduction, and operating expenses;
- Net profit / loss from financial assets held to maturity and available for sale;
- Extraordinary income;
- Insurance income.

Risk management strategy

The Risk management strategy prescribes key principles for ensuring the Bank's sustainability, capital adequacy and liquidity, protection of the Bank through comprehensive integration of the Bank's risk management system and business activities, strategic planning and business development that are fully consistent with the identified risk appetite.

There is a close connection between the Bank's strategic orientation and its desire to take on and manage risks. The basic components of risk management are tailored to the risk profile, available infrastructure and professional corporate culture. The Bank defines a risk management framework that should guide employees towards the essential goals of the process.

In determining the form of the framework, the Bank was guided by the facts necessary for the course of the risk management process to meet the following criteria:
- That it is comprehensive in terms of the main risks to which the bank is exposed and which need to be managed;
- To reflect the interaction between different risks within all business activities in the Bank;
- To be flexible, in terms of adapting to changes in the Bank's business activities.

Given the very good indicators in the field of credit, market, operational and liquidity risk, which are in most segments better than the average of the banking sector, it can be stated that the Bank successfully and efficiently manages risks.

During 2023, the Bank has introduced additional monitoring for new risks, as required by the regulatory Guidelines on amendments to the reporting guidelines of the Federal banking agency on the application of ICAAP and ILAAP in the bank, ie. profit induced credit risk, risk of concentration of financing sources, intraday liquidity risk, personnel risk, risk of money laundering and financing of terrorist activities, management risk, risk of excessive financial leverage, risk of climate change (as a part of ESG risk), real estate risk and risk of introducing new products (as recommended by the Internal audit).

SIGNIFICANT EVENTS OCCURRED IN THE PERIOD FROM THE END OF THE BUSINESS YEAR TO THE DATE OF SUBMISSION OF THE FINANCIAL STATEMENTS

There were no significant events compared to the end of the business year.

The Management Board shall prepare financial statements for each financial year, which give a true and fair view of the Bank's financial position, results of its operations and cash flow in accordance with legal accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina and is responsible for keeping proper accounting records that enable the preparation of financial statements with reasonable accuracy. The Management Board has a general responsibility for taking such steps as are reasonably available to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management is responsible for selecting of such accounting policies that will be in accordance with applicable accounting standards and then apply them consistently, making sensible and prudent decisions and estimates, and preparation of financial statements on a going concern basis, unless assumption that the going the Bank will continue its business, is inappropriate.

The Management Board is obliged to submit the annual reports of the Bank together with the annual financial statements to the Supervisory Board for approval, after which the Supervisory Board approves the submission of the annual financial reports to the Assembly of Shareholders on approval.

The financial statements on pages 27 to 120 were approved by the Management Board for publication, as well as for submission to the Supervisory Board, on 20 February 2024, and confirming this, they are signed by:

On behalf of Bosna Bank International d.d. Sarajevo

Alek Bakalović President of the Management Board	**Jasmina Dobrača** Member of the Management Board

Deloitte d.o.o. Sarajevo
Zmaja od Bosne 12c
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 (0) 33 277 560
Fax: +387 (0) 33 277 561
www.deloitte.com/ba

Independent auditor's report

To the Shareholders of Bosna Bank International d.d., Sarajevo

Opinion

We have audited the financial statements of Bosna Bank International d.d., Sarajevo (the Bank), which comprise the statement of financial position as at 31 December 2023, and the statement comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and its cash flows for the year then ended, in accordance with the statutory financial reporting framework in 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 Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *(continued)*

Impairment allowances for financing to and receivables from customers (expected credit losses)

In its financial statements for the year ended 31 December 2023 the Bank presented financing to customers in the amount of BAM 988,772 thousand and total expected credit loss in the amount of BAM 51,675 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, 8 and 18.1.	
Credit risk represents one of the most important types of financial risks 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 impairment allowances for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of impairment allowance for expected credit losses on financing to and receivables from 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 on financing and receivables from customers; • Assessment of credit risk stage allocation for financing exposures and receivables from customers; • 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 could be available for recovering given loans; • Valuation of collateral and assessment of the period in which a cash proceeds based on	In order to address the risks associated with impairment allowances for expected credit losses on financing and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient and appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of financing: • Review and verification of the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina; • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowances for expected credit losses, including used applications and information technology tools and corresponding internal controls; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowances for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Performing substantive tests over recognition and measurement of impairment allowances for expected credit losses on sample of financing allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages; ii. assumptions used by the Management in the expected credit loss measurement models;

Key Audit Matters *(continued)*

Impairment allowances for financing to and receivables from customers (expected credit losses) (continued)

Key Audit Matter *(continued)*

- potential repossession and sale for individually assessed credit losses.

Since determination of appropriate impairment allowances for expected credit losses on financing and receivables requires the 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 impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with the statutory accounting regulations applicable to banks in Federation of Bosnia and Herzegovina as a key audit matter in our audit of the financial statements for the year ended 31 December 2023.

How the Key Audit Matter Was Addressed in Our Audit *(continued)*

iii. criteria used for determination of significant increase in credit risk;
iv. assumptions applied to calculate lifetime probability of default;
v. methods applied to calculate loss given default;
vi. methods applied to incorporate forward-looking information;
vii. re-performing calculation of expected credit losses on a selected sample.

- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed financing allocated to Stage 3 (non-performing financing), 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 financing 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 Article 42 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 Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina.

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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 independent auditor's 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, prokurista

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

Sabina Softić, partner i ovlašteni revizor

Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
23 February 2024

(All amounts are expressed in BAM '000, unless otherwise stated)

	Note	2023	2022
Profit margin income and similar income calculated using the effective profit margin at amortized cost	6	50,114	40,888
Expenses from profit rate and similar expenses using the effective profit rate at amortized cost	6	(6,428)	(7,116)
Net income from profit margin and similar income using the effective profit margin at amortized cost		**43,686**	**33,772**
Fee and commission income	7	21,042	18,638
Fee and commission expense	7	(4,882)	(4,504)
Net fee and commission income		**16,160**	**14,134**
Impairment and provisioning	8	(5,931)	(4,940)
Other gains/(losses) from other financial assets	9	(12)	50
Net income from foreign currency trading	9	2,426	1,355
Gains/(losses) from long-term non-financial assets	10	(1,070)	(8)
Dividend income	9	11	14
Other operating income	13	1,464	1,195
Personnel expenses	11	(13,497)	(13,226)
Depreciation expenses	21,22,23	(2,949)	(2,493)
Other operating expenses	12	(14,272)	(13,362)
Profit before income taxes		**26,016**	**16,491**
Income tax	14	(2,667)	(1,813)
Net profit for the year		**23,349**	**14,678**
Total comprehensive income		**23,349**	**14,678**

Notes on pages 31 to 120 form an integral part of these financial statements.

(All amounts are expressed in BAM '000, unless otherwise stated)

	Note	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	15	417,960	401,795
Financial assets at fair value through profit or loss	17	320	339
Financial assets at fair value through other comprehensive income	16	65	75
Financial assets at amortized costs	*18*	1,093,253	1,033,261
Financing of customers	*18.1*	*937,097*	*887,991*
Obligatory reserve with the Central Bank	*18.2*	*133,175*	*131,990*
Deposits with banks	*18.3*	*-*	*9,517*
Sukuk	*18.5*	*18,874*	*-*
Other financial assets at amortized costs	*18.4*	*4,107*	*3,763*
Prepaid income taxes		-	48
Deferred tax assets	14	2,642	2,486
Property, plant and equipment	21	24,886	25,965
Right-of-use assets	22	3,360	1,984
Intangible assets	23	686	737
Non-current assets held for sale	19	120	142
Other assets and receivables	20	651	340
TOTAL ASSETS		**1,543,943**	**1,467,172**
LIABILITIES			
Financial liabilities at amortized cost	24	1,322,251	1,280,572
Deposits due to customers	*24.1*	*1,319,132*	*1,278,234*
Deposits due to other banks	*24.2*	*-*	*-*
Lease liabilities	*24.4*	*2,873*	*2,001*
Other liabilities at amortized cost	*24.3*	*246*	*337*
Income tax liabilities		1,222	644
Deferred tax liabilities	14	324	259
Provisions	25	4,609	3,830
Other liabilities	26	28,312	17,991
TOTAL LIABILITIES		**1,356,718**	**1,303,296**
EQUITY			
Share capital	27	110,059	110,059
Reserves		15,382	12,404
Profit for the period and retained earnings		61,784	41,413
TOTAL EQUITY		**187,225**	**163,876**
TOTAL EQUITY AND LIABILITIES		**1,543,943**	**1,467,172**

Notes on pages 31 to 120 form an integral part of these financial statements.

Management Board of the Bank has authorized these financial statements on 20 February 2024 and they are hereby signed by:

Alek Bakalović
President of the
Management

Jasmina Dobrača
Member of the
Management Board

(All amounts are expressed in BAM '000, unless otherwise stated)

	Share capital	Reserves	Result for the period and retained earnings	Total
Balance as at 31 December 2021	**110,059**	**11,865**	**27,274**	**149,198**
Total comprehensive income	-	-	14,678	14,678
Allocation of the profit from 2021	-	539	(539)	-
Balance as at 31 December 2022	**110,059**	**12,404**	**41,413**	**163,876**
Total comprehensive income	-	-	23,349	23,349
Allocation of the profit from 2022	-	2,978	(2,978)	-
Balance as at 31 December 2023	**110,059**	**15,382**	**61,784**	**187,225**

Notes on pages 31 to 120 form an integral part of these financial statements.

(All amounts are expressed in BAM '000, unless otherwise stated)

	Note	2023	2022
Cash flow from operating activities			
Profit margin and similar income inflows calculated using the effective profit margin		51,199	40,700
Profit margin and similar income outflows calculated using the effective profit margin		(5,503)	(7,426)
Fees and commissions inflows		22,915	18,164
Fees and commissions outflows		(4,770)	(3,995)
Previously written-off receivables inflows for given financings and profit margin		1,418	549
Outflows for payments to employees		(15,871)	(15,234)
Outflows for payment of operating expenses and costs		(12,617)	(10,870)
Other inflows from operating activities		4,602	3,912
Other outflows from operating activities		(1,092)	(1,382)
Tax income paid		(2,124)	(70)
Cash flows from operating activities before changes in operating assets and liabilities		*38,157*	*24,347*
Net (increase)/decrease in obligatory reserve with the Central Bank	18.2	(1,185)	(2,892)
Net (increase)/decrease in placements with banks		9,535	62,640
Net (increase)/decrease in financings and receivables of customers		(50,724)	(46,498)
Net (increase)/decrease in other assets and receivables		(285)	1,163
Net increase/(decrease) in deposits from banks and other financial institutions		(5,656)	(19,622)
Net increase/(decrease) in due to customers		45,534	87,710
Net increase/(decrease) in provisions for liabilities		892	(1,515)
Net increase/(decrease) in other liabilities		3,115	(3,454)
NET CASH FLOW FROM OPERATING ACTIVITIES		**39,383**	**101,879**
Cash flow from investing activities			
Purchase of property, plant and equipment and right of use assets	21	(2,608)	(8,630)
Purchase of non-material assets	23	(259)	(232)
NET CASH FLO FROM INVESTING ACTIVITIES		**(2,867)**	**(8,862)**
Cash flows from financing activities			
Decrease of borrowings from other banks	24.2	-	(97,792)
Repayment of financing principal from other financial institutions		-	(949)
Lease liability payments		(1,458)	(944)
Sukuk - outflows from financial activities		(18,893)	(349)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(20,351)**	**(100,034)**
Net (decrease)/ increase in cash and cash equivalents		**16,165**	**(7,017)**
Cash and cash equivalents at the beginning of the year		**401,795**	**408,812**
Cash and cash equivalents at the end of the year	15	**417,960**	**401,795**

Notes on pages 31 to 120 form an integral part of these financial statements.

(All amounts are expressed in BAM '000, unless otherwise stated)

1. General information

Bosna Bank International d.d. (the "Bank") was registered on 19 October 2000 as the first bank in Bosnia and Herzegovina which operates on the principles of Islamic banking.

On the 13 March 2002 the Bank obtained a license for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina, and in November the same year the Bank obtained a license for insurance of deposits.

The main activities of the Bank include providing the following banking services:

1. financing legal entities and individuals,
2. receiving and placing of deposits,
3. activities in inter-bank market,
4. buying and selling of foreign currencies, and
5. other banking services.

The shareholders of the Bank are:

	31 December 2023		31 December 2022	
	Amount	**%**	**Amount**	**%**
Islamic Development Bank, Saudi Arabia	50,031	45.46	50,031	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	30,014	27.27	30,014	27.27
Dubai Islamic Bank, United Arab Emirates	30,014	27.27	30,014	27.27
Total	**110,059**	**100.00**	**110,059**	**100.00**

The address of its registered office is Trg djece Sarajeva bb, 71000 Sarajevo, Bosnia and Herzegovina.

Employees

As of 31 December 2023, the Bank employed 422 employees (2022: 403 employees).

(All amounts are expressed in BAM '000, unless otherwise stated)

1. General information *(continued)*

Supervisory board

President	Abdul Aziz Ahmed Al Mheiri
Vice President	Abdulla Al Shehhi
Member	Muhamed Umair Husain
Member	Mohamed Abdelrahim Sharaf Abdelmonem
Member	Nedim Haverić

Audit board

President	Zamir Bukhari
Vice President	Abdul Hakim Kanan, until 14.01.2022 Badaruzzaman Ahmed, since 15.01.2022
Member	Azra Zaimović

Sharia board

President	Dr. Husein ef. Kavazović
Vice President	Dr. Nizam Al-Yaqoobi
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner
Member	Dr. Muhammad Amin Ali Qattan

Management board

President of Management Board	Emina Šišić, until 29.03.2022 Alek Bakalović, since 29.03.2022
Member of Management Board	Edin Brkić, until 29.03.2022 Azra Hadžiomeragić, since 29.03.2022
Member of Management Board	Nedžad Gušić, until 15.08.2023 Ibro Osmanović, since 12.10.2023.
Member of Management Board	Dino Ibrahimović, until 29.03.2022 Emina Šišić, from 29.03.2022 to 19.09.2022 Jasmina Dobrača, since 19.09.2022
Member of Management Board	Hrvoje Lovrić, since 12.10.2023

Secretary of the Bank Salih Purišević

2. Basis for preparation and presentation of financial statements

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

The Law on Accounting and Auditing prescribes the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS"). Companies prepare and present their financial statements in accordance with International Accounting Standards ("IAS"), their amendments and interpretations (Standard Interpretations), International Financial Reporting Standards ("IFRS") and their amendments and interpretations ("International Financial Reporting Interpretations") issued by IASB, as translated and published by Association of accountants, auditors and financial employees in FBIH (by the authorization of Accounting Commission of Bosnia and Herzegovina number 2-11/06).

The Law on Banks in FBIH prescribes the preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing FBIH, the Law on Banks FBIH, and bylaws adopted on the basis of both laws.

The attached financial statements are presented in the form prescribed by the Rulebook on the content and the form of financial statements for banks and other financial institutions (Official Gazette of the Federation of Bosnia and Herzegovina, No. 81/21,102/22 and 99/23).

The Federal Banking Agency adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses ("Decision"), which applies from 1 January 2020, and which resulted in certain differences arising from the calculation of value adjustments for credit losses due to the application of minimum rates prescribed by the Decision that are not required by IFRS 9: "Financial Instruments" ("IFRS 9"). The decision also has an impact on the valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRS).

The Bank has, in accordance with the provisions of the Decision, recognized higher value adjustments for credit losses as at 31 December 2023 in the amount of BAM 11,109 thousand compared to the amount obtained by calculation resulting from the Bank's internal model, which is based on IFRS 9 (2022 – higher by BAM 9,469 thousand). This difference arose due to the following reasons:

- application of minimum value adjustment rates prescribed in Article 23 of the Decision for exposures in the Stage 1 - difference in the amount of BAM 2,335 thousand (2022 – BAM 1,969 thousand),
- application of minimum value adjustment rates prescribed in Article 24 of the Decision for exposures in the Stage 2 - the difference in the amount of BAM 4,049 thousand (2022 - BAM 3,182 thousand),
- application of minimum value adjustment rates prescribed in Article 25 of the Decision for exposures in Stage 3 (non-performing assets) - the difference in the amount of BAM 4,725 thousand (2022 - BAM 4,318 thousand), which fully refers to exposures secured by eligible collateral.

Greater differences between FBA and methodologies were also contributed to by the increased minimum rates for financing, which achieved significant growth based on the FBA *Decision on temporary measures to mitigate the risk of interest rate growth*.

(All amounts are expressed in BAM '000, unless otherwise stated)

2. Basis for preparation and presentation of financial statements *(continued)*

- write-off of the balance sheet exposure two years after the Bank recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due in the total amount of BAM 18,710 thousand (2022 – BAM 16,032 thousand).

In accordance with Article 32 of the Decision, the Bank recognized repossessed assets in the amount of BAM 120 thousand (2022 – BAM 142 thousand), being by BAM 5,842 thousand (2022 – BAM 8,672 thousand) lower compared to fair value determined by the internal certified court appraisers (Note 3.6 and 19).

The difference arose based on the assets:

- Repossessed in the last 3 year in the amount of BAM 4,323 thousand (2022 – BAM 6,385 thousand) and
- Repossessed in period longer than 3 years in the amount of BAM 1,519 thousand (2022 - BAM 2,287 thousand).

The previously described differences between the legal accounting regulations applicable to the banks in the FBIH and the requirements for recognition and measurement using the Bank's methodology for reporting in accordance with International Financial Reporting Standards have resulted in the following effects*:

	31.12.2022 IFRS	Effects of FBA Decision	31.12.2022
Assets	1,476,026	(8,854)	1,467,172
Liabilities	1,303,911	615	1,303,296
Equity	173,345	(9,469)	163,876

	31.12.2023 IFRS	Effects of FBA Decision	31.12.2023
Assets	1,554,475	(10,532)	1,543,943
Liabilities	1,357,295	577	1,356,718
Equity	198,334	(11,109)	187,225

	Financial result before tax for the year ended 31.12.2023 if IFRS methodology is used	Financial result before tax for the year ended 31.12.2022 if IFRS methodology is used
Financial result before tax	14,907	7,022

** Note: a positive value represents an increase in value, and a negative one a decrease in value.*

2. Basis for preparation and presentation of financial statements *(continued)*

These financial statements have been prepared on the historical cost basis, except as otherwise stated in the accounting policies set out in the text.

2.1 Functional and presentation currency

The financial statements are presented in convertible marks ("BAM") which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise noted). The Central Bank of Bosnia and Herzegovina ("Central Bank" or "CBBH") has implemented exchange rate based on "currency board" according to which BAM is exchanged to EUR at 1:1.95583 ratio (this rate was used in 2023 and 2022). It is expected that this exchange rate will continue in the foreseeable future.

2.2 Concept of going concern

Financial statements are prepared under the assumption of going concern, which implies that the Bank will continue with business activities in the foreseeable future and be able to collect receivables and settle liabilities in the normal course of business.

2.3 Use of estimates and judgment

The preparation of financial statements in accordance with legal accounting regulation applicable on banks in Federation of Bosnia and Herzegovina. requires from management to make judgments, estimates and assumptions that affect the application of accounting policies in use and the amounts of disclosed assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are changed and possibly in future periods if they are affected.
Information on areas with significant uncertainties in estimates, and information on critical judgments in application of accounting policies which have most significant effect on the amounts disclosed in these financial statements of Bank are presented in Note 3 and 4.

2.4 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates of the Central Bank of Bosnia and Herzegovina prevailing at the latest date of reporting period.

Foreign currency monetary assets are denominated at the official exchange rate at the reporting date. In case of several exchange rates the forward rate is used, according to which future cash flows based on the transaction or balance could be reconciled in case they were incurred. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

(All amounts are expressed in BAM '000, unless otherwise stated)

2. Basis for preparation and presentation of financial statements *(continued)*

2.4 Foreign currencies (continued)

Positive and negative exchange rate differences arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are recognized in the income statement.

All positive and negative exchange rate differences presented in the income statement are presented in the net amount within the corresponding position.

Exchange rates used in financial reports are the official rates established by the Central Bank of Bosnia and Herzegovina ("CBBH"). On 31 December the following exchange rates were used:

Exchange rate	**31 December 2023 BAM**	**31 December 2022 BAM**
USD	1.769982	1.833705
EUR	1.95583	1.95583

2.5 Definitions

The following terms for Islamic financial instruments are used in the financial statements with the meaning specified:

Murabaha

An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit.

Musharaka

An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Wakala

An agreement whereby one party provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Ijara

Ijara is an agreement whereby the bank purchases certain property or equipment which is then leased to the customer.

2. Basis for preparation and presentation of financial statements *(continued)*

(All amounts are expressed in BAM '000, unless otherwise stated)

2.5 Definitions(continued)

Sukuk

Certificates which are equal in value and represent common shares in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the cash receivables, or the goods receivable, or in the assets of the partnership.

2.6 Adoption of new and revised standards

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

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by Association of accountants, auditors and financial workers of the Federation of Bosnia and Herzegovina are effective for the current reporting period:

Standard	Name
IFRS 17*	New standard IFRS 17 „Insurance Contracts", originally issued in May 2017, including amendments of IFRS 17 issued in June 2020 (Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023) and amendments in December 2021 (Amendments regarding the initial application of IFRS 17 and IFRS 9)
Amendments to IFRS 4	Amendments regarding the expiry date of the deferral approach, issued in June 2020
Amendments to IAS 1	Disclosure of accounting policies, issued in February 2021
Amendments to IAS 8	The definition of accounting estimates, issued in February 2021
Amendments to IAS 12	Deferred tax on leases and decommissioning obligations, issued in May 2021
Amendments to IAS 12	Amendments to provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes, issued in May 2023

* The Board of Directors of the Association of accountants, auditors and financial professionals of FBiH made a decision on September 19, 2022, that IFRS 17 "Insurance Contracts" will be applied to accounting periods beginning on or after January 1, 2026, with the possibility of earlier application in cases where IFRS 9 "Financial Instruments" is also applied.

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.

(All amounts are expressed in BAM '000, unless otherwise stated)

2. Basis for preparation and presentation of financial statements *(continued)*

2.6.2. New standards and amendments to existing standards in issue not yet adopted

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

Standard	Name	Effective date
Amendments to IFRS 16	Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions – issued in September 2022	1st of January 2024
Amendments IAS 1	Classification of debt with covenants – issued in January 2020, amended in July 2020 and October 2022	1st of January 2024
Amendments to IAS 21	Lack of Exchangeability – issued in August 2023	1st of January 2025
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements – issued in May 2023	1st of January 2024
Amendments IFRS 10 and IAS 28	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture – issued in September 2014	Deferred indefinitely

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. Net income from financing and investment

Net income from financing represents the Bank's share in income generated through investments of client's assets that the Bank gave on disposal after deduction of expenses related to collection of invested assets.

Murabaha and Wakala
Income is recognized during validity period of contracts, having in mind effective profit or expected profit margin.

Musharaka and Ijara
Income is calculated using effective expected profit rate to the declining principal amount.

In accordance with principles of Islamic banking, amounts held by clients in bank and deposit accounts can be used as one of sources for financing Musharaka projects, and expenses related to those deposit accounts are recognized as expenses related to Musharaka transactions.

Sukuk
Income is accounted for on a time apportioned basis over the terms of the Sukuk.

In accordance with Sharia regulations, the Bank cannot generate income from penalties. All realized penalties are donated to charity.

3. Summary of significant accounting policies (continued)

3.2 Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided to the client. Fee and commission income include all income from the provision of services to clients. Fee and commission income relate to local and international payment operations, income from off-balance sheet operations (issuing guarantees), brokerage and dealing operations.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for the local payments operations, SWIFT costs, costs of card business, Agency for deposits insurance and other similar fees. Fee and commission expenses are recognized in the period when they occurred.

3.3 Operating lease

At the commencement date, a lessee shall recognize the right-of-use asset and lease liability. At the commencement date, a lease should measure right-of-use assets at cost.

The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the profit rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

After the commencement date, a lessee shall measure the lease liability by:
(a) increasing the carrying amount to reflect profit on the lease liability;
(b) reducing the carrying amount to reflect the lease payments made; and
(c) remeasuring the carrying amount to reflect any reassessment or lease modifications.

3. Summary of significant accounting policies (continued)

3.3 Operating lease (continued)

The annual operating lease expense represents the amount of depreciation on the leased item and the cost of the profit margin on the financial liability.
The discount rate is defined as the profit margin that a lessee would pay to borrow funds on similar terms, with similar security of payments needed to purchase assets in a similar economic environment. The Bank will reassess the discount rate over the lease term if there has been a change in the terms of the lease or if there is an economic incentive to use the purchase option.

The Bank has chosen to use the exemptions provided for in the standard on lease agreements ending within 12 months of the initial applicable and for which there is no extension option, as well as on leases of premises and equipment considered as low value assets.

3.4 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

3.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills and advances to banks.

In the statement of financial position, cash and cash equivalents comprise of the following items: cash in hands in local and foreign currencies, held within the Bank's vault and cashier's offices, mandatory reserve with the CBBH.

3. Summary of significant accounting policies (continued)

3.6 Financial instruments

Classification and measurement of financial instruments

The Bank has classified the financial instruments into the following categories:

- Financial assets at amortized cost,
- Financial assets at fair value through other comprehensive income,
- Financial assets at fair value through profit or loss,
- Financial liabilities at fair value through profit or loss and
- Financial liabilities at amortized cost.

a) Financial assets

Financial assets-initial recognition and subsequent measurement / Decision on Credit Risk Management and Determination of Expected Credit Losses

Financial assets are initially recognized at the amount of given cash funds. The Bank recognizes financial assets in its financial position statement only when becoming a party to the contractual provisions of an instrument and, on basis of that, has a legal right to receive cash.

The Bank has identified following business models:

- A business model aimed at collecting contracted cash flows,
- A business model aimed at collecting contracted cash flows and selling,
- All business models with other strategies, including a business holding model for trading.

The method of measurement of financial assets depends on the selected business model that is applied.

Based on the selected business model and the cash flow and cash/profit margin test, there are three main categories of financial assets measurement:

- Amortized cost (AC),
- Fair value through other comprehensive income (FVOCI) and
- Fair value through profit and loss account (FVTPL).

Whether the financial asset is classified as an amortized cost or fair value is determined by the business model and cash flow criteria (SPPI). Assuming that the SPPI criteria is met, the business model estimate will be a key trigger for the measurement of financial assets. If the financial asset does not meet the SPPI criteria it is classified as FVTPL regardless of the business model. The Bank defines its portfolio management business model with an aim of charging contracted cash flows, where certain financial instruments are measured at amortized cost, and exceptionally at fair value if the SPPI test is unsatisfied.

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

3.6 Financial instruments *(continued)*

1) Financial assets measured at amortized cost

Financial assets are measured at amortized cost if the following conditions are met:

- Financial assets are held within a business model with a purpose of holding financial assets in order to charge contractual cash flows, and
- cash flows that are only principal payments and profit margin on principal are generated on certain dates through contractual conditions of financial assets.

The Bank recognizes the following assets at amortized costs:

- Cash and balances,
- Placements with banks,
- Financing of clients,
- Sukuk and
- Other financial assets.

Amortized cost refers to the amount at which a certain financial instrument has been initially recognized, reduced for all principal payments, and increased by calculated profit margin, i.e. the amount by which a certain financial asset is recognized, reduced by write offs on the basis of impairment allowance. The calculated profit margin includes the amortization of transaction costs which are deferred after the initial recognition, and amortization of all premiums or discounts up to the amount on the maturity date, using the effective profit margin method. Calculated deferred profit margin and deferred cost, including amortized discounts and premiums (including deferred fees, if any), are not shown separately and are included in the carrying amounts of the related items in the financial position statement (balance sheet).

The effective profit margin method is the method of amortized cost calculation of financial assets or liabilities, in the period when they were actually generated, in order to achieve a constant periodic profit margin (effective margin) for the carrying amount. The effective margin is a profit margin that accurately discounts estimated future cash payments or revenues through expected lifetime of the financial instrument or, where possible, shorter period, to the net carrying amount of financial assets or liabilities. The effective profit margin discounts the cash flows of the instrument, variable profit margins until the date of the next determination, except in the case of premiums or discounts that reflect the range of client financing through variable profit margin specified in the profit margin instrument, or in case of other variable amounts that have not been adjusted through market rates. Such premiums or discounts are depreciated over the entire life expectancy of the instruments. The calculation includes all fees and points paid or received in between the contracting parties that form an integral part of the effective profit margin.

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

3.6 Financial instruments *(continued)*

2) Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through another comprehensive income if both of the following conditions are met:

- to hold financial assets within a business model whose target is achieved through the payment of contractual cash flows and the sale of financial assets, and
- cash flows that are only principal payments and profit margin on principal are generated on certain dates through contractual conditions of financial assets.

The Bank measures equity investments at fair value through comprehensive income.

3) Financial assets measured at fair value through profit or loss

All equity instruments are classified in FVTPL category, unless the Bank decides to recognize such financial instrument through the FVOCI option. For those financial instruments, the business model is not relevant because the equity instruments at the start do not meet the SPPI test (no profit margin and principal are paid).
All the effects of equity instruments valuation through the FVOCI option, as well as the effects of the derecognition of the instrument of equity, are reflected in the positions of the other comprehensive result (revaluation reserves) and never, even after the recognition of the asset has ceased, are not transferred to the profit and loss account. The only effects of dividends, such classified capital instruments, are recognized directly through the positions of the profit and loss account.
FVOCI options can be applied only if equity instruments are not intended for trading.
All equity instruments are classified in the FVTPL category. An instrument classified in FVTPL must be valued at fair value (the purchase value is only allowed if it is "proven" that it approximates fair value). The Bank has defined the Methodology of valuation of securities intended for trading.

Principles for measuring the fair value of financial assets and liabilities at fair value through the statement of comprehensive income and financial assets at fair value through profit and loss are their quoted selling market price at the balance sheet date, excluding the cost of sales. If the market for financial assets is not active (and for non-quoted securities) or if, for other reasons, fair value cannot be reliably determined on the basis of a market price, the Bank determines fair value using the valuation technique. These include the use of the prices achieved in recent transactions of contracts between informed and prepared parties, invoking other essentially similar instruments, analyzing discounted cash flows by maximizing the use of market data and, as little as possible, relying on the specificity of the entity.

When applying the discounted cash flow method, the estimated future cash flows are based on the best management estimate, and the discount rate is the market rate applicable on the balance sheet date for financial instruments with similar terms. When using a pricing model, market-linked rates valid on the balance sheet date are used.

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

3.6 Financial instruments *(continued)*

Impairment of financial assets

As at 31.12.2023 the measurement of impairment was defined by the Program for Credit Risk Management and Determination of Expected Credit Losses that is harmonized with the Decision on Credit Risk Management and Determination of Expected Credit Losses. The Program covers financial assets valued by the method of depreciation and fair value through other comprehensive income (if any) and related off-balance sheet exposures, in particular:

- Balance sheet exposure:
    - Financing of customers,
    - Sukuk
    - Overdrafts/current accounts, revolving financing lines of customer/financing lines,
    - Forcible receivables (such as claims arising based on letters of credit, guarantees etc.)

- Off-balance sheet exposure:
    - Guarantees,
    - Letters of credit,
    - Unused amounts of revolving financing lines of customers (current account overdrafts, other revolving lines, approved but not used financings etc.)

- Expected credit losses calculation as of 31 December 2023 covered the following:
    - Retail exposures,
    - Corporate exposures (including also SME clients),
    - Bank and other financial institutions exposure,
    - Country, government, government institutions, municipalities exposure,
    - Sukuk
    - Other receivables (includes all IFRS9 categories that have not been previously included).

The Bank recognizes provisions for impairment of expected credit losses for financial assets. At each reporting date, the Bank is required to measure the provision for impairment losses in the amount equal to expected credit losses over the life of the instrument if, after initial recognition, the credit risk of that financial instrument has increased significantly. Impairment allowances are calculated collectively at the portfolio level and on an individual basis. Significant individual placements carry out an impairment assessment at the individual level if they satisfy the default status, while the rest of the portfolio is assessed collectively. Individual significant placements are placements whose exposure exceeds BAM 100,000 for legal entities and BAM 50,000 for private individuals and are classified as non-performing assets.

The Bank applies impairment allowance on collective basis when:

1. Exposures that do not satisfy the default status,
2. Exposures that satisfy the default status but are not individually significant (specific provisions for financing losses).

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

3.6 Financial instruments *(continued)*

Impairment of financial assets *(continued)*

The Bank determines its default status at the client level for all exposures. Based on the default status and the individual significance of the exposure, the Bank distinguishes between different approaches to measurement of impairment (individual or collective evaluation) that result in one of the following three types of provisions / impairments:

- Exposure is in the status of default and is individually significant (Stage 3) - Special provisions for credit losses on an individual basis. Impairment measurement based on individual assessment of certain exposures - taking into account the expected future cash flows through several different scenarios.
- Exposure is in the status of default, but individually insignificant (Stage 3) - Special provisions for credit losses on a collective basis. Measurement of impairment for individually insignificant exposures where the event of loss is identified - taking into account the impairment assessment of the portfolio of assets with similar characteristics, based on the formula, and not through individual cash flow projections.
- Exposure is not in the status of default (Stage 2 and Stage 1) - General provisions for expected credit losses. The correction of the expected loss values for exposures varies, depending on whether the estimate of losses is at the twelve-month level (Stage 1) or on a lifelong level (Stage 2).

In accordance with the requirements of the standard, as well as with its risk management system, the Bank as of 31 December 2023 performed the division of its exposures/ clients into stages in terms of the associated level of risk, as follows:

Stage 1 - all new exposures / clients have their start in Stage 1, except POCI assets, which includes all exposures / clients that are not covered by the criteria for Stage 2, Stage 3 and POCI. For these receivables, the Bank recognizes provisions based on 12m ECL (calculation of expected losses at twelve months). The Bank also includes low risk exposures in Stage 1, as follows:

a) exposures to the Central Bank of Bosnia and Herzegovina,

b) exposures to the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina
Herzegovina, the Government of the Republic of Srpska and the Government of the Brčko District of Bosnia and Herzegovina, and

c) 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 assigned a credit quality step of 1 or 2 (including Sukuk).

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

3.6 Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Stage 2 - exposures / clients for which a significant increase in credit risk is recorded in relation to the time of approval, and there is no objective evidence of impairment. For these receivables, the Bank recognizes provisions based on LEL (calculation of expected loss on a lifetime basis). The triggers for movement to Stage 2 are:

- client has overdue of more than 30 days;
- bank account blocked for more than 7 days in the previous 12 months;
- client categorized in watch list EW3 in accordance with procedure on early warning signals;
- client with financial rating C2 or lower and same is confirmed by overall credit rating C2 or lower apart from project financing and
- client with other significant increase in credit risk triggers which are defined by the Program for credit risk management and determination of expected credit losses

Stage 3 - exposures / clients for which there is objective evidence of impairment. In stage 3 are classified clients who meet one of following conditions:

a) the debtor is late with the repayment of due liabilities to the bank for more than 90 days in a material amount,

b) The Bank considers it highly likely that the debtor will not fully settle its obligations to the Bank in accordance with the risk increase indicators defined by the Program for Credit Risk Management Program and determination of expected credit losses.

POCI - The Bank has established the following criteria for determining POCI assets:

c) it is an exposure allocated to Stage 3 and subject of significant modification,

d) it is a financial asset purchased with an economic loss (discount) greater than 5% of the net book value, except in cases where the seller sells financial assets in cases not related to credit risk and

e) it relates to purchased financial assets or refinancing of an exposure (partial or complete) that has been allocated to Stage 3 in another bank.

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

3.6 Financial instruments *(continued)*

Impairment of financial assets (continued)

When assessing the ECL as of 31, December 2023, the Bank considers various scenarios in accordance with the Methodology, for Stage 1 and Stage 2, one scenario, while for Stage 3 and POCI two probability scenarios are defined in accordance with the Program for credit risk management and determination of expected credit losses.

The ECL calculation method and the key elements of the calculation as of 31 December 2023 are as follows:

- The PD parameter can be interpreted as a probability that a particular transaction within a given time will fulfil the definition of the default status, or in other words, that an event of loss will be identified on an individual level. PD is assessed by migration matrices using the Markov chain that shows the movement of the client / receivable from the performance of a bucket in the default subgroup within a defined historical period. The PD calculation is done monthly. For Stage 1 exposure, a 12-month PD is used for calculation of the expected loss (EL) for 36 months, and for Stage 2 lifetime PD for calculation of the so-called life expectancy loss (LEL).
- As of 1.1.2020 LGD is defined as a fixed value based on the Agency's Decision, as follows:
  a) 45% for exposures secured by eligible collateral
  b) 75% for exposures not secured by eligible collateral
- EAD represents an estimate of the carrying amount at the time of default, considering the specifics of the contracted cash flows as well as the possible additional withdrawals of off-balance sheet exposures at a time before default. The maximum period the Bank considers when assessing expected credit losses is the maximum contractual period during which the Bank is exposed to credit risk. The Bank calculates secured and unsecured EAD.

The measurement of impairment on a collective basis required the estimation of parameters on a statistical basis with adjustments for future information. The risk parameters of PD and LGD as of 31 December 2023 were calculated for each homogeneous group at a lifelong level, i.e., the maximum maturity of a particular homogeneous group using historical data and adjusting for the expected future losses.

Bearing in mind the size and complexity of the Bank, the market practice in the region in terms of including future information, as well as the provisions of reasonable cost and effort, the Bank applies the adjustment for future movements to the risk parameter PD - probability of default. When defining macroeconomic factors for the Retail portfolio, the Bank used the unemployment index, industrial production index and industrial production volume index, while for Corporate it used the industrial production volume index, industrial production index, unemployment index and GDP per capita.

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

3.6 Financial instruments *(continued)*

Impairment of financial assets (continued)

In accordance with the analysis of the delay in settling liabilities and return indicators, the method of calculation of the ECL is as follows:

- Stage 1 - The Bank for receivables classified in this group recognizes provisions based on 12mECL (Calculation of expected losses at the 12-month level). The expected 12-month probabilities were applied to the EAD forecast and multiplied by the expected LGD. If the calculated ECL per individual exposure is lower than the minimum percentages defined by the Program for Credit Risk Management and determination of expected credit losses, the minimum percentages are applied (for low-risk exposures - 0.1% of exposures, for exposures based on financing – 1% of exposures, and for other exposures - 0.5% exposure)

- Stage 2 - The Bank recognizes LEL provisions for these receivables (Calculation of expected loss on a lifetime basis). The methodology is similar to the previous one, including the use of a lifetime PD. From 1.1.2021 in case the calculated ECL per individual exposure is lower compared to the minimum percentage defined by the Program for Credit Risk Management and determination of expected credit losses, and the Internal Impairment Methodology, minimum percentages are applied as follows for exposures based on financing – 8% of exposures, and for all other exposures – 5% of exposures.

- Stage 3 - Impairment measurement is based on an individual assessment of certain exposures - taking into account the expected future cash flows through several different scenarios for individually significant exposures, while for non-individually significant exposures, taking into account the impairment assessment of the portfolio of assets with similar characteristics, based on the formula. From 1.1.2021, if the calculated ECL per individual exposure is less than the minimum percentage defined by the Program for Credit Risk Management and the determination of expected credit losses, and the Internal Impairment Methodology, the following minimal percentages are applied:

(All amounts are expressed in BAM '000, unless otherwise stated)

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

3.6 Financial instruments *(continued)*

Impairment of financial assets (continued)

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

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 366 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	over 1460 days	100%

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

Number	Overdue days	Minimum expected credit loss
1.	up to 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 456 days	100%

By *Decision on temporary measures to mitigate the risk of interest rate growth* by Banking Agency No.U.O.-03-02/22 dated 28/09/2022. minimum percentages of impairment were defined for financings with identified significant growth. The minimum impairment percentages for financings with significant growth in credit risk level 1 amount to no less than 2%, while this percentage for financings in credit risk level 2 amount to no less than 12%. The Bank recognizes impairment for such financings in accordance with the *Decision on temporary measures to mitigate the risk of interest rate growth* as long as it is in force.

As of 31 December 2023, the Bank recognized additional impairment in the amount of BAM 778 thousand (31 December 2022 – BAM 10 thousand), where BAM 661 thousand relates to legal entities and BAM 117 thousand to private individuals (31 December 2022 – BAM 10 thousand related to private individuals).

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

3.6 Financial instruments *(continued)*

The process of calculating expected credit losses goes through several stages. The classification proposal obtained is systematically reviewed by the Risk Control Division and performs the first set of controls. The report is further submitted to the Corporate Banking Division and the Retail Banking Division for assessment of classification and submission of evidence on expected future flows. After submitting evidence of expected future cash flows and comments, the Risk Control Division creates a final proposal of the level of reserves and classification for the current month. The Finance Division records impairment based on the submitted final report on the level of required expected credit losses for the current month.

The Bank recognizes impairment provisions for expected credit losses for financial assets. For each reporting date, the Bank for financial assets is required to measure impairment provisions equal to the expected credit losses over the life of the instrument if, after initial recognition, the credit risk of that financial instrument has increased significantly.

Impaired financial assets are classified into categories, depending on the level of collectability that is determined based on the number of days exceeding the maturity date, the estimation of the borrower's financial position and the quality of the collateral security instruments.

Accounting write-off

For balance sheet financial assets that meet the requirements defined by the Credit Risk Management and Determination of Expected Credit Losses Program, the Bank writes off exposures two years after recording expected credit losses in the amount of 100% of gross carrying amount and declared it fully matured, except for the exposure under financial leasing.

Termination of recognition of financial assets

The Bank ceases to recognize financial assets only when:

- contractual rights to cash flows from financial assets expire, or
- transfers financial assets or when the transfer meets the conditions for termination of recognition of financial assets.

The Bank transfers financial assets only if:

- transfers contractual rights to receive cash flows from financial assets, or

Holds contractual rights to receive cash flows from financial assets but presupposes a contractual obligation to pay cash flows to one or more recipients in certain transactions.

Financing of customers

Financing of customers and advances to customers are presented at amortized cost net of impairment allowances to reflect the estimated recoverable amounts.

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

3.6 Financial instruments *(continued)*

Sukuk financing instruments

Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

b) Financial liabilities

Initial recognition of financial liabilities

The Bank will initially recognize financial liabilities at:

- amortized cost and
- fair value through profit and loss account

Classification of financial liabilities

The Bank is required to classify all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through the income statement. Such liabilities should be subsequently measured at fair value.

At initial recognition, the Bank will irrevocably determine the financial liability measured at fair value through the income statement, irrespective of how this could result in new data affecting its financial statements.

Reclassification of financial assets and financial liabilities
The Bank reclassifies financial assets only when it changes its business model for managing financial assets.

Termination of recognition of financial obligations

The Bank ceases to recognize a financial liability or its part:

- when the borrower remits the obligation (or a part of it) by usually paying in cash, goods or services; or
- when the borrower is legally released from responsibility for the obligation (or a part of it) through legal action.

Reclassification of financial assets and liabilities

Since 01.01.2021 the Bank did not reclassify its financial assets after initial recognition.

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

3.6 Financial instruments *(continued)*

b) Financial liabilities (*continued)*

Specific financial instruments

Placements with other banks (Murabaha)

Murabaha transactions represent investments in sale and purchase of goods recognized as placements with other banks. Difference between purchase and sale price is treated as return rate based on investments, and it is calculated during validity of sale and purchase agreement, using effective profit margin method. These investments are classified as financial instruments and they are stated at amortized cost. All other purchases and sales of investments are recognized at the transaction date when the Bank acquired liability to buy or sell assets.

Investment in other companies

Investments in other companies are classified at fair value through other comprehensive income and they are measured at fair value, unless there is a reliable fair value measure, when these investments are stated at cost net of impairment allowances.

Borrowings / financings

Profit margin bearing received financings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, profit margin bearing received financings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the income statement over the period of the financings on an effective profit margin basis.

Liabilities towards banks and clients

Liabilities towards banks and clients are classified as other liabilities and are initially recognized at fair value increased for transaction costs, while subsequently they are stated at amortized cost on an effective profit margin basis.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue financing of customers. The assets are initially recognized at fair value when acquired and included 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.
In accordance with the Decision of the Agency, if the Bank does not sell the repossessed assets within three years from the date of initial recognition in the books, the Bank will reduce its value to BAM 1.

Additionally, the Bank has defined by its internal rules that it will after the first year recognize a minimum 10% loss, after the second year minimum 20% loss, while the remaining 70% is recognised in the third year at latest.

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

3.6 Financial instruments *(continued)*

Financing of customers related commitments

The Bank issues financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as financing of customers. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight-line basis over the life of the commitment.

3.7 Provisions

Provisions are recognized when:

- The Bank has a valid legal or contractual obligation resulting from past events;
- it is more likely that the settlement of the obligation will require the outflow of funds,
- the amount of obligation can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the type of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to an item included in the same class of obligations may be small.

Provisions are measured at the present value of the expected cash outflows required to settle the obligation.

For off-balance sheet liabilities provisions are formed in the following cases:

- If there is an event that happened in the past, for which there is a present obligation to pay the Bank (call for payment, etc.)
- There is more than 50% probability that the bank will have to settle the liability;
- If it is possible to precisely measure the amount of the liability and to from provision in the same amount.

3.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalized. Gains or losses on the retirement or disposal are included in the statement of income in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated using linear method, based on estimated useful life of an asset.

(All amounts are expressed in BAM '000, unless otherwise stated)

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

3.8 Property and equipment (continued)

Estimated depreciation rates were as follows:

	2023	2022
	%	%
Buildings	1.3 – 2.0%	1.3 – 2.0%
Computers	20.0 – 33.3%	20.0 – 33.3%
Vehicles	15,0-15.5%	15.5%
Other equipment	7.0 – 33.3 %	7.0 – 33.3 %

Impairment

At each reporting date, the Bank reviews the carrying amounts of its property, plant and equipment, in order to determine if there is any evidence of losses occurred due to impairment of the above-mentioned assets. If the Bank determines such evidence, the recoverable amount of assets is being estimated, in order to be able to determine potential loss from impairment of assets.

Recoverable value is net selling price or value in use, depending on which of the two is higher. For the purposes of evaluation of value in use, estimated future cash flows are discounted to the present value using discount rate before taxation, which reflects the current market assessment of time value of cash and risks specific to that asset.

If the estimated recoverable amount of an asset is lower than the carrying amount, then, the carrying amount of that asset is impaired to the recoverable amount. Impairment losses are recognized as an expense, unless that asset is a land or a building which is not used as an investment property, and which is stated at revaluated amount, and in that case, the impairment losses are stated as decrease of value, caused by the revaluation of an asset.

With subsequent cancelling of impairment losses, the carrying amount of assets is being increased to the revised estimated recoverable amount of that asset, and this carrying amount is not higher than carrying amount that would be determined if in the previous years there were no recognized losses to those assets, due to impairment. Cancelling of impairment losses is recognized as income, if the asset is not stated at estimated value, when the cancelled impairment losses are stated as increase due to revaluation.

3.9 Intangible assets

(a) Computer software and licenses

Acquired licenses for computer software are shown at historical cost. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are:

Software and licenses	20.0%

Amortization method and estimated useful life are reviewed and corrected, if necessary, at each reporting date.

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

3.10 Employee benefits

Short term benefits
The Bank pays pension and health insurance on behalf of its employees, which are calculated on the gross salary paid, as well as taxes on salaries, which are calculated on the net salary paid. The Bank pays the above contributions into the Federal pension and health fund, according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the income statement in the period in which the obligation arises.
Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Long-term benefits: retirement severance payments and early retirement bonuses
The Bank pays to its employee's retirement severance benefits upon retirement in an amount representing three times the average salary in the FBIH as calculated by the Federal Bureau of Statistics or three times the salary of the employee in question (depending of what is more favourable to the employee).

The cost of providing benefits is determined using the projected unit credit method. The project unit credit method considers each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate equal to profit margins of state securities.

3.11 Share capital

Share capital
Share capital comprises ordinary shares and is stated in BAM at nominal value.

Dividends
Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

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

3.12 Statutory reserves

A statutory reserve has been created in accordance with the Company law of FBIH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of issued share capital. If the statutory reserves do not reach 25% of issued share capital within 5 business years, a public limited company is required to increase its transfer to this reserve to 20% of its profit for the year at the end of the fifth and any following business year until capital reserves reach 25% of issued share capital. The legal reserve can be used for covering current and prior year losses.

3.13 Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters finance-related commitments which are recorded in off-balance sheet accounts and primarily comprise guarantees, letters of credit and undrawn financing commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.
Approved unused funds represent the irrevocable assumed obligation of the Bank to approve financing to the client under the terms of the financing agreement. The Bank records off-balance the nominal unused amount, while the used parts are recorded as balance items in accordance with the business event.
The guarantee obligation is the obligation of the Bank to fulfil the borrower's legal and due obligation if the borrower does not do so. Guarantee obligations include issued payable and performance guarantees, issued counter-guarantees, open nostro documentary letters of credit and bills of exchange. These liabilities are recorded in nominal terms. If the Bank has made a payment for these transactions, an off-balance sheet is closed, and for the paid amount a claim from the borrower is formed with the conditions specified by the contract and the tariff policy of the Bank. For commitments to finance clients, the Bank makes provisions in accordance with the policy disclosed in the section of financial instruments.

3.14 Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered the Bank charges a fee.

3.15 Related party transactions

According to IAS 24 related parties are parties that represent:

- The parties which directly, or indirectly through one or more intermediaries, control or are controlled by, or is under common control with, the entity;
- Parties in which the Bank has an interest in the entity that gives it significant influence over the entity and that are neither related parties nor joint investment;
- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, or any other subject which is expected to influence or be influenced by a related party to the Bank;
- Members of the key management personnel i.e., individuals with authorizations and responsibilities for planning, managing and controlling the Bank's operations, including directors and key management.

3. Summary of significant accounting policies (continued)

3.15 Related party transactions (continued)

When taking into account each possible transaction with a related party, attention is focused on basis of relationship not just legal form (Note 29).

4. Financial risk management

4.1 The strategy of using financial instruments

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, profit rate risk and other price risk), credit risk and liquidity risk. Risk management is carried out by the Bank's departments in charge for individual risks under policies approved by the Management board.

The Bank has established an integrated system of credit risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management, which is carried out by the Risk control Division and Underwriting Division. Also, the Bank has adopted procedures for following the liquidity risk within the Asset and financial institutions department, while the Market and Operational risk department, information security and internal controls department follows and assesses the level of the operational risk within Risk control Division.

The Management board has overall responsibility for the establishment and oversight of the Bank's credit risk management framework.

Risk steering and risk controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

4.2 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and financing commitments, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management and provisions and impairment policies

Exposure to credit risk must be covered by adequate collateral, in accordance with legal regulations and internal regulations. Types of collateral acceptable to the Bank, as well as the relationship between the value of collateral and loan / financing or guarantees are established by the Procedure on Collateral Management. In order to diversify assets and minimize the concentration of credit risk / risk financing in its operations, the Bank focuses its financing activities over a large number of customers as possible, with smaller amounts.

4. Financial risk management (continued)

4.2 Credit risk *(continued)*

The Bank takes into account the dispersion of risk by particular regions and sectors, in an effort to direct investments in all economic sectors:

- citizens and independent entrepreneurs;
- individual farmers;
- companies from trading activities;
- companies from industrial activities;
- Companies from other activities (tourism, catering, etc.);

Banks and financial institutions. Committee for financing and investment of the Bank or the organizational unit authorized by the Committee decides whether to approve a particular financing or guarantee of individuals and legal entities that cause or increase exposure to credit risk on the basis of:

- Any legal transaction whose value comes to the Bank's exposure to an individual user or group of related parties;
- Any legal transaction which would result in increased exposure towards the individual user or group of related parties.

Exceptions are financing below BAM 25,000 where a branch manager can approve financing for individuals.
Financing exceeding BAM 6,000,000 and financing of groups of related parties exceeding BAM 8,000,000 are subject to approval of the Supervisory board.

Decisions on exposure to credit risk / risk financing to related parties are carried out in accordance with Specific policies with procedures for operations with related parties.

Financing granted to Bank employees shall be made in accordance with the Policies and procedures for financing Bank's employees.

Credit risk management function is separated from everyday tasks related to relationships with clients and lending / financing. Underwriting Division assesses the credit risk for each financing request of legal entities, and requests for financing of retail entities over BAM 25,000. For amounts ranging from BAM 10,000 to BAM 25,000 Underwriting Division makes subsequent assessments of the credit risk by choosing random samples, to cover 1/3 of the total number of approved financings by the branch manager.

Underwriting Division should monitor limits, respectively the maximum level of exposure in relation to individual customers or groups of related parties at the moment of approval of financing in respect of statutory rules, as follows:

- allowed exposure to credit risk without collateral (amounts in BAM) = Bank share capital x 5%;
- large exposures to credit risk (amounts in BAM) = Bank share capital x 10%;
- maximum exposure to credit risk (amounts in BAM) = Bank share capital x 25%;

4. Financial risk management (continued)

4.2 Credit risk *(continued)*

Risk control division and quarterly reports to the Management board on the development of exposure limits as per the Policies and procedures for large exposures and concentration risk. Management board shall provide guidance to remove any breaches, and achieve a more balanced distribution, management and control of existing and potential exposures of the Bank.

Exposure to credit risk must be covered by adequate collateral, in accordance with legal and internal regulations. Types of collateral acceptable to the Bank, as well as the ratio between the value of collateral and loan / financing or guarantees are established by the Decision on the definition, assessment and treatment of the pledged collateral.

Impaired financial assets are those for which the Bank determines that it is unlikely that they will be able to collect all principal and accrued profit margin under the provisions of the financing of customers.

Individually impaired financial assets are those assets that are individually assessed to be impaired and for which the Bank makes provision for impairment, which is an estimate of incurred losses.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management (continued)

4.2 Credit risk *(continued)*

Maximum credit risk exposure for components of financial position statement are as follows:

	31.12.2023			31.12.2022		
	Gross exposure	**Impairment**	**Net**	**Gross exposure**	**Impairment**	**Net**
I Assets	**1,564,718**	**(53,120)**	**1,511,598**	**1,486,826**	**(51,308)**	**1,435,518**
Cash and balances with banks	418,771	(811)	417,960	402,507	(712)	401,795
Obligatory reserve with Central Bank BIH	133,308	(133)	133,175	132,122	(132)	131,990
Placements in other banks	-	-	-	9,565	(48)	9,517
Financial assets at fair value through other comprehensive income	65	-	65	75	-	75
Financial assets at fair value through profit or loss	320	-	320	339	-	339
Financing of customers	988,772	(51,675)	937,097	937,958	(49,967)	887,991
Prepaid income tax	-	-	-	56	(8)	-
Sukuk	18,893	(19)	18,874	-	-	-
Other financial assets at amortized costs	4,589	(482)	4,107	4,204	(441)	3,763
II Off-balance	**134,496**	**(1,583)**	**132,913**	**127,644**	**(1,695)**	**125,949**
Performance guarantees	77,163	(717)	76,446	75,796	(750)	75,046
Approved, unused financing lines	40,911	(706)	40,205	41,664	(829)	40,835
Payable guarantees	16,050	(141)	15,909	9,740	(94)	9,646
Letters of credit	372	(19)	353	444	(22)	422
Total (I+II)	**1,699,214**	**(54,703)**	**1,644,511**	**1,614,470**	**(53,003)**	**1,561,467**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

The table below shows clients' financing through risk levels:

31.12.2023	S1	S2	S3	Total	S3 Write-off	Impairment S1	Impairment S2	Impairment S3	Total Impairment	S3 Write-off	Net
Entrepreneurs	9,988	309	372	10,669	(38)	178	31	317	526	(38)	10,143
Housing financings	226,606	4,866	2,686	234,158	(200)	2,408	548	1,900	4,856	(200)	229,302
Cards and limits on current accounts	7,174	322	197	7,693	(33)	86	38	173	297	(33)	7,396
Other retail financing	181,665	6,703	4,579	192,947	(413)	2,139	919	4,086	7,144	(413)	185,803
Total retail	**425,433**	**12,200**	**7,834**	**445,467**	**(684)**	**4,811**	**1,536**	**6,476**	**12,823**	**(684)**	**432,644**
Corporate clients	**451,348**	**61,733**	**30,224**	**543,305**	**(2,101)**	**8,229**	**5,718**	**24,905**	**38,852**	**(2,101)**	**504,453**
Total	**876,781**	**73,933**	**38,058**	**988,772**	**(2,785)**	**13,040**	**7,254**	**31,381**	**51,675**	**(2,785)**	**937,097**

Banks

31.12.2022	S1	S2	S3	Total	S3 Write-off	Impairment S1	Impairment S2	Impairment S3	Total Impairment	S3 Write-off	Net
Entrepreneurs	9,759	292	549	10,600	(67)	178	26	429	633	(67)	9,967
Housing financings	212,663	6,221	3,140	222,024	(402)	2,185	645	2,100	4,930	(402)	217,094
Cards and limits on current accounts	6,682	218	217	7,117	(15)	71	27	194	292	(15)	6,825
Other retail financing	160,676	3,246	3,849	167,771	(211)	1,761	479	3,326	5,566	(211)	162,205
Total retail	**389,780**	**9,977**	**7,755**	**407,512**	**(695)**	**4,195**	**1,177**	**6,049**	**11,421**	**(695)**	**396,091**
Corporate clients	**444,007**	**53,832**	**32,607**	**530,446**	**(1,065)**	**7,852**	**4,470**	**26,224**	**38,546**	**(1,065)**	**491,900**
Total	**833,787**	**63,809**	**40,362**	**937,958**	**(1,760)**	**12,047**	**5,647**	**32,273**	**49,967**	**(1,760)**	**887,991**
Banks	**9,565**	**-**	**-**	**9,565**	**-**	**48**	**-**	**-**	**48**	**-**	**9,517**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

An analysis of change in the gross carrying amount and the corresponding ECL:

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**833,788**	**63,809**	**7,220**	**33,141**	**937,958**
New financing	440,344	26,428	166	2,260	469,198
Repaid financing	(374,485)	(35,313)	(1,749)	(4,052)	(415,599)
Transfer from Stage 1	(29,621)	25,783	1,509	2,329	-
Transfer from Stage 2	6,593	(8,254)	1,031	630	-
Transfer from Stage 3	173	1,494	(188)	(1,479)	-
Write-off	(11)	(14)	(848)	(1,912)	(2,785)
31 December 2023	**876,781**	**73,933**	**7,141**	**30,917**	**988,772**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**12,047**	**5,647**	**6,168**	**26,105**	**49,967**
New financing	7,285	2,534	120	1,915	11,854
Repaid financing	(4,658)	(1,916)	(508)	(1,648)	(8,730)
New increase/(decrease) in existing portfolio	(1,896)	435	1,140	1,690	1,369
Transfer from Stage 1	(492)	422	28	42	-
Transfer from Stage 2	635	(954)	246	73	-
Transfer from Stage 3	130	1,100	(59)	(1,171)	-
Write-off	(11)	(14)	(848)	(1,912)	(2,785)
31 December 2023	**13,040**	**7,254**	**6,287**	**25,094**	**51,675**

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**773,633**	**72,146**	**5,236**	**40,289**	**891,304**
New financing	392,544	19,256	74	1,734	413,607
Repaid financing	(315,937)	(37,507)	(1,.878)	(9,873)	(365.195)
Transfer from Stage 1	(22,199)	17,824	1,971	2,403	-
Transfer from Stage 2	5,657	(8,340)	2,030	653	-
Transfer from Stage 3	89	429	138	(656)	-
Write-off	-	-	(351)	(1,409)	(1,760)
31 December 2022	**833,787**	**63,808**	**7,220**	**33,141**	**937,958**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**12,533**	**6,955**	**4,457**	**24,643**	**48,588**
New financing	6,401	1,590	58	846	8,895
Repaid financing	(4,362)	(2,305)	(358)	(8,803)	(15,828)
New increase/(decrease) in existing portfolio	(2,765)	(29)	1,760	11,106	10,072
Transfer from Stage 1	(393)	319	29	45	-
Transfer from Stage 2	545	(1,063)	454	64	-
Transfer from Stage 3	88	180	119	(387)	-
Write-off	-	-	(351)	(1,409)	(1,760)
31 December 2022	**12,047**	**5,647**	**6,168**	**26,105**	**49,967**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Analysis of changes in gross exposure and corresponding ECL is as follows:

Corporate clients — **In '000 BAM**

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**444,003**	**53,832**	**1,805**	**30,802**	**530,442**
New financing	279,094	24,041	30	2,209	305,374
Repaid financing	(253,517)	(32,222)	(848)	(3,823)	(290,410)
Transfer from Stage 1	(20,651)	18,297	90	2,264	-
Transfer from Stage 2	2,420	(3,133)	83	630	-
Transfer from Stage 3	-	926	273	(1,199)	-
Write-off	(1)	(8)	(251)	(1,841)	(2,101)
31 December 2023	**451,348**	**61,733**	**1,182**	**29,042**	**543,305**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**7,852**	**4,470**	**1,504**	**24,720**	**38,546**
New financing	5,482	2,216	14	1,865	9,577
Repaid financing	(3,786)	(1,743)	(262)	(1,529)	(7,320)
New increase/(decrease) in existing portfolio	(1,161)	(15)	(232)	1,558	150
Transfer from Stage 1	(351)	310	2	39	-
Transfer from Stage 2	194	(275)	8	73	-
Transfer from Stage 3	-	763	258	(1,021)	-
Write-off	(1)	(8)	(251)	(1,841)	(2,101)
31 December 2023	**8,229**	**5,718**	**1,041**	**23,864**	**38,852**

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**414,075**	**58,678**	**1,451**	**37,691**	**511,895**
New financing	260,374	18,515	-	1,154	280,043
Repaid financing	(220,146)	(30,191)	(1,131)	(9,037)	(260,505)
Transfer from Stage 1	(14,019)	11,692	210	2,177	-
Transfer from Stage 2	3,719	(5,170)	1,188	263	-
Transfer from Stage 3	-	308	128	(436)	-
Write-off	-	-	(41)	(950)	(991)
31 December 2022	**444,003**	**53,832**	**1,805**	**30,802**	**530,442**

ECL	S1 Collective	S2 Collective	S3 Collective	Individual	Total
1 January 2022	**8,752**	**5,707**	**1,139**	**23,054**	**38,652**
New financing	4,985	1,493	-	759	7,237
Repaid financing	(3,736)	(1,806)	(70)	(8,216)	(13,828)
New increase/(decrease) in existing portfolio	(2,255)	(544)	57	10,218	7,476
Transfer from Stage 1	(285)	238	5	42	-
Transfer from Stage 2	374	(745)	349	22	-
Transfer from Stage 3	17	127	65	(209)	-
Write-off	-	-	(41)	(950)	(991)
31 December 2022	**7,852**	**4,470**	**1,504**	**24,720**	**38,546**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Entrepreneurs

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	9,759	292	549	-	10,600
New financing	3,605	86	35	-	3,726
Repaid financing	(3,295)	(212)	(112)	-	(3,619)
Transfer from Stage 1	(81)	56	25	-	-
Transfer from Stage 2	-	(17)	17	-	-
Transfer from Stage 3	-	104	(104)	-	-
Write-off	-	-	(38)	-	(38)
31 December 2023	**9,988**	**309**	**372**	**-**	**10,669**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	178	26	429	-	633
New financing	69	9	27	-	105
Repaid financing	(25)	(8)	(15)	-	(48)
New increase/(decrease) in existing portfolio	(42)	(54)	(30)	-	(126)
Transfer from Stage 1	(2)	2	-	-	-
Transfer from Stage 2	-	(1)	1	-	-
Transfer from Stage 3	-	57	(57)	-	-
Write-off	-	-	(38)	-	(38)
31 December 2023	**178**	**31**	**317**	**-**	**526**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Entrepreneurs

In '000 BAM

	S1	S2	S3		
Gross Carrying Amount	**Collective**	**Collective**	**Collective**	**Individual**	**Total**
1 January 2022	**9,887**	**606**	**342**	**246**	**11,081**
New financing	3,355	186	7	-	3,548
Repaid financing	(3,437)	(345)	(120)	-	(3,902)
Transfer from Stage 1	(46)	39	7	-	-
Transfer from Stage 2	-	(194)	194	-	-
Transfer from Stage 3	-	-	119	(119)	-
Write-off	-	-	-	(127)	(127)
31 December 2022	**9,759**	**292**	**549**	**-**	**10,600**

	S1	S2	S3		
ECL	**Collective**	**Collective**	**Collective**	**Individual**	**Total**
1 January 2022	**141**	**54**	**250**	**247**	**692**
New financing	67	17	5	-	89
Repaid financing	(27)	(24)	(2)	-	(53)
New increase/(decrease) in existing portfolio	(2)	(1)	35	-	32
Transfer from Stage 1	(1)	1	-	-	-
Transfer from Stage 2	-	(21)	21	-	-
Transfer from Stage 3	-	-	120	(120)	-
Write-off	-	-	-	(127)	(127)
31 December 2022	**178**	**26**	**429**	**-**	**633**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Housing financings

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**212,663**	**6,221**	**1,000**	**2,140**	**222,024**
New financing	64,028	204	22	-	64,254
Repaid financing	(49,826)	(1,607)	(265)	(222)	(51,920)
Transfer from Stage 1	(3,189)	2,982	142	65	-
Transfer from Stage 2	2,897	(3,162)	265	-	-
Transfer from Stage 3	34	230	(43)	(221)	-
Write-off	(1)	(2)	(135)	(62)	(200)
31 December 2023	**226,606**	**4,866**	**986**	**1,700**	**234,158**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**2,185**	**645**	**891**	**1,209**	**4,930**
New financing	664	38	17	-	719
Repaid financing	(318)	(94)	(95)	(111)	(618)
New increase/(decrease) in existing portfolio	(410)	188	115	132	25
Transfer from Stage 1	(44)	38	3	3	-
Transfer from Stage 2	315	(371)	56	-	-
Transfer from Stage 3	17	106	(25)	(98)	-
Write-off	(1)	(2)	(135)	(62)	(200)
31 December 2023	**2,408**	**548**	**827**	**1,073**	**4,856**

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**204,535**	**10,517**	**1,072**	**2,087**	**218,211**
New financing	51,152	20	-	580	51,752
Repaid financing	(40,412)	(6,068)	(221)	(822)	(47,523)
Transfer from Stage 1	(3,688)	3,188	233	267	-
Transfer from Stage 2	1,014	(1,499)	121	364	-
Transfer from Stage 3	62	63	(71)	(54)	-
Write-off	-	-	(134)	(282)	(416)
31 December 2022	**212,663**	**6,221**	**1,000**	**2,140**	**222,024**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**2,083**	**950**	**977**	**1,103**	**5,113**
New financing	523	5	-	87	615
Repaid financing	(227)	(440)	(203)	(536)	(1,406)
New increase/(decrease) in existing portfolio	(290)	236	275	803	1,024
Transfer from Stage 1	(46)	40	3	3	-
Transfer from Stage 2	87	(152)	26	39	-
Transfer from Stage 3	55	6	(53)	(8)	-
Write-off	-	-	(134)	(282)	(416)
31 December 2022	**2,185**	**645**	**891**	**1,209**	**4,930**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*
Cards and limits on current accounts

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**6,682**	**218**	**210**	**7**	**7,117**
New financing	1,977	55	4	-	2,036
Repaid financing	(1,320)	(31)	(76)	-	(1,427)
-	-	-	-	-	-
Transfer from Stage 1	(271)	210	61	-	-
Transfer from Stage 2	109	(133)	24	-	-
Transfer from Stage 3	-	4	(2)	(2)	-
Write-off	(3)	(1)	(26)	(3)	(33)
31 December 2023	**7,174**	**322**	**195**	**2**	**7,693**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**71**	**27**	**186**	**7**	**291**
New financing	26	5	4	-	35
Repaid financing	(9)	(3)	(51)	-	(63)
New increase/(decrease) in existing portfolio	(6)	20	53	-	67
Transfer from Stage 1	(4)	3	1	-	-
Transfer from Stage 2	11	(16)	5	-	-
Transfer from Stage 3	-	3	(1)	(2)	-
Write-off	(3)	(1)	(26)	(3)	(33)
31 December 2023	**86**	**38**	**171**	**2**	**297**

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**6,848**	**216**	**204**	**7**	**7,275**
New financing	1,349	15	5	-	1,369
Repaid financing	(1,415)	(28)	(66)	(4)	(1,513)
Transfer from Stage 1	(191)	133	55	3	-
Transfer from Stage 2	88	(124)	35	1	-
Transfer from Stage 3	3	6	(9)	-	-
Write-off	-	-	(14)	-	(14)
31 December 2022	**6,682**	**218**	**210**	**7**	**7,117**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**72**	**23**	**176**	**7**	**278**
New financing	14	2	4	-	20
Repaid financing	(11)	(3)	(55)	(1)	(70)
New increase/(decrease) in existing portfolio	(12)	10	75	4	77
Transfer from Stage 1	(2)	2	-	-	-
Transfer from Stage 2	8	(12)	4	-	-
Transfer from Stage 3	2	5	(4)	(3)	-
Write-off	-	-	(14)	-	(14)
31 December 2022	**71**	**27**	**186**	**7**	**291**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Other retail financing

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**160,681**	**3,246**	**3,657**	**192**	**167,776**
New financing	91,639	2,042	75	51	93,807
Repaid financing	(66,526)	(1,241)	(449)	(7)	(68,223)
Transfer from Stage 1	(5,429)	4,238	1,191	-	-
Transfer from Stage 2	1,167	(1,809)	642	-	-
Transfer from Stage 3	139	230	(312)	(57)	-
Write-off	(6)	(3)	(398)	(6)	(413)
31 December 2023	**181,665**	**6,703**	**4,406**	**173**	**192,947**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2023	**1,761**	**479**	**3,157**	**169**	**5,566**
New financing	1,044	266	58	50	1,418
Repaid financing	(520)	(68)	(84)	(8)	(680)
New increase/(decrease) in existing portfolio	(277)	296	1,234	-	1,253
Transfer from Stage 1	(91)	69	22	-	-
Transfer from Stage 2	115	(291)	176	-	-
Transfer from Stage 3	113	171	(234)	(50)	-
Write-off	(6)	(3)	(398)	(6)	(413)
31 December 2023	**2,139**	**919**	**3,931**	**155**	**7,144**

In '000 BAM

Gross Carrying Amount	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**138,288**	**2,129**	**2,167**	**258**	**142,842**
New financing	76,315	520	63	-	76,898
Repaid financing	(50,527)	(875)	(340)	(10)	(51,752)
Transfer from Stage 1	(4,255)	2,773	1,466	16	-
Transfer from Stage 2	836	(1,353)	492	25	-
Transfer from Stage 3	24	52	(29)	(47)	-
Write-off	-	-	(162)	(50)	(212)
31 December 2022Ne	**160,681**	**3,246**	**3,657**	**192**	**167,776**

ECL	S1 Collective	S2 Collective	S3 Collective	S3 Individual	Total
1 January 2022	**1,485**	**221**	**1,915**	**232**	**3,853**
New financing	812	73	48	-	933
Repaid financing	(361)	(32)	(28)	(50)	(471)
New increase/(decrease) in existing portfolio	(206)	270	1,318	81	1,463
Transfer from Stage 1	(59)	38	21	-	-
Transfer from Stage 2	76	(133)	54	3	-
Transfer from Stage 3	14	42	(9)	(47)	-
Write-off	-	-	(162)	(50)	(212)
31 December 2022	**1,761**	**479**	**3,157**	**169**	**5,566**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management (continued)

4.2 Credit risk *(continued)*

Receivables from clients and banks through days past due - Stage 1

31.12.2023	Not due	Up to 30 days	31-60 days	61-90 days	Total
Entrepreneurs	9,352	636	-	-	**9,988**
Housing financings	213,353	13,253	-	-	**226,606**
Cards and limits on current accounts	6,742	432	-	-	**7,174**
Other retail financing	163,247	18,418	-	-	**181,665**
Total retail	**392,694**	**32,739**	-	-	**425,433**
Corporate clients	**429,310**	**22,038**	-	-	**451,348**
Total	**822,004**	**54,777**	-	-	**876,781**
of which: restructured	**1,454**	**47**	**-**	**-**	**1,501**
Bank receivables	**-**	**-**	**-**	**-**	**-**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Receivables from clients and banks through days past due - Stage 1

In '000 BAM

31.12.2022	Not due	Up to 30 days	31-60 days	61-90 days	Total
Entrepreneurs	9,456	303	-	-	**9,759**
Housing financings	204,595	8,068	-	-	**212,663**
Cards and limits on current accounts	6,326	356	-	-	**6,682**
Other retail financing	148,196	12,480	-	-	**160,676**
Total retail	**368,573**	**21,207**	**-**	**-**	**389,780**
Corporate clients	**423,670**	**20,337**	**-**	-	**444,007**
Total	**792,243**	**41,544**	**-**	**-**	**833,787**
of which: restructured	**42**	**140**	**-**	**-**	**182**
Bank receivables	**9,565**	**-**	**-**	**-**	**9,565**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Receivables from clients and banks through days past due- Stage 2

In '000 BAM

31.12.2023	**Not due**	**Up to 30 days**	**31-60 days**	**61-90 days**	**Over 90 days**	**Total**
Entrepreneurs	281	28	-	-	-	309
Housing financings	3,118	1,446	213	89	-	4,866
Cards and limits on current accounts	182	58	58	24	-	322
Other retail financing	2,937	2,311	1,104	351	-	6,703
Total retail	**6,518**	**3,843**	**1,375**	**464**	**-**	**12,200**
Corporate clients	**36,555**	**25,109**	**69**	**-**	**-**	**61,733**
Total	**43,073**	**28,952**	**1,444**	**464**	**-**	**73,933**
of which: restructured	**1,058**	**22**	**-**	**-**	**-**	**1,080**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Receivables from clients and banks through days past due -Stage 3

In '000 BAM

31.12.2022	Not due	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Entrepreneurs	254	33	5	-	-	292
Housing financings	4,870	935	336	80	-	6,221
Cards and limits on current accounts	129	29	44	16	-	218
Other retail financing	1,473	1,003	406	364	-	3,246
Total retail	**6,726**	**2,000**	**791**	**460**	**-**	**9,977**
Corporate clients	**43,159**	**10,531**	**102**	**40**	**-**	**53,832**
Total	**49,885**	**12,531**	**893**	**500**	**-**	**63,809**
of which: restructured	**16**	**433**	**-**	**-**	**-**	**449**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Receivables from clients and banks through days past due - Stage 3

In '000 BAM

31 December 2023	Not due	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Entrepreneurs	79	20	-	-	273	**372**
Housing financings	624	38	61	-	1,963	**2,686**
Cards and limits on current accounts	18	2	3	1	173	**197**
Other retail financing	92	109	39	35	4,304	**4,579**
Total retail	**813**	**169**	**103**	**36**	**6,713**	**7,834**
Corporate clients	**8,342**	**405**	**524**	**2,601**	**18,352**	**30,224**
Total	**9,155**	**574**	**627**	**2,637**	**25,065**	**38,058**
of which: restructured	**7,428**	**403**	**414**	**30**	**2,601**	**10,876**
Bank Receivables	-	-	-	-	-	**-**

In '000 BAM

31 December 2022	Not due	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Entrepreneurs	185	-	20	-	344	549
Housing financings	797	5	130	5	2,203	3,140
Cards and limits on current accounts	9	-	1	1	206	217
Other retail financing	321	77	105	54	3,292	3,849
Total retail	**1,312**	**82**	**256**	**60**	**6,045**	**7,755**
Corporate clients	**9,901**	**514**	**73**	**1,234**	**20,885**	**32,607**
Total	**11,213**	**596**	**329**	**1,294**	**26,930**	**40,362**
of which: restructured	**10,021**	**668**	**43**	**-**	**6,850**	**17,582**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

The tables below show the quality and maximum exposure to credit risk through the Bank's rating system. All the amounts are presented in gross values.

					31 December 2023	31 December 2022
	S1	S2	S3			
	Collective	Collective	Collective	Individual	Total	Total
Rating A	868,681	66,817	-	-	935,498	888,993
Rating A 1	8,100	5,029	-	-	13,129	7,211
Rating B	-	1,614	-	-	1,614	892
Rating B1	-	473	-	-	473	500
Rating C-Default	-	-	7,141	30,917	38,058	40,362
Total	**876,781**	**73,933**	**7,141**	**30,917**	**988,772**	**937,958**

Corporate

					31 December 2023	31 December 2022
	S1	S2	S3			
	Collective	Collective	Collective	Individual	Total	Total
Rating A	451,232	58,880	-	-	510,112	495,798
Rating A 1	116	2,784	-	-	2,900	1,898
Rating B	-	69	-	-	69	102
Rating B1	-	-	-	-	-	40
Rating C-Default	-	-	1,183	29,041	30,224	32,607
Total	**451,348**	**61,733**	**1,183**	**29,041**	**543,305**	**530,446**

Entrepreneurs

					31 December 2023	31 December 2022
	S1	S2	S3			
	Collective	Collective	Collective	Individual	Total	Total
Rating A	9,946	309	-	-	10,255	9,966
Rating A 1	42	-	-	-	42	80
Rating B	-	-	-	-	-	5
Rating B1	-	-	-	-	-	-
Rating C -Default	-	-	372	-	372	549
Total	**9,988**	**309**	**372**	**-**	**10,669**	10,600

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Housing financings

					31 December 2023	31 December 2022
	S1 Collective	S2 Collective	S3 Collective	Individual	Total	Total
Rating A	224,185	3,534	-	-	227,719	216,707
Rating A 1	2,421	903	-	-	3,324	1,761
Rating B	-	340	-	-	340	336
Rating B1	-	89	-	-	89	80
Rating C-Default	-	-	986	1,700	2,686	3,140
Total	**226,606**	**4,866**	**986**	**1,700**	**234,158**	**222,024**

Cards and limits on current accounts

					31 December 2023	31 December 2022
	S1 Collective	S2 Collective	S3 Collective	Individual	Total	Total
Rating A	7,040	203	-	-	7,243	6,760
Rating A 1	134	33	-	-	167	80
Rating B	-	61	-	-	61	44
Rating B1	-	25	-	-	25	16
Rating C-Default	-	-	195	2	197	217
Total	**7,174**	**322**	**195**	**2**	**7,693**	**7,117**

Other retail financing

					31 December 2023	31 December 2022
	S1 Collective	S2 Collective	S3 Collective	Individual	Total	Total
Rating A	176,276	3,892	-	-	180,168	159,759
Rating A 1	5,389	1,308	-	-	6,697	3,393
Rating B	-	1,144	-	-	1,144	406
Rating B1	-	359	-	-	359	364
Rating C-Default	-	-	4,406	173	4,579	3,849
Total	**181,665**	**6,703**	**4,406**	**173**	**192,947**	**167,771**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Impairment allowance loss and reservation policy

Impaired financings and securities are those financings and securities for which the Bank determines that it is not likely it will be able to collect all principal and accrued profit margins under the provisions of the financing agreement/securities.
Individually impaired assets are those assets that are individually assessed to have been impaired and where loan loss provisions have been recognized.
The Bank assesses impairment of receivables for incurred losses in the financing portfolio.
Classification of receivables is based on an analysis of delays in settlement of obligations and indicators of return.
Receivables from financing of customers net of provisions are presented in the table below:

	Total financings receivables	Impairment allowance	Total net financings receivables
31 December 2023			
Collectively impaired assets	957,855	(26,581)	931,274
Individually impaired assets	30,917	(25,094)	5,823
	988,772	**(51,675)**	**937,097**
31 December 2022	904,817	(23,863)	880,954
Collectively impaired assets	33,141	(26,104)	7,037
Individually impaired assets	**937,958**	**(49,967)**	**887,991**

In the table above, portfolio risk provisions include impairment provisions for collectively assessed performing and collectively assessed non-performing clients.

Collateral

With a view to minimizing credit risk, the Bank has a rulebook for security for financing of customers and other placements and secures its credit exposures by taking one or more of the following instruments:

- Cash deposit,
- mortgages over properties,
- pledges over movable assets,
- pledges over inventories,
- guarantors (banks and corporate),
- assignment of receivables,
- securities,
- insurance policies,
- guarantors (individuals and legal entities, state BH, FBIH and local government).

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Fair value of collaterals is based on the estimated value of the security instrument at the time of borrowing and is updated periodically in accordance with the Procedure on Collateral Management. Only cash and mortgages over properties are used in assessing impairment losses.

Financing and collateral exposure:

31 December 2023	**S1**	**S2**	**S3**	**Maximum exposure to the client financing risk**	**Fair value of collateral**
Corporate	451,348	61,733	30,224	543,305	280,668
Entrepreneurs	9,988	309	372	10,669	6,892
Housing financings	226,606	4,866	2,686	234,158	147,658
Cards and limits on current accounts	7,174	322	197	7,693	-
Other retail financing	181,665	6,703	4,579	192,947	628
Total retail	**425,433**	**12,200**	**7,834**	**445,467**	**155,178**
Total	**876,781**	**73,933**	**38,058**	**988,772**	**436,846**
31 December 2022					
Corporate	444,007	53,832	32,607	530,446	307,013
Entrepreneurs	9,759	292	549	10,600	6,414
Housing financings	212,663	6,221	3,140	222,024	140,861
Cards and limits on current accounts	6,682	218	217	7,117	-
Other retail financing	160,676	3,246	3,849	167,771	924
Total retail	**389,780**	**9,977**	**7,755**	**407,512**	**148,199**
Total	**833,787**	**63,809**	**40,362**	**937,958**	**455,212**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

The Bank monitors concentration of credit risk by industry segments and geographic locations. Concentration risk in the net balance sheet exposures by industry is as follows:

Concentration of risk by industry sectors	2023 '000 BAM	2023 %	2022 '000 BAM	2022 %
Agriculture, forestry and fishing	11,692	1.25%	10,183	1.15%
Mining and quarrying	6,758	0.72%	9,477	1.07%
Manufacturing	126,748	13.53%	143,728	16.19%
Electricity, gas, steam and air conditioning supply	9,046	0.97%	10,756	1.21%
Water supply; sewerage; waste management and remediation activities	2,911	0.31%	4,511	0.51%
Construction	59,174	6.31%	55,593	6.26%
Wholesale and retail trade; repair of motor vehicles and motorcycles	158,686	16.93%	152,842	17.21%
Transporting and storage	30,378	3.24%	17,976	2.02%
Accommodation and food service activities	8,831	0.94%	10,491	1.18%
Information and communication	6,531	0.70%	6,836	0.77%
Financial and insurance activities	10,817	1.15%	2	0.0002%
Real estate activities	11,090	1.18%	20,189	2.27%
Professional, scientific and technical activities	26,749	2.85%	27,333	3.08%
Administrative and support service activities	6,048	0.65%	4,195	0.47%
Public administration and defense; compulsory social security	14,060	1.50%	6,181	0.70%
Education	1,365	0.15%	1,301	0.15%
Human health and social work activities	10,607	1.13%	6,602	0.74%
Arts, entertainment and recreation	217	0.02%	258	0.03%
Other services activities	2,745	0.29%	3,446	0.39%
Total corporate	**504,453**	**53.83%**	**491,900**	**55.39%**
Housing financings	296,871	31.68%	202,242	22.78%
Other	124,072	13.24%	181,402	20.43%
Entrepreneurs	11,701	1.25%	12,447	1.40%
Total retail	**432,644**	**46.17%**	**396,091**	**44.61%**
Total	**937,097**	**100%**	**887,991**	**100%**

The structure of client financing is regularly monitored by the Risk control Division and the Financing and investment committee as well as Risk management Committee in order to identify possible events that could have a major impact on the client financing portfolio (the usual risk factors), and if necessary, reduce the Bank's exposure to certain sectors of the economy.

Financing of customers is approved to clients in Bosnia and Herzegovina.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Reprograms and restructuring

Restructured assets are refinanced, reprogrammed or assets that are converted in any other form, respectively, the assets that were additionally altered due to changes in clients' conditions and repayment capabilities, i.e. repayment inability in accordance to the initially settled plan or due to changes (decrease) in current market rate, previously stated deadlines (deadline or repayment plan), and/or other conditions to enable the Bank to easily facilitate customer service, and accordingly more secure for the Bank. The Decision on Restructuring the Obligation of the Client is made by the Financing and Investment Committee.

Restructured financings during 2023 and 2022 are summarized as follows:

	Number of restructured financing of customers	Value
2023		
Corporate	1	30
Retail and entrepreneurs	3	56
Total	**4**	**86**
2022		
Corporate	14	9,886
Retail and entrepreneurs	4	745
Total	**18**	**10,631**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Reprograms and restructuring (continued)

Changes in the balance of reprogrammed and restructured financings during 2023 and 2022:

	Gross restructured receivables 31 December 2023	New restructured receivables	Reduction in restructured receivables	Gross 31 December 2023	Net 31 December 2023
Entrepreneurs	45	-	(9)	35	10
Housing financings	982	23	(41)	964	774
Cards and limits on current accounts	-	-	-	-	-
Other retail financing	104	33	(11)	126	120
Retail	**1,131**	**56**	**(61)**	**1,126**	**904**
Corporate	**14,501**	**30**	**(2,200)**	**12,331**	**5,620**
Total	**15,632**	**86**	**(2,261)**	**13,457**	**6,524**

	Gross restructured receivables 31 December 2022	New restructured receivables	Reduction in restructured receivables	Gross 31 December 2022	Net 31 December 2022
Entrepreneurs	54	-	(9)	45	11
Housing financings	375	710	(103)	982	744
Cards and limits on current accounts	-	-	-	-	-
Other retail financing	123	35	(54)	104	38
Retail	552	**745**	**(166)**	**1,131**	**793**
Corporate	**6,146**	**9,886**	**(1,531)**	**14,501**	**6,530**
Total	**6,699**	**10,631**	**(1,697)**	**15,632**	**7,323**

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Intensive client monitoring

The Bank introduces intensive monitoring for customers who do not meet the criteria for transfer into non-performing assets, but careful processing and monitoring is required. Such clients are included to the list for intensive monitoring based on various criteria, such as: large financing volumes placed, negative operating trends, increase of debt, calculation of clients' capital adequacy, non-payment or irregular payment of liabilities. The proposal for placing on intensive monitoring list comes from the business units of the Bank, and the final decision is made by the Management. Intensive monitoring means that the client monitored remains in the operating unit of the Bank and its processing involves employees of Collection department.

Intensive client monitoring stops in following cases:

- due to extinguishment of all placements of the Bank (by payment, or write-offs),
- by the decision of the Bank's Committee for finance and investment on transfer of the clients' receivables to the Sector for collection (in case of further deterioration of the client's status),
- by initiating insolvency proceeding over the client,
- in all other cases when the Bank's Management Board brings the decision on termination of the intensive client monitoring.

COVID-19 portfolio management

The COVID-19 pandemic, which started by the beginning of 2021, has had a significant impact on the global world economy, including Bosnia and Herzegovina. In order to mitigate the negative economic consequences, the Banking Agency of the FBIH adopted by the end of March 2020 the Decision on temporary measures applied by the Bank to mitigate the negative economic consequences caused by the viral disease "COVID-19" (Official Gazette of the Federation of BiH, No. 22/ 20). This Decision provides an opportunity to provide clients affected by the negative effects of the pandemic with a sustainable model that will support the orderly settlement of obligations. Due to the prolonged situation in which many companies and individuals faced insufficient liquidity and difficulties in settling their liabilities and continued pandemics, the Banking Agency of the FBIH extended the possibility for approval of special measures in 2020 and 2021. Thus the final extended deadline for receiving clients' requests for approval of special measures was until 31.03.2022. The Bank tried to find the best possible solution in cooperation with clients, and thus support the economy. During 2023 and 2022, most of the measures expired, and clients continued to repay their obligations in accordance with the newly agreed repayment deadlines. Since 2023 the reporting obligation has been discontinued.

When defining the measures, the Bank had an individual approach to each client affected by the pandemic, in both business segments - Retail and Legal Entities. Intensive monitoring of the client's business activities has been established in order to gain a realistic picture of creditworthiness. In cooperation with clients, efforts were made to find the most appropriate repayment model, which will enable clients to successfully overcome the upcoming economic shocks.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

The Bank has adjusted its customer monitoring and risk classification system within the early warning signs, due to objective factors resulting from the pandemic. The Bank regularly monitored these clients through the EWS system credit rating (qualitative / overall), analysis of the latest financial statements, as well as through regular meetings with clients.

Additionally, the Bank adjusted macroeconomics parameters projections due to pandemic impact at the same, what finally affected ECL increase.

In accordance with the Decisions of the FBA, the Bank approved the following measures for the clients:

2023	**Approved measures**		**Active measures**		**Expired measures**	
	No of debtors	Exposure on 31 December	No of debtors	Exposure on 31 December	No of debtors	Exposure on 31 December
Legal entities	112	43,091	24	8,693	88	34,398
Individuals	898	23,488	68	2,967	830	20,520
Total	**1,010**	**66,579**	**92**	**11,660**	**918**	**54,918**

2022	**Approved measures**		**Active measures**		**Expired measures**	
	No of debtors	Exposure on 31 December	No of debtors	Exposure on 31 December	No of debtors	Exposure on 31 December
Legal entities	150	69,936	26	10,788	124	59,147
Individuals	1,024	32,221	85	3,991	939	28,230
Total	**1,174**	**102,157**	**111**	**14,779**	**1,063**	**87,377**

Those exposures, per gross value, can be presented by stage as follows:

Stage	**31 December 2023**	**31 December 2022**
S1	44,507	72,672
S2	14,146	20,090
S3	7,926	9,395
Total	**66,579**	**102,157**

4. Financial risk management *(continued)*

4.3 Market risk

The Bank takes on exposure to market risks, 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 profit margin, 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 profit margin, foreign exchange rates and equity prices.

The Management board sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored by the Risk management committee of the Bank.

4.4 Foreign exchange risk

Exposure to currency risk arises from financing, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal limits for each currency, as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

On 31 December 2023 and 31 December 2022, the Bank had below stated significant foreign currency positions. The Bank has a significant number of contracts containing foreign currency clause. The principal and profit margin value in foreign currency for aforementioned contracts is determined through change in the foreign exchange rates.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.4 Foreign exchange risk *(continued)*

As at 31 December 2023	BAM	EUR	USD	Other currencies	Total
Financial assets					
Cash and balances with banks	280,596	115,122	10,052	12,190	417,960
Obligatory reserve with CBBH	133,175	-	-	-	133,175
Placements with other banks	-	-	-	-	-
Financial assets at fair value through OCI	17	46	2	-	65
Financial assets at fair value through profit or loss	320	-	-	-	320
Financing of customers	937,097	-	-	-	937,097
Other financial assets at amortized costs	4,107	-	-	-	4,107
Sukuk	-	18,874	-	-	18,874
Total financial assets	**1,355,312**	**134,042**	**10,054**	**12,190**	**1,511,598**
Financial liabilities					
Due to customers	995,308	302,012	9,776	12,036	1,319,132
Lease liabilities	2,873	-	-	-	2,873
Other financial liabilities at amortized cost	246	-	-	-	246
Other financial liabilities	23,739	888	67	1	24,695
Total financial liabilities	**1,022,166**	**302,900**	**9,843**	**12,037**	**1,346,946**
Net foreign exchange position	**333,146**	**(168,858)**	**211**	**153**	**164,652**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.4 Foreign exchange risk *(continued)*

As at 31 December 2022	BAM	EUR	USD	Other currencies	Total
Financial assets					
Cash and balances with banks	285,672	102,891	1,683	11,549	401,795
Obligatory reserve with CBBH	131,990	-	-	-	131,990
Placements with other banks	25	-	9,492	-	9,517
Financial assets at fair value through OCI	28	45	2	-	75
Financial assets at fair value through profit or loss	339	-	-	-	339
Financing of customers	887,991	-	-	-	887,991
Prepaid income taxes	48	-	-	-	48
Other financial assets at amortized costs	3,537	224	1	1	3,763
Total financial assets	**1,309,630**	**103,160**	**11,178**	**11,550**	**1,435,518**
Financial liabilities					
Due to customers	966,863	289,330	10,973	11,068	1,278,234
Lease liabilities	2,001	-	-	-	2,001
Other financial liabilities at amortized cost	337	-	-	-	337
Income tax liabilities	644	-	-	-	644
Other financial liabilities	14,172	726	70	14	14,982
Total financial liabilities	**984,017**	**290,056**	**11,043**	**11,082**	**1,296,198**
Net foreign exchange position	**325,613**	**(186,896)**	**135**	**468**	**139,320**

Major difference in net foreign exchange positions in 2023 and 2022 comes from position other financial assets at amortized costs where Bank invested in Islamic bonds – Sukuk, issued by IsDB in the amount of EUR 10 million for a period of one year. Since the position of other currencies do not show any significant impairment, the Bank is not exposed to any other significant currency risk.

4. Financial risk management *(continued)*

4.4 Foreign exchange risk *(continued)*

Sensitivity analysis - foreign currencies

The Bank is mainly exposed to EUR and USD. The BAM is pegged to the Euro (1 EUR = 1.95583 EUR). Changing the rate would require amendment of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina. Significant exposure to foreign exchange risk is present for USD. A sensitivity analysis was performed on a 10% increase or decrease in USD against the local currency.

	Effect USD	
	2023	**2022**
Change in results (+/ -)	8	14

The Bank takes on exposure to effective changes in the prevailing exchange rate differences on the financial position and cash flows. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the Federal Banking Agency for limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

4.5 Profit margin risk management

The Bank's activities are affected by changes in profit margin in that profit margin bearing assets and liabilities mature, or their profit margin are changed, at different times or in different amounts.

The majority of the customer financing portfolio is initially contracted at profit margin rates that are based on 6 months EURIBOR. The Management Board changes these rates in response to changes in the prevailing market rates.

Profit margin rate of assets and liabilities

The table below gives a brief overview of the Bank's exposure to the risk of a profit margin at the end of the year. The Bank's assets and liabilities are shown in the table at their carrying amount and categorized by maturity or profit margin.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.5 Profit margin risk management (continued)

As at 31 December 2023	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Financial assets								
Cash and balance with banks	73,964	343,996	-	-	-	-	417,960	343,996
Obligatory reserve with CBBH	-	133,175	-	-	-	-	133,175	-
Financial assets at fair value through OCI	65	-	-	-	-	-	65	-
Financial assets at fair value through profit/ loss	320	-	-	-	-	-	320	-
Financing of customers	7,141	18,995	91,145	350,911	301,957	166,948	937,097	-
Sukuk	-	-	-	18,874	-	-	18,874	-
Other financial assets at amortized costs	4,107	-	-	-	-	-	4,107	-
Total financial assets	**85,597**	**496,166**	**91,145**	**369,785**	**301,957**	**166,948**	**1,511,598**	**343,996**
Financial liabilities								
Due to customers	679,898	22,326	28,586	328,514	258,768	1,040	1,319,132	1,261,413
Lease liabilities	2,873	-	-	-	-	-	2,873	-
Other financial liabilities at amortized cost	246	-	-	-	-	-	246	-
Other financial liabilities	24,695	-	-	-	-	-	24,695	-
Total financial liabilities	**707,712**	**22,326**	**28,586**	**328,514**	**258,768**	**1,040**	**1,346,946**	**1,261,413**
Unadjusted gap	**(622,115)**	**473,840**	**62,559**	**41,271**	**43,189**	**165,908**	**164,652**	**(917,417)**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.5 Profit margin risk management *(continued)*

As at 31 December 2022	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Financial assets								
Cash and balance with banks	135,494	266,301	-	-	-	-	401,795	-
Obligatory reserve with CBBH	-	131,990	-	-	-	-	131,990	
Placements with other banks	-	9,517	-	-	-	-	9,517	9,517
Financial assets at fair value through OCI	75	-	-	-	-	-	75	-
Financial assets at fair value through profit/ loss	339	-	-	-	-	-	339	-
Financing of customers	6,958	41,141	51,807	232,486	358,428	197,172	887,991	-
Prepaid income taxes	48	-	-	-	-	-	48	-
Other financial assets at amortized costs	3,763	-	-	-	-	-	3,763	-
Total financial assets	**146,677**	**448,949**	**51,807**	**232,486**	**358,428**	**197,172**	**1,435,518**	**9,517**
Financial liabilities								
Due to banks	-	-	-	-	-	-	-	-
Due to customers	564,148	253,017	45,558	193,800	219,333	2,378	1,278,234	1,278,234
Borrowings	-	-	-	-	-	-	-	-
Lease liabilities	2,001	-	-	-	-	-	2,001	-
Other financial liabilities at amortized cost	337	-	-	-	-	-	337	-
Income tax liabilities	644	-	-	-	-	-	644	-
Other financial liabilities	14,982	-	-	-	-	-	14,982	-
Total financial liabilities	**582,112**	**253,017**	**45,558**	**193,800**	**219,333**	**2,378**	**1,296,198**	**1,278,234**
Unadjusted gap	**(435,435)**	**195,932**	**6,249**	**38,686**	**139,095**	**194,794**	**139,320**	**(1,268,717)**

4. Financial risk management *(continued)*

4.5 Profit margin risk management *(continued)*

Sensitivity analysis - profit margin

Depending on the net debt at some period of time, any change of profit margins has proportional impact on the performance of the Bank. The Bank's exposure rates of profit margins on fixed assets and financial liabilities are detailed in the section on liquidity risk management.

If the profit margins on financings and deposits were 1% higher / lower, with all other parameters held constant, the profit / loss would have been higher / lower by the amount of BAM 320 thousand (2022: BAM 305 thousand) due to higher / lower cost of profit margin.

4.6 Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank consolidates its operations in respect of liquidity risk in accordance with applicable regulation and internal policies aimed at maintenance of liquidity reserves, harmonization of assets and liabilities with targeted liquidity indicators and liquidity limits.

The Bank has access to various funding sources. Assets are collected through different types of instruments including various types of deposits from retail and corporate clients, specific credit lines/financings and share capital. This increases the flexibility of funding sources, decreases dependence on one source and generally ensures better management of financing cost.

The Bank strives to maintain a balance between 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 meeting business goals and targets. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Tables below analyses the assets and liabilities of the Bank at 31 December 2023 and 2022 into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity except for equity securities at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristics as maturing within one month, as well as obligatory reserve.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.6 Liquidity risk *(continued)*

As at 31 December 2023	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with banks	417,960	-	-	-	-	417,960
Obligatory reserve with CBBH	133,175	-	-	-	-	133,175
Financial assets at fair value through other comprehensive income	65	-	-	-	-	65
Financial assets at fair value through profit/ loss	320	-	-	-	-	320
Financing of customers	26,136	91,145	350,911	301,957	166,948	937,097
Sukuk	-	-	18,874	-	-	18,874
Other financial assets	4,107	-	-	-	-	4,107
Total financial assets	**581,763**	**91,145**	**369,785**	**301,957**	**166,948**	**1,511,598**
Financial liabilities						
Due to customers	702,224	28,586	328,514	258,768	1,040	1,319,132
Lease liabilities	2,873	-	-	-	-	2,873
Other financial liabilities at amortized cost	246	-	-	-	-	246
Other financial liabilities	24,695	-	-	-	-	24,695
Total financial liabilities	**730,038**	**28,586**	**328,514**	**258,768**	**1,040**	**1,346,946**
Commitments and contingencies	**134,496**	**-**	**-**	**-**	**-**	**134,496**
Maturity gap	**(282,771)**	**62,559**	**41,271**	**43,189**	**165,908**	**30,156**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.6 Liquidity risk *(continued)*

As at 31 December 2022	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with banks	401,795	-	-	-	-	401,795
Obligatory reserve with CBBH	131,990	-	-	-	-	131,990
Placements with other banks	9,517	-	-	-	-	9,517
Financial assets at fair value through other comprehensive income	75	-	-	-	-	75
Financial assets at fair value through profit/ loss	339	-	-	-	-	339
Financing of customers	43,050	52,027	233,521	361,270	198,123	887,991
Prepaid income taxes	48	-	-	-	-	48
Other financial assets	3,763	-	-	-	-	3,763
Total financial assets	**590,577**	**52,027**	**233,521**	**361,270**	**198,123**	**1,435,518**
Financial liabilities						
Due to customers	800,469	47,492	197,740	225,655	6,879	1,278,234
Lease liabilities	2,001	-	-	-	-	2,001
Other financial liabilities at amortized cost	337	-	-	-	-	337
Income tax liabilities	644	-	-	-	-	644
Other financial liabilities	14,982	-	-	-	-	14,982
Total financial liabilities	**818,433**	**47,492**	**197,740**	**225,655**	**6,879**	**1,296,198**
Commitments and contingencies	127,644	-	-	-	-	127,644
Maturity gap	**(355,500)**	**4,535**	**35,781**	**135,615**	**191,244**	**11,676**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.7 Presentation of financial statements by category

For the purposes of measurement, the Bank classifies financial assets into the following categories: (a) financing of customers and receivables, (b) financial assets at fair value through profit or loss, (c) financial assets at fair value through other comprehensive income. Financial liabilities are classified as other financial liabilities.

The following tables provide a reconciliation of financial assets with measurement categories.

31 December 2023	At amortized cost	At fair value through profit and loss	At fair value through other comprehensive income	Total
Assets				
Cash and cash equivalents	417,960	-	-	417,960
Obligatory reserve at CBBIH	133,175	-	-	133,175
Financial assets at fair value through other comprehensive income	-	-	65	65
Financial assets at fair value through profit or loss	-	320	-	320
Financing of customers	937,097	-	-	937,097
Sukuk	18,874	-	-	18,874
Other financial assets at amortized costs	4,107	-	-	4,107
	1,511,213	**320**	**65**	**1,511,598**

31 December 2022	At amortized cost	At fair value through profit and loss	At fair value through other comprehensive income	Total
Assets				
Cash and cash equivalents	401,795	-	-	401,795
Obligatory reserve at CBBIH	131,990	-	-	131,990
Placements with banks	9,517	-	-	9,517
Financial assets at fair value through other comprehensive income	-	-	75	75
Financial assets at fair value through profit or loss	-	339	-	339
Financing of customers	887,991	-	-	887,991
Prepaid income taxes	48	-	-	48
Other financial assets at amortized costs	3,763	-	-	3,763
	1,435,104	**339**	**75**	**1,435,518**

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.8 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), where quoted prices from actual trades are frequently available (i.e., over 90% of trading days in a year).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2023.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets:				
- Financial assets at fair value through other comprehensive income	-	65	-	65
- Financial assets at fair value through profit or loss	-	320	-	320
Total assets	**-**	**385**	**-**	**385**

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2022.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets:				
- Financial assets at fair value through other comprehensive income	-	75	-	75
- Financial assets at fair value through profit or loss	-	339	-	339
Total assets	**-**	**414**	**-**	**414**

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

4. Financial risk management *(continued)*

4.8 Fair value estimation (continued)

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities. Where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

4.9 Capital management

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulator of the banking market in the local environment;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of business.

The Bank's Management Board and the Assets and Liabilities Management Committee regularly monitor the adequacy and condition of the capital and report to the Supervisory Board.

The Bank, in accordance with the Decision on Calculating the Bank's Capital (Official Gazette, No: 81/17 i 37/20) (hereinafter: the Decision) must at all times meet the following minimum capital requirements:

1. Ordinary share capital ratio of 6.75% (CET1 rate), as ratio of regular share capital and total amount of exposure to risk,
2. Share capital ratio of 9% (T1 rate), as a ratio of share capital and total amount of exposure to risk and
3. Regulatory capital ratio of 12%, as a ratio of regulatory capital and total amount of risk exposure.

According to this Decision, the regulatory capital of the Bank represents the sum of basic and supplementary capital, following regulatory adjustments, as follows:

1. Tier 1 is the sum of items of ordinary share capital (CET1) following regulatory adjustments and items of additional share capital (AT1) after regulatory adjustments.
2. Bank's Tier 2 capital comprises items of additional capital of the Bank after deduction for regulatory compliance, and application of temporary exemption from deduction of regulatory capital. Tier 2 capital cannot be more than one-third of the share capital.

The Bank calculates the total amount of risk exposure as the sum of the following items:
- credit risk weighted exposure amounts,
- capital requirements related to market risks (currency risk, settlement risk, commodity risk) and
- capital requirements for operational risk.

(All amounts are expressed in BAM '000, unless otherwise stated)

4. Financial risk management *(continued)*

4.9 Capital management (continued)

The table below summarizes the structure of regulatory capital and the capital adequacy ratio of the Bank

	31 December 2023	**31 December 2022**
Regulatory capital (*unaudited*)*	**160.204**	**145,262**
Risk weighted exposure to credit risk	872,941	813,677
Exposure to currency risk	-	-
Exposure to operational risk	56,777	53,642
Total risk exposure	**929,718**	**867,319**
Ordinary share capital ratio	**17.23%**	**16.8%**
Share capital ratio	**17.23%**	**16.8%**
Regulatory capital ratio	**17.23%**	**16.8%**
Ordinary share capital ratio including adjustments from Tier 2	8.25%	8.25%
Share capital ratio including adjustments from Tier 2	10.50%	10.50%
Regulatory capital ratio including adjustments from Tier 2	13.50%	13.50%

**Regulatory capital audit will be performed during regulatory audit procedures*

The minimum capital adequacy ratio according to the decision is 12%. The Bank's Management believes that in the course of 2023 and 2022, the Bank was fully aligned with the requirements for capital management in accordance with the requirements of internal regulations and regulations prescribed by the Agency.

5. Key accounting estimates and judgements

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

Impairment losses of financing customers

The Bank regularly reviews its financing portfolio to assess impairment. In determining whether an impairment loss should be recorded in statement of comprehensive income for the year. the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financings before the decrease can be identified with an individual financing in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Provisions for severance payments

Provisions for severance payments are determined by the method of projected unit. This method assumes that each service period leads to the creation of an additional unit of the right to remuneration and each unit is separately measured to calculate the final liability. The liability is expressed in the present value of future cash flows using a discount rate that corresponds to the interest rate of government bonds.

Repossessed assets

Repossessed assets represent financial and non-financial assets that the Bank acquires in the process of settling the clients' financing in delay. These assets are initially recognized at fair value through acquisition and are included in items of property and equipment, other assets or inventories within other assets, depending on their nature and intentions of the Bank in respect of the recovery of these assets, and subsequently remeasured are presented in accordance with the accounting policies for these categories of assets.

(All amounts are expressed in BAM '000, unless otherwise stated)

5. Key accounting estimates and judgements (continued)

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest which can be significant. In accordance with the Law on Tax Authority of the Federation of Bosnia and Herzegovina, the limitation period for tax liabilities is five years. This means that the Tax Authorities have right to determine the payment of outstanding obligations in period of five years from the origination of the liability.

6. Net income from profit margin and similar income using the effective profit margin at amortized cost

	2023	2022
Income from corporate sector financing (Musharaka)	21,441	19,797
Income from retail sector financing (Musharaka, Ijara)	23,799	19,558
Income from operations with other banks (Murabaha, Wakala)	4,874	1,533
Income from financing and investments	*50,114*	*40,888*
Expenses from amounts due to corporate customers (Musharaka)	(2,893)	(2,034)
Expenses from amounts due to retail customers (Musharaka)	(3,477)	(2,796)
Expenses from amounts due to banks (Murabaha, Wakala)	(58)	(2,286)
Expenses from amounts due to customers and banks	*(6,428)*	*(7,116)*
Total	**43,686**	**33,772**

(All amounts are expressed in BAM '000, unless otherwise stated)

7. Net fee and commission income

	2023	2022
Fees from payment transactions	7,444	7,250
Fees from foreign exchange transactions	2,486	2,206
Guarantees and letters of credit issued	1,695	1,125
Commission income - foreign exchange customer desk transactions	122	227
Other banking services	9,295	7,830
Fee and commission income	21,042	18,638
Fee expense from credit card and other bank activities	(2,912)	(2,406)
Fees to the FBA and foreign correspondent banks	(387)	(392)
Fees from payment transactions	(746)	(721)
Commission expenses related to foreign currency trading	(9)	(50)
Conversion costs	(828)	(935)
Fee and commission expense	*(4,882)*	*(4,504)*
Total	**16,160**	**14,134**

8. Impairment and provisioning

	2023	2022
Net credit losses from financial assets at amortized cost (Note 15, 18.1-18.5)	5,152	3,509
Provisions for the credit risk assumed liabilities and guarantees given (Note 25)	(113)	44
Other provisions (Note 25)	664	1,387
Provisions for litigation (Note 25)	228	-
Total	**5,931**	**4,940**

9. Other gains/(losses) from other financial assets

	2023	2022
Foreign exchange gains, net	2,426	1,355
Gains/(Losses) on assets at fair value through profit or loss, net	(12)	50
Dividend income	11	14
Total	**2,425**	**1,419**

(All amounts are expressed in BAM '000, unless otherwise stated)

10. Gains/ (losses) from long-term non-financial assets

	2023	2022
Net gains/(losses) from sale of property, plant and equipment	406	(24)
Net gains/(losses) from derecognition of right-of-use assets	6	6
Net gains/(losses) from non-current assets held for sale	205	10
Property impairments (Note 21)	(1,687)	-
Total	**(1,070)**	**(8)**

11. Personnel expenses

	2023	2022
Salaries	8,179	8,030
Taxes and contributions related to salaries	5,318	5,196
Total	**13,497**	**13,226**

The average number of employees in 2023 was 407 (2022: 427). Personnel expenses include BAM 2,964 thousand (2022: BAM 2,859 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

(All amounts are expressed in BAM '000, unless otherwise stated)

12. Other operating expenses

	2023	2022
Deposit insurance	2,653	2,383
Other employee expenses	2,309	2,394
Office materials and costs of maintenance	1,917	1,571
Security expenses	1,147	1,158
Regulator costs	955	927
Professional services	810	756
Taxes	702	417
Telecommunications expenses	682	648
Marketing and advertising	456	432
Conference organization costs	392	271
Compensation paid to members of Supervisory board	363	450
Energy, post and communication expenses	257	271
Utilities	219	199
Fixed-term contracts-mediation	193	226
Fuel expenses	160	147
Rent	133	106
SWIFT expenses	110	183
Cost of plastics for VISA cards	78	69
Penalties	72	-
Membership fees	48	41
Training expenses	27	60
Accrued taxes and contributions	8	53
Leasing expenses	-	57
Other expenses	581	533
Total	**14,272**	**13,362**

External audit fees for 2023 amount to BAM 81 thousand (2022: BAM 81 thousand).

13. Other operating income

	2023	2022
Fair organization income	700	633
Income from collaterals gained through foreclosure	496	258
Collected written-off receivables from customer financing – principal	109	175
Collected amounts from legal proceedings	31	50
Other income	128	79
Total	**1,464**	**1,195**

(All amounts are expressed in BAM '000, unless otherwise stated)

14. Income tax

Income tax recognized in the statement of comprehensive income includes current tax only.

	2023	2022
Current tax	2,758	1,536
Deferred tax liability increase	65	65
Deferred tax asset increase/decrease	(156)	212
Total income tax expense	**2,667**	**1,813**

Reconciliation of the accounting profit and income tax expense

	2023	2022
Profit before tax	26,016	16,491
Income tax at the rate of 10%	*2,602*	*1,649*
Adjustments:		
- non-taxable income	(1)	(1)
- non-deductible expenses	284	60
- capital gains/ (losses) recognized in 2023	197	(170)
- tax incentives	(324)	-
- effects of lower accounting depreciation rate and higher depreciation rate for tax purposes	65	65
Income tax at the rate of 10%	**2,823**	**1,602**
Effective income tax rate (%)	**10.85**	**9.71%**

Changes in deferred tax liabilities are as follows:

	2023	2022
Balance as at 1 January	259	194
Net changes in deferred tax liabilities	65	65
Deferred tax liability as at 31 December (Note 14)	**324**	**259**

Deferred tax assets are related to temporary tax differences on Stage 1 and 2 ECL (financings, other assets, repossessed assets and off-balance).

Changes in deferred tax assets are as follows:

	2023	2022
Balance as at 1 January	2,486	2,698
Net changes in deferred tax assets	156	(212)
Deferred tax assets as at 31 December	**2,642**	**2,486**

(All amounts are expressed in BAM '000, unless otherwise stated)

15. Cash and cash equivalents

	31 December 2023	31 December 2022
Current accounts with the Central Bank of Bosnia and Herzegovina	254,531	266,567
Current accounts with other banks	130,454	106,466
Cash on hand	33,786	29,474
Provisions for impairment	(811)	(712)
Total	**417,960**	**401,795**

Credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Counterparties with external credit rating (Moody's)	31 December 2023	31 December 2022
A	28,030	30,553
A1	356	232
A2	-	-
A3	25,042	22,551
BA1	-	-
BA2	-	-
BAA1	-	-
BAA2	-	-
B3	-	-
CAA1	-	-
CAA3	-	-
BB (Standard Poor's)	-	-
B (Standard Poor's)	9,062	-
BBB (Fitch)	-	-
BB (Fitch)	-	-
B (Fitch)	60,462	9,628
Not rated	7,502	43,502
	130,454	**106,466**

The Central Bank of Bosnia and Herzegovina does not have its own credit rating; hence country rating is used (B3 with stable outlook according to Moody's, the evaluation was conducted in July 2022, B+ with stable outlook according to Standard & Poor's, based on evaluation from August 2023).

(All amounts are expressed in BAM '000, unless otherwise stated)

15. Cash and cash equivalents (continued)

Provision movement of cash impairment allowance:

	31 December 2023	31 December 2022
Balance at 1 January	712	553
Provision increase, net (Note 8)	99	159
Balance at 31 December	**811**	**712**

16. Financial assets at fair value through other comprehensive income

	31 December 2023	31 December 2022
Equity holdings through affiliated entities	-	10
Other equity holdings	65	65
Total	**65**	**75**

Investments that are not quoted on the Stock Exchange:

Company	Activities	Ownership %	Amount	Country
International Islamic rating agency	Rating agency for Islamic institutions	0.05	2	Kingdom of Bahrain
Registry of Securities of Federation of Bosnia and Herzegovina	Registration, safekeeping and maintenance of data of securities	0.687	18	Bosnia and Herzegovina
S.W.I.F.T. SCRL, Avenue Adele 1, B-1310 La Hulpe	Services of secure messaging to financial institutions	0.0005	45	Belgium

Investment in BBI Real Estate d.o.o. Sarajevo was sold during 2023 at nominal value.

(All amounts are expressed in BAM '000, unless otherwise stated)

17. Financial assets at fair value through profit and loss

	31 December 2023	31 December 2022
Listed equity securities		
Securities – domestic companies	320	339
Total	**320**	**339**

The Bank adjusted the fair value of the remaining portfolio, which resulted in an decrease in its value in the amount of BAM 19 thousand (2022: increase in the amount of BAM 50.2 thousand).

Dividends received on the basis of listed shares amounted to BAM 11 thousand (2022: BAM 13.7 thousand).

The credit quality of financial assets that are neither overdue nor impaired can be assessed on the basis of an external credit rating (if available) or on the basis of historical information on the default of the other party. As the issuers' credit ratings were not available, government ratings were used, and as of 31 December 2023, Moody's asset exposure is in category B3+ with a stable outlook of BAM 320 thousand (2022 – Bosnia and Herzegovina B3 with a stable outlook of BAM 339 thousand).

18. Financial assets at amortized cost

18.1 Financing of customers

	31 December 2023	31 December 2022
Corporate		
- short-term	190,198	187,652
- long—term	353,107	342,794
	543,305	**530,446**
Retail		
- short-term	9,143	8,067
- long-term	436,324	399,445
	445,467	**407,512**
Total gross financing of customers	***988,772***	***937,958***
Impairment allowance	(51,675)	(49,967)
Net financing of customers	**937,097**	**887,991**

Financing of customers is related to customers in Bosnia and Herzegovina.

The movements in impairment allowances of financing of customers are summarized as follows:

	31 December 2023	31 December 2022
Balance as at 1 January	49,967	48,588
Net increase in ECL (Note 8)	5,040	3,636
Write-offs	(2,785)	(1,760)
Permanent write-offs	(547)	(497)
Balance as at 31 December	**51,675**	**49,967**

Profit rates for financing of customers, given as at 31 December 2023 and 2022 are summarized as follows:

	31 December 2023		**31 December 2022**	
	'000 BAM	**Annual profit rate**	**'000 BAM**	**Annual profit rate**
Companies	543,305	0,99%-14,13%	530,446	0.99%-11.00%
Individuals	445,467	1,95%-14,99%	407,512	1.81%-13.09%
Total	**988,772**		**937,958**	

(All amounts are expressed in BAM '000, unless otherwise stated)

18. Financial assets at amortized cost (continued)

18.2 Obligatory reserve with the Central Bank

The obligatory reserve represents amounts required to be deposited with the Central Bank of Bosnia and Herzegovina („CBBH "). Obligatory reserve is calculated on the basis of deposits and borrowings taken regardless of the currency the funds are denominated in. The obligatory reserve requirement represents 10% of deposits and borrowings.

	31 December 2023	31 December 2022
Obligatory reserve – gross	133,308	132,122
ECL	(133)	(132)
Total	**133,175**	**131,990**

The movements in the provision for this position are as follows:

	31 December 2023	31 December 2022
Balance at 1 January	132	129
ECL increase/(decrease), net (Note 8)	1	3
Balance at 31 December	**133**	**132**

18.3 Deposits with banks

	31 December 2023	31 December 2022
Placements with banks – gross	-	9,565
ECL	-	(48)
Total	**-**	**9,517**

The movements in the provision for impairment of placement with banks are summarized as follows:

	31 December 2023	31 December 2022
Balance as at 1 January	48	364
ECL increase/(decrease), net (Note 8)	(48)	(316)
Balance as at 31 December	**-**	**48**

(All amounts are expressed in BAM '000, unless otherwise stated)

18. Financial assets at amortized cost (continued)

18.3 Deposits with banks (continued)

Counterparties with and without external credit rating	31 December 2023	31 December 2022
BBB (Fitch Ratings)	-	-
BB (Fitch Ratings)	-	-
B (Fitch Ratings)	-	4,015
BB (Standard Poor's)	-	-
B (Standard Poor's)	-	5,478
Not rated	-	24
	-	**9,517**

18.4. Other financial assets at amortized cost

	31 December 2023	31 December 2022
Subsidies receivables	2,117	1,952
Receivables from other banks in relation to card operations	607	699
Receivables from Western Union	720	596
Fee receivables	440	400
Receivables from the State	124	30
Other financial assets	581	527
Provision for impairment	(482)	(441)
Total	**4,107**	**3,763**

Movement in provision for impairment of other assets is as follows:

	31 December 2023	31 December 2022
Balance as at 1 January	441	414
ECL increase/(decrease), net (Note 8)	41	28
Balance at 31 December	**482**	**441**

(All amounts are expressed in BAM '000, unless otherwise stated)

18. Financial assets at amortized cost (continued)

18.5. Sukuk - Bonds

On 04 December 2023 the Bank purchased sukuk – Islamic bonds issued by Islamic Development Bank (IsDB) in the amount of EUR 10 million nominal value, with maturity date 04 December 2024. These Islamic bonds are issued at profit rate of 0,037%.

	31 December 2023	31 December 2022
Sukuk - bonds	19,558	-
Discount for bonds	(665)	-
Provision for impairment	(19)	-
Total	**18,874**	**-**

Movement in provision for impairment of sukuk-bonds is as follows:

	31 December 2023	31 December 2022
Balance as at 1 January	-	-
ECL increase/(decrease), net (Note 8)	19	-
Balance at 31 December	**19**	**-**

(All amounts are expressed in BAM '000, unless otherwise stated)

19. Non-current assets held for sale and discontinued operations

Repossessed assets relate to repossessed collaterals. During 2023 the Bank repossessed collaterals in the amount of BAM 580 thousand and has sold collaterals in the amount of BAM 1,717 thousand (2022: repossessed BAM 2,269 thousand and sold BAM 2,741 thousand).

Gross value	**2023**	**2022**
1 January	4,713	5,185
Additions	580	2,269
Sales	(1,717)	(2,741)
31 December	3,576	4,713
Value adjustment		
1 January	4,571	4,988
Additions	442	2,231
Release due to sale	(1,568)	(2,649)
Additional adjustment in accordance with the Bank decision	11	-
31 December	3,456	4,570
Total Net book value	**120**	**142**

Estimated fair value of repossessed assets, determined by the internal certified court appraisers amounts to BAM 5,842 thousand end 2023 (2022 – BAM 8,814 thousand).

(All amounts are expressed in BAM '000, unless otherwise stated)

19. Non-current assets held for sale and discontinued operations (continued)

Table below shows a break-down of repossessed assets by the years from the date of acquisition:

	31 December 2023	31 December 2022
Up to 1 year	60	125
1-2 years	60	13
2-3 years	-	4
Over 3 years	-	-
Total	**120**	**142**

20. Other assets and receivables

	31 December 2023	31 December 2022
Prepaid costs	701	343
Consumables and car tires in use	289	236
Provision for impairment for consumables and car tires	(289)	(236)
Provision for impairment for other non-financial assets	(50)	(3)
Total	**651**	**340**

(All amounts are expressed in BAM '000, unless otherwise stated)

21. Property, plant and equipment

	Land and buildings	Computers	Furniture and equipment	Assets under-construction	Leasehold improvements	Total
Cost						
1 January 2022	**17,537**	**4,204**	**8,711**	**1**	**2,056**	**32,509**
Additions	-	-	-	9,475	-	9,475
Transfers	-	596	254	(850)	-	-
Transfer to software	-	-	-	(232)	-	(232)
Transfer to rights-of-use assets	-	-	-	(612)	-	(612)
Sale and write-offs	-	(215)	(732)	-	(162)	(1,109)
31 December 2022	**17,537**	**4,585**	**8,233**	**7,783**	**1,894**	**40,031**
Additions	-	-	-	2,867	-	2,867
Transfers	7,070*	326	2,110	(9,551)	5	-
Transfers to software (note 23)	-	-	-	(259)	-	(259)
Sale and write-offs	(682)	(8)	(785)	-	-	(1,475)
31 December 2023	**23,925**	**4,903**	**9,558**	**879**	**1,899**	**41,164**
Accumulated depreciation						
1 January 2022	**2,073**	**3,083**	**6,943**	**-**	**1,702**	**13,801**
Depreciation charge	223	453	485	-	140	1,301
Sale and write-offs	-	(215)	(716)	-	(105)	(1,036)
31 December 2022	**2,296**	**3,321**	**6,712**	**-**	**1,737**	**14,066**
Depreciation charge	222	475	566	-	102	1,365
Impairment (Note 10)	1,687	-	-	-	-	1,687
Sale and write-offs	(63)	(8)	(769)	-	-	(840)
31 December 2023	**4,142**	**3,788**	**6,509**	**-**	**1,839**	**16,278**
Net book value						
31 December 2023	**19,783**	**1,115**	**3,049**	**879**	**60**	**24,886**
31 December 2022	**15,241**	**1,264**	**1,520**	**7,783**	**157**	**25,965**

Total value of the property and equipment in use that are 100% depreciated amounts to BAM 11,663 thousand (31 December 2022: BAM 8,351 thousand).

* Šipad building put in use during 2023.

During 2023, the Bank recognized impairment loss in respect of buildings based on independent appraisal of fair value of the Bank's buildings in use. The valuation conforms to European Valuation Standards (EVS 2020) where primary method (comparative) and check method (income approach) are used. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties in those locations or income approach. The impairment loss was recognized through current year income statement (Note 10).

(All amounts are expressed in BAM '000, unless otherwise stated)

22. Right-of-use assets

	Rights-of-use assets	Total
Initial cost		
1 January 2022	**4,686**	**4,686**
Additions	-	-
Transfer from Note 21	612	612
Sale and write-offs	(1,713)	(1,713)
31 December 2022	**3,585**	**3,585**
Additions	2,778	2,778
Sale and write-offs	(42)	(42)
Other changes	(941)	(941)
31 December 2023	**5,380**	**5,380**
Accumulated depreciation		
1 January 2022	**2,429**	**2,429**
Depreciation charge	910	910
Sale and write-offs	(1,713)	(1,713)
Other changes	(25)	(25)
31 December 2022	**1,601**	**1,601**
Depreciation charge	1,274	1,274
Sale and write-offs	(28)	(28)
Other changes	(827)	(827)
31 December 2023	**2,020**	**2,020**
Net book value		
31 December 2023	**3,360**	**3,360**
31 December 2022	**1,984**	**1,984**

Other changes relate to renegotiated contracts for right of use assets.

For short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as printers), the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

At 31 December 2023 operating expense for short -term lease was BAM 133 thousand (2022 - BAM 106 thousand).

(All amounts are expressed in BAM '000, unless otherwise stated)

23. Intangible assets

	Software and licenses	Assets in progress	Total
Cost			
1 January 2022	**4,578**	**-**	**4,578**
Purchases	-	-	-
Transfers	232	-	232
Write-off and sale	(15)	-	(15)
31 December 2022	**4,796**	**-**	**4,796**
Purchases	-	-	-
Transfers from PPE (Note 21)	259	-	259
Write-off and sale	(1)	-	(1)
31 December 2023	**5,054**	**.**	**5,054**
Accumulated amortization			
1 January 2022	**3,780**	-	**3,780**
Amortization charge	282	-	282
Write-off and sale	(3)	-	(3)
31 December 2022	**4,059**		**4,059**
Amortization charge	310	-	310
Write-off and sale	(1)	-	(1)
31 December 2023	**4,368**	**-**	**4,368**
Net book value			
31 December 2023	**686**	**-**	**686**
31 December 2022	**737**	**-**	**737**

The value of intangible assets in use that is 100% amortized amounts to BAM 3,462 thousand (31 December 2022: BAM 3,257 thousand).

24. Financial liabilities at amortized cost

24.1. Deposits due to customers

	31 December 2023	31 December 2022
Companies:		
Current/settlement accounts	525,579	521,782
Term deposits	218,857	253,783
Total companies	**744,436**	**775,565**
Individuals		
Current/settlement accounts	292,281	259,480
Term deposits	282,415	243,189
Total individuals	**574,696**	**502,669**
Banks		**-**
Total	**1,319,132**	**1,278,234**

(All amounts are expressed in BAM '000, unless otherwise stated)

24. Financial liabilities at amortized cost (continued)

24.1. Deposits due to customers (continued)

The average profit margin charged on term deposits in 2023 and 2022 was 1,26% and 0.99% respectively. Accrued, not paid profit margin as of 31 December 2023 amounted to BAM 3,328 thousand (2022: BAM 2,309 thousand).

Islamic Development Bank. Jeddah. Saudi Arabia deposited an amount of EUR 10 million. The deposit carries an annual profit margin of 6-month EURIBOR plus 2.00 bps (not less than 2%). Maturity date of the deposit is 23 June 2023. The Bank repaid this deposit on 23 December 2022.

24.2. Net debt reconciliation – due to other banks

Analysis of the Bank's debt and the movement of liabilities for received financing during 2022 are presented in the table below. Financing components are presented within financial activities in the cash flow statement.

	Liabilities from financial activities	
	Received financings	Total
Net debt as at 1 January 2022	**98,741**	**98,741**
Net payments	(98,741)	(98,741)
Net debt as at 31 December 2022	**-**	**-**

24.3. Other liabilities at amortized cost

	31 December 2023	31 December 2022
Commission financings (managed funds)	234	325
Liabilities towards liquidated ICB bank	12	12
Liabilities for Quard Hasan Fund - Unused funds	-	-
Total	**246**	**337**

24.4. Lease liabilities

	31 December 2023	31 December 2022
Current	205	8
Non – current	2,668	1,993
Total	**2,873**	**2,001**

(All amounts are expressed in BAM '000, unless otherwise stated)

25. Provisions

	31 December 2023	31 December 2022
Provisions for off-balance liabilities	1,582	1,695
Court cases	314	86
Other Provisions	2,713	2,049
Total	**4,609**	**3,830**

Movement in provisions for liabilities and charges:

	Provisions for off-balance liabilities	Court cases	Other provisions	Total
Balance as at 31 December 2022	**1,695**	**86**	**2,049**	**3,830**
Increase in provision	2,249	231	2,338	4,818
Decrease in provision	(2,362)	(3)	(1,674)	(4,039)
Net increase in provisions (Note 8)	*(113)*	*228*	*664*	*779*
Other increases/ (decreases)	-	-	-	-
Balance as at 31 December 2023	**1,582**	**314**	**2,713**	**4,609**

	Provisions for off-balance liabilities	Court cases	Other provisions	Total
Balance as at 31 December 2021	**1,646**	**536**	**1,005**	**3,187**
Increase in provision	3,186	-	2,314	5,550
Decrease in provision	(3,142)	-	(927)	(4,069)
Net increase in provisions (Note 8)	*44*	-	*1,387*	*1,431*
Other increases/ (decreases)	5	(450)	(343)	(788)
Balance as at 31 December 2022	**1,695**	**86**	**2,049**	**3,830**

Provisions for off-balance sheet exposure are recognized through impairment and provisions in the statement of comprehensive income (Note 8). Other provisions are provisions for variable compensation and bonus to employees, provision for unused vacation days and severance pay.

(All amounts are expressed in BAM '000, unless otherwise stated)

26. Other liabilities

	31 December 2023	31 December 2022
Liabilities for unallocated funds	10,548	4,102
Liabilities for subsidized profit margin	5,628	7,381
Interbank transactions – Central Bank and Master card	3,579	1,337
Managed funds (note 26.1)	3,091	768
Trade payables	857	680
Other expenses - inactive accounts	655	404
Liabilities for donations (Charity fund)	337	310
Other financial liabilities	**24,695**	**14,982**
Liabilities for rebates – accrued amounts	2,304	1,996
Deferred income from other financing operations	984	705
Deferred fee income from guarantees	329	308
		-
Other non-financial liabilities	**3,617**	**3,009**
Total	**28,312**	**17,991**

26.1 Managed funds

Funds managed by the Bank on behalf of third parties do not represent the Bank's assets and are therefore not included in the statement of financial position. The Bank disbursed these funds to the designated parties based on instructions received from the donors.

	31 December 2023	31 December 2022
Funds received		
Islamic Development Bank	4,087	4,419
Liabilities to Government	19,686	19,869
Foundation Al Mactoum	169	79
Asa Bank	463	992
Intesa San Paolo Bank	222	477
Total	**24,627**	**26,161**
Funds placed		
Retail clients -placed funds	15,964	18,307
Corporate clients – placed funds	5,572	6,761
Total	**21,536**	**25,068**
Difference in managed funds	**3,091**	**768**

The Bank does not bear risk for these placements and charges a management fee ranging between 1% and 2%. Unused part of the total funds allocated in commissioning (managed funds) activities in 2023 amounts to BAM 3,091 thousand (31 December 2022: BAM 768 thousand).

(All amounts are expressed in BAM '000, unless otherwise stated)

27. Share capital

The Bank's ownership structure is as follows:

	31 December 2023			31 December 2022		
	Number of shares	Amount	%	Number of shares	Amount	%
Shareholders						
Islamic Development Bank, Saudi Arabia	593,487	50,031	45.46	593,487	50,031	45.46
Abu Dhabi Islamic Bank, UAE	356,040	30,014	27.27	356,040	30,014	27.27
Dubai Islamic Bank, UAE	356,040	30,014	27.27	356,040	30,014	27.27
Total	**1,305,567**	**110,059**	**100.00**	**1,305,567**	**110,059**	**100.00**

28. Commitments and contingencies

In order to meet the financial needs of the clients, the Bank indulges in various commitments and contingencies. They consist of guarantees (payable and performance based), letters of credit and other contingencies. Although these contingencies may not be recognized within the balance sheet, they hold a credit risk thus are an integral part of the Bank's overall risk.

	31 December 2023	31 December 2022
Performance guarantees	77,163	75,796
Approved but unused financing lines	40,911	41,664
Payment guarantees	16,050	9,740
Letters of credit	372	444
Total, gross	**134,496**	**127,644**

An overview of potential commitments through risk stages and internal rating of the Bank:

Performance guarantees

	31 December 2023				31 December 2022
	S1 G	S2 G	S3 I and G	Total	Total
Rating A	69,804	7,359		77,163	75,789
Rating A 1	-	-		-	-
Rating B	-	-		-	-
Rating B1	-	-		-	-
Rating C - default	-	-		-	7
Total	**69,804**	**7,359**		**77,163**	**75,796**

(All amounts are expressed in BAM '000, unless otherwise stated)

28. Commitments and contingencies (continued)

Approved, but unused financing lines

				31 December 2023	31 December 2022
	S1	S2	S3		
	G	G	I and G	Total	Total
Rating A	40,308	287	-	40,595	41,535
Rating A 1	237	13	-	250	34
Rating B	-	17	-	17	4
Rating B1	-	4	-	4	7
Rating C - default	-	-	45	45	83
Total	**40,545**	**321**	**45**	**40,911**	**41,664**

Payable guarantees

				31 December 2023	31 December 2022
	S1	S2	S3		
	G	G	I and G	Total	Total
Rating A	15,289	678	-	15,967	9,740
Rating A 1	-	40	-	40	-
Rating B	-	-	-	-	-
Rating B1	-	-	-	-	-
Rating C - default	-	-	43	43	-
Total	**15,289**	**718**	**43**	**16,050**	**9,740**

Letters of credit

				31 December 2023	31 December 2022
	S1	S2	S3		
	G	G	I and G	Total	Total
Rating A	-	372	-	372	444
Rating A 1	-	-	-	-	-
Rating B	-	-	-	-	-
Rating B1	-	-	-	-	-
Rating C - default	-	-	-	-	-
Total	**-**	**372**	**-**	**372**	**444**

(All amounts are expressed in BAM '000, unless otherwise stated)

29. Related-party transactions

The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries, its associates, members of the Supervisory board, members of the Management board and other senior management of the Bank (together, "key management"), close family members of the key management and legal entities where key management and/or their close family members have control or significant influence, Transactions with related parties are a part of the daily operations of the Bank. Transactions with other related parties can be summarized as follows:

	31 December 2023		**31 December 2022**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Islamic Development Bank, Saudi Arabia – Shareholder	18,893	4,087	-	4,419
Abu Dhabi Islamic Bank, UAE – Shareholder	354	-	232	-
BBI Real Estate d.o.o. – other*	-	-	-	3,195
Dubai Islamic Bank, UAE - Shareholder	-	-	-	-
Key management and their close family members	310	8,025	560	2,044
Total	**19,557**	**12,112**	**792**	**9,658**

	2023		**2022**	
	Income	**Expense**	**Income**	**Expense**
BBI Real Estate d.o.o. – other*	-	-	-	335
Islamic Development Bank, Saudi Arabia – Shareholder	56	-	-	425
Dubai Islamic Bank, UAE - Shareholder	-	-	-	-
Abu Dhabi Islamic Bank, UAE - Shareholder	-	-	-	-
Key management and their close family members - other than remuneration	14	7	6	14
Total	**70**	**7**	**6**	**774**

BBI Real Estate d.o.o. is no longer related to the Bank (Note 16).

(All amounts are expressed in BAM '000, unless otherwise stated)

29. Related-party transactions (continued)

Directors and executive's remuneration

The total remuneration of the Management board and other members of key management were as follows:

	2023	2022
Salaries	1,908	641
Taxes and contributions on salaries	1,714	502
Bonuses	341	-
Total	**3,963**	**1,143**

The gross compensations for the members of Supervisory board and Audit board amounted to BAM 470 thousand (2022: BAM 400 thousand)

30. Events after the reporting period

As of 31 December 2023, until date of the financial statements, there were no events that could significantly influence the financial statement for 2023 or were of significant importance for the Bank's operations to require disclosure within the financial statements notes for 2023.

The ongoing military operation in Ukraine and related sanctions directed against the Russian Federation can have an impact on the European and world economy. The Bank has no direct exposure to Ukraine, Russia or Belarus, as well as to other countries directly affected by this crisis. However, at the date of these financial statements, the Bank continues to meet its obligations towards maturity and therefore continues to apply the principle of unlimited operations.

31. Approval of the financial statements

Management Board of the Bank has authorized these financial statements on 20 February 2024 and they are hereby signed by:

Alek Bakalović
President of the Management Board

Jasmina Dobrača
Member of the Management Board